

PALLADON VENTURES LTD.  
MANAGEMENT DISCUSSION AND ANALYSIS

**For the nine months ending November 30, 2006**

The following discussion is management's assessment and analysis of the results and financial condition of Palladon Ventures Ltd. ("the Company") and should be read in conjunction with the unaudited financial statements for the nine months ending November 30, 2006, and related notes thereto. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

Certain statements in this discussion may constitute forward looking statements but no assurance can be given that these will prove to be correct or should be unduly relied upon. Although the Company has attempted to take into account all important factors that could cause actual costs or results to differ materially, there may be other factors that cause costs of the Company's reported results not to be as intended.

1.1 DATE OF REPORT: January 29, 2007

1.2 OVERALL PERFORMANCE

The Company is in the business of acquiring, exploring and developing mineral resource properties with a view to achieving commercial production.

**Business Model:** Phase one of operations at Iron Mountain will be the mining, processing, and direct shipment of magnetite iron ore concentrates. Once funding is in place the Company intends to mine the Comstock/Mountain Lion open pit and process iron ore by crushing, grinding and upgrading by magnetic separation to a 68% iron concentrate. Iron concentrates will be shipped by rail and sold FOB at a west coast port.

**Progress to Date:** Design of a new processing plant has begun, with an initial annual production capacity of two million metric tons. Metallurgical design and test work, process flow diagrams, and ball mill foundation drawings have been completed. The refurbishment of a ball mill purchased in April 2006 is scheduled for completion by the end of November, and the Company continues to optimize engineering and economic parameters for mineral processing. The following is a summary of current project status:

**Rail and Port:** Authorization has been granted by the United States Surface Transportation Board for the operation of the newly-named Iron Bull Railroad, the 14-mile short line running between the Iron Mountain mine site and interchange tracks in Iron Springs, Utah. Construction of interchange tracks at Iron Springs was completed in April 2006.

**Geology:** Throughout the summer and fall of 2006, the Company's geology department continued to analyze historic drilling data on the Comstock/Mountain Lion iron mine, which contains a current iron resource of 33,233,554 tons grading 47% Fe (see news release dated June 27, 2006). Drilling data generated through 1995 was compiled for a preliminary 3-D block model of the Comstock/Mountain Lion ore body. The drill data was based on logs from 438 historic holes drilled by the Columbia Iron

Mining Company, US Steel, and Geneva Steel. The Company will use the findings of this study, which further verified the previous iron resource, as stated above. The computer-generated 3-D model will be used to guide future mine planning, drilling and exploration work on the property.

In addition to the Comstock/Mountain Lion deposit area, historical drilling data for all the Company's iron deposits, including data from holes drilled in the 1930's and 1940's, have been digitized and are in the process of being analyzed. This includes all drill hole data for the Rex, A & B, and Homestake deposits.

**Water Rights:** Palladon has verified that its 2,000 acre-feet of water rights are secure and in good standing with the state of Utah. The property has sufficient water resources for functions such as drilling, processing, tailings disposal and dust control. The first phase of our water rights transfer to the new mill site was initiated and is now in final negotiations.

**Land Matters:** The Company continues to work toward expanding its land position where appropriate. The Company located 56 unpatented placer claims in September, 2006 within the area where production facilities are planned to cover any potential open ground.

On October 24, 2006, the Company agreed to issue a total of 3,206,836 shares at the price of \$0.50 per share in satisfaction of a debt owing to an insider of the Company. The Company expects that the proposed debt settlement will help to maintain the Company's positive working capital position.

On October 25, 2006, Palladon Ventures Ltd. announced that it had retained Ascenta Capital Partners Inc. of Vancouver, BC, to provide investor relations and financial communications services. Ascenta will receive a monthly retainer of \$5,000 for a 12-month term subject to termination by either party with 30 days written notice. Palladon will also issue as compensation to Ascenta an option, subject to regulatory approval, to purchase 200,000 common shares at an exercise price of \$0.80 per share, which will be effective for a period of 30 days after the termination of the contract.

## **FUTURE DEVELOPMENTS**

Future developments for the project will be the continuation of the design and construction of an iron ore processing facility, expandable from the initial projected capacity of 2,000,000 to 4,000,000 tonnes per year. The Company intends to sign short-term purchase orders for iron ore concentrates in 2007.

In conjunction with a mine-life study and exploration program, the Company intends to initiate studies on additional production scenarios, including construction of direct-reduction iron and rolled-steel facilities, at the appropriate times.

### **1.3 SELECTED ANNUAL INFORMATION**

Not required for interim reports

### **1.4 RESULTS OF OPERATIONS**

Quarter Ended November 30, 2006

Activities in this quarter continued with the Company's planned expansion and consolidation of its properties. Iron Mountain property expenditures of \$ 2,594,940 were due to continuing geological work and preparation for future operations. Exploration expenditures of \$ 136,494 were recorded for seasonal geological work and on new and existing property option agreements in Argentina. Costs are closely monitored and variances from budgets are investigated to management's satisfaction. Refer to Section 1.2 "Overall Performance" for a description of each project and the plans for each of the Company's properties.

## 1.5 SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the eight most recently completed quarters.

	2006		2005				2004			
	Q3 Nov. 30	Q2 Aug 30	Q1 May 31	Q4 Feb. 28	Q3 Nov. 30	Q2 Aug. 31	Q1 May 31	Q4 Feb. 28		
Total revenues \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Net loss before discounted operations and extraordinary items:										
Total	(728,184)	(843,786)	(1,871,190)	(5,032,424)	(576,874)	(832,251)	(818,838)	(453,095)		
Per share	\$ (0.02)	\$ (0.02)	\$ (0.05)	(0.17)	\$ (0.02)	\$ (0.01)	\$ (0.37)	\$ (0.08)		
Per share, fully diluted	\$ (0.02)	\$ (0.025)	\$ (0.05)	(0.17)	\$ (0.02)	\$ (0.01)	\$ (0.37)	\$ (0.08)		
Net loss:										
Total	\$ (728,184)	\$ (843,786)	\$ (1,871,190)	(5,032,424)	(576,874)	(832,251)	(818,838)	(453,095)		
Per share							\$ (0.37)	\$ (0.08)		
Per share, fully diluted	\$ (0.02)	\$ (0.02)	\$ (0.05)	(0.17)	\$ (0.02)	\$ (0.01)	\$ (0.37)	\$ (0.08)		

## 1.6 LIQUIDITY

On November 30, 2006, the Company had \$611,136 in cash and \$36,048,372 in resource properties. The Company intends to continue exploration and development work in accordance with its planning and agreements. For further details regarding this work refer to the Year End Management Discussion and Analysis available on the corporate website.

The Company has a working capital of \$611,136 and all obligations have been paid or are in the process of being met by additional refinancing currently being negotiated. Management, at the date of

this report, is confident that sufficient funds will be available for it to continue with its development, construction and production planning.

### 1.7 CAPITAL RESOURCES

The capital resources of the Company include mineral properties, carried at \$36,048,372, which the company is committed to develop in line with planned budgeted expenditure for the coming year and forward. The Company's intention is to commit additional funds for continuing development and exploration activities as they become available. (refer to Subsequent Events)

### 1.8 OFF BALANCE SHEET ARRANGEMENTS

There are no current commitments.

### 1.9 TRANSACTIONS WITH RELATED PARTIES

For the quarter ended November 30, 2006, the Company incurred and accrued management fees of \$0 to directors and officers of the Company (2005: \$63,043) and rent of \$0 (2005: \$32,269) to directors of the Company as shown below.

	Three Months Ended November 30	
	<u>2006</u>	<u>2005</u>
Management Fees	\$ 0	\$ 63,043
Rent	<u>\$ 0</u>	<u>\$ 32,269</u>
	\$ 0	\$ 95,312

#### Related Parties

Included as a Current Liability at November 30, 2006 is \$0 (May 31, 2006: \$1,668,495) due to related parties.

### 1.10 THIRD QUARTER

The Company's loss for this Quarter was \$ (728,184) due mainly to the commencement of interest payments on funding for the Iron Mountain project, increases in professional and consulting fees for work carried out on that project and corresponding increases in general and administration fees supporting the start up. The company is exposed to currency exchange rate risks to the extent of its operations in the United States and South America but both countries are considered stable environments, so the company does not maintain any hedge positions.

## 1.11 PROPOSED TRANSACTIONS

Commitments relating to the Iron Mountain development include the upgrade of the 14 miles of rail to the mine site (\$6.1 million), design and construction of the processing plant (\$35 million), purchase or lease of 600 rail cars (\$48 million), and a completion of the electrical (\$1.2 million). Management is currently negotiating suitable funding for all this capital expenditure and details will be released as they are finalized. (Refer Note 1.7)

Contractual obligations include an initial \$1.2 million to Gilbert Development Corporation to purchase crushing and mining equipment and mobilize for the construction of the crushing plant. The Company also has a commitment with Gilbert Development to provide mining services and crushed feed for the grinding mill and a commitment to Rocky Mountain Power (formerly Utah Power and Light) to provide electrical switching for the power substation.

The Company has entered into a lease for the Utah corporate offices with an option to extend. Annual lease payments required are as follows:

Year ended February 28, 2007	\$108,570
February 28, 2008	\$111,827
February 28, 2009	\$115,162

To the best of its knowledge, the management believes that it is in compliance with all the applicable laws and regulations, including Environmental laws and regulations. As required by law, the Company carries a \$1.3 million Reclamation Bond for the Iron Mountain project.

## 1.12 CRITICAL ACCOUNTING ESTIMATES

A summary of significant accounting policies that are adopted by the corporation may be found in the Notes to Accounts, Notes 2 and 3, attached to the Financial Statement for the year ended February 28, 2006.

As stated, the Company is required to conform to the Canadian generally accepted accounting principles, which require management to establish accounting policies and to make estimates that affect both the amount and timing of recording of assets, liabilities, expenses and revenues when applicable. Therefore, judgments made regarding these estimates, by their nature, are inherently uncertain. Management regularly reviews all projects as a part of their ongoing process and this also requires estimates, which are subject to various risks and uncertainties, and may affect the expected values and expenditures of those properties. The company defers the cost of acquiring, maintaining its interests, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations when written off.

### 1.13 CHANGES IN ACCOUNTING POLICY

There have been no changes in accounting policies for the year.

### 1.14 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The carrying value of the Company's financial instruments, consisting of cash, accounts payable and accrued liabilities and due to related parties approximate their fair value due to the short-term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The carrying value of the loans receivable last year also approximated its fair value. The Company is exposed to fluctuations in foreign currencies through its operations in the United States and Argentina. The Company monitors this exposure, but has no hedge positions.

### 1.15 OTHER MD&A REQUIREMENTS

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Share Capital

Authorized:

Unlimited common shares without par value

		<u>Number of Shares</u>	<u>Amount</u>
Balance, February 28, 2006		31,977,109	20,208,913
For cash:			
Private placement	- at \$0.50	10,000,000	5,000,000
Less: share issue costs, cash		-	( 490,000)
agent's options		-	(247,000)
Private placement	- at \$0.55	1,400,000	770,000
Exercise of broker options	- at \$0.50	278,602	208,116
Private placement	- at \$0.50	1,802,248	901 125
Balance, November 30, 2006		<u>45,457,959</u>	<u>\$ 26,351,154</u>

#### Escrow shares:

At November 30, 2006, \$ 37,500 (November 30, 2005: \$ 37,500) common shares are held in escrow subject to direction for their release by regulatory authorities.

## Commitments:

### Stock-based compensation

The Company may grant share purchase options to directors, officers or employees to acquire shares of the Company. Unless otherwise noted, the share purchase options vest when granted. Share purchase option activities for the nine months ended November 30, 2006 and the year ended February 28, 2006 are summarized as follows:

	Period ended November 30, 2006		Year ended February 28, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,975,000	\$0.66	1,590,000	\$0.55
Granted	-	-	1,135,000	\$0.75
Agent's options granted	1,000,000	\$0.50	-	-
Exercised	(278,602)	\$0.50	(500,000)	-
Expired	-	-	(250,000)	-
Outstanding, end of period	<u>2,696,398</u>	\$0.61	<u>1,975,000</u>	\$0.66
Exercisable, end of period	<u>2,696,398</u>		<u>1,975,000</u>	

At November 30, 2006, there were 2,711,038 employee, director and agent's share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
721,038	\$0.50	March 31, 2008
400,000	\$0.45	September 9, 2008
50,000	\$0.80	November 26, 2008
100,000	\$0.50	October 22, 2009
100,000	\$0.70	October 22, 2009
350,000	\$0.75	April 21, 2010
180,000	\$0.85	August 8, 2010
450,000	\$0.75	August 29, 2010
160,000	\$0.75	November 10, 2010
<u>200,000</u>	\$0.80	See below*
<u>2,711,038</u>		

The 721,038 agent's options are exercisable into units, each unit comprised of one common share and one additional share purchase warrant exercisable at \$0.75 for a period of 24 months. \* The 200,000 optioned granted on October 25, 2006 will be effective until thirty days after termination of the contract with the grantee.

## Share Purchase Warrants

At November 30, 2006, the Company had 15,734,423 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
283,867	\$0.86	March 15, 2007
40,925	\$0.86	July 21, 2007
40,949	\$0.86	July 22, 2007
106,838	\$0.86	August 8, 2007
62,389	\$0.86	October 6, 2007
61,107	\$0.86	October 19, 2007
2,357,137	\$0.62	September 23, 2007
10,000,000	\$0.75	March 31, 2008
700,000	\$0.70	July 20, 2008
<u>1,802,249</u>	\$0.70	August 31, 2008
<u><u>15,734,423</u></u>		

## Contributed Surplus

	<u>November</u> <u>30, 2006</u>	<u>February 28,</u> <u>2006</u>
Balance, beginning of period	\$ 1,173,071	\$ 542,492
Fair value of share purchase options granted	247,000	550,700
Fair value of share purchase warrants granted on debenture conversion	-	196,705
Fair value of share purchase warrants granted with loan payable	-	895,712
Less: value transferred on exercise of options	(68,815)	(187,501)
Less: deferred finance charge	-	(825,037)
	<hr/>	<hr/>
Balance, end of period	\$ 1,351,256	\$ 1,173,071

## Additional Disclosure:

All current expenditures by the Company for exploration, research and development costs have been capitalized, as production has not yet begun on the properties. General and administrative costs are being expensed in the period they are incurred. A property-by-property breakdown of applicable expenses is shown in Schedule 1 of the Financial Statements for the period. The breakdown for the fiscal year ended February 28, 2006 is also included in Schedule 1.

## SUBSEQUENT EVENTS

### SUBSEQUENT TO NOVEMBER 30, 2006:

On December 18, 2006, Palladon Ventures Ltd. announced that it has entered into a shares-for-debt settlement agreement with George S. Young, a director of the Company, wherein the Company proposes to issue 2,290,597 common shares to Mr. Young at a deemed price of \$0.70 per share in satisfaction of funds advanced to the Company in the amount of \$1,603,418. The proposed shares-for-debt settlement is subject to regulatory approval.

George Young resigned as Chairman of the Company, effective December 18, 2006. Mr. Young remains a member of the board of directors. Rod Kirkham has been appointed by the board to the position of Interim Lead Director.

The Company has granted incentive stock options to directors, officers and employees for the purchase of a total of 1,370,000 common shares of the Company at a price of \$0.40 each until December 15, 2011.

On December 22, 2006, the Company announced that its joint venture partner in the Iron Project, Luxor Capital Partners, LP ("Luxor") has, since February of this year when the Company announced an equity funding of US\$2mm by Luxor to Palladon Iron Corporation ("PIC"), contributed a further US\$1.1mm of equity funding to PIC. Over the same period the Company has contributed approximately US\$2.35mm of equity funding to PIC. PIC has used this funding to complete renovation of the ball mill, continue engineering for the concentrator and engineering and procurement for the substation. The company and Luxor will receive one additional common share of PIC for each US \$10,300 contributed. The Company will be issued its PIC shares upon completion of the financial review of PIC currently ongoing.

In addition, the Company and Luxor have agreed that in lieu of payment of US\$597,405.20 representing outstanding interest and interest due on December 23 under the US\$12.75mm term loan provided by Luxor to the Company in order to finance the acquisition of the Iron Project (the "Term Loan"), Luxor shall exercise its right to have ownership in 58 PIC shares transferred from the Company to Luxor.

The Company intends to raise additional equity in the first quarter of 2007 to fully fund its option right and restore its 50% equity interest in PIC. So long as Luxor owns 50% or more of the equity in PIC, it shall have the right to appoint the officers of PIC.

On January 9, 2007, the company announced that Palladon's former joint venture partner, Western Utah Copper Company (WUCC), exercised its option to purchase Palladon's interest in the Western Utah Copper Project for USD\$3 million in cash, and USD\$10 million payable as a 1% Net Smelter Royalty from copper produced from current reserve properties, and a 2% Net Smelter Royalty from copper produced from newly discovered ore bodies.

In January 2007, the Company received a notice from Argentine Frontier, its joint venture partner on the La Sarita property in Salta province, Argentina, that it has terminated the agreement and option of the Company to earn an interest in that property. In addition, the Company has also received notices from Minera Austral, S.A., that it is in default of its payment obligations in the purchase of the Taca Taca project in Salta, Argentina. The Company is currently under discussions to obtain further extensions or restructuring of the agreement. In addition, the Company opted to drop the Rodino Property in Santa Cruz Province, since it was unable to negotiate for any further extension in the payment of the overdue property option payments.

Also subsequent to November 30, 2006:

Subsequent Option Issues:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
721,038	\$0.50	March 31, 2008
400,000	\$0.45	September 9, 2008
50,000	\$0.80	November 26, 2008
100,000	\$0.50	October 22, 2009
100,000	\$0.70	October 22, 2009
350,000	\$0.75	April 21, 2010
180,000	\$0.85	August 8, 2010
450,000	\$0.75	August 29, 2010
160,000	\$0.75	November 10, 2010
200,000	\$0.80	See below*
<u>1,370,000</u>	\$0.40	December 15, 2011
<u>4,081,038</u>		

The 721,038 agent's options are exercisable into units, each unit comprised of one common share and one additional share purchase warrant exercisable at \$0.75 for a period of 24 months. \* The 200,000 option granted on October 25, 2006 will be effective until thirty days after termination of the contract with the grantee.