

**PALLADON VENTURES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS****For the financial year ended February 28, 2009****Date of report: August 6, 2009**

The following Management Discussion and Analysis (“MD&A”) of Palladon Ventures Ltd. (“Palladon” or the “Company”) should be read in conjunction with the Company’s accompanying audited consolidated financial statements for the twelve months ended February 28, 2009 and 2008 and the related notes contained therein. The Company is a reporting issuer in the provinces of British Columbia and Alberta, and its common shares are listed on the TSX Venture Exchange under the symbol: PLL.

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles (“CAD GAAP”), and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information and public filings relating to the Company are available on the SEDAR website at www.sedar.com.

Cautionary Note Concerning Forward-Looking Statements

Certain statements and expressions in this document are intended to identify forward-looking statements. Such forward-looking statements regarding the Company's plans, objectives, and goals are subject to risks and uncertainties which could cause actual results to differ materially from estimated results. The reader is cautioned that actual results, performance or achievements may be materially different from those implied or expressed in such statements.

Such risks and uncertainties include, but are not limited to, the Company's ability to raise sufficient capital to fund development and pay-off debt, changes in general economic conditions or financial markets, changes in prices for the Company's mineral products or increases in input costs, litigation, legislative, environmental and other judicial, regulatory, political and competitive developments in countries where the Company operates, logistic matters concerning material flow and storage, technological and operational difficulties or inability to obtain permits encountered in connection with exploration and development activities, labor relations matters, and changing foreign exchange rates, which are described more fully in the Company's filings with securities regulators.

Overall Performance

Through its wholly-owned subsidiary Palladon Iron Corporation (“PIC”), Palladon is in the business of developing the Iron Mountain (“Iron Mountain”) iron ore project located in Iron County, west of Cedar City, Utah. Palladon also has a small portfolio of other mining properties. The Company’s highest priority is the redevelopment of Iron

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Mountain, which was last operated by Geneva Steel in 1996. Although the Company continues to pursue opportunities to generate positive cash flow, the combination of lower iron ore prices and high transportation and handling costs make the prospect of profitably shipping run-of-mine (“ROM”) ore difficult at the present time. Therefore, Palladon is pursuing a strategy to upgrade its iron ore to concentrate or Alternative Iron Units (“AIU”). (See Subsequent Events).

Highlights of the Company’s activities for the twelve-month period ended February 28, 2009 include:

- Signed a five-year contract with China Kingdom International (“CKI”) to sell run-of-mine ore
- Acquired the remaining interest in PIC, funded by a non-brokered private placement financing
- Contracted with Gilbert Development Corp. to be the contract miner for the Iron Mountain project
- Initiated mining at Iron Mountain in early September, leading to the stockpiling of small amounts of iron ore

The Company’s net loss from operations for the twelve months ended February 28, 2009 totaled \$14.2 million, compared to a loss of \$4.0 million in the prior twelve month period.

Total assets at February 28, 2009 increased to \$42.5 million from \$25.8 million at February 29, 2008, reflecting:

- Cash of \$8.0 million versus \$820 thousand
- Property and Equipment of \$5.2 million versus \$70 thousand previously
- Mineral Properties of \$28.2 million versus \$24.0 million previously

Palladon is a development stage company focused on producing upgraded iron ore products from its Iron Mountain project. The Company capitalizes all property costs until the related property is placed into production, sold or abandoned. During the twelve months ended February 28, 2009, \$8.3 million of mineral property was capitalized, \$4.2 million of assets were placed into service, leaving a net increase of \$4.1million in capitalized mineral property costs.

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Selected Annual Information

(\$ in thousands)	February Year Ended		
	2009	2008	2007
Revenue	\$0	\$0	\$0
Net loss	(\$14,170)	(\$4,022)	(\$9,700)
Basic and diluted loss per share	(\$0.10)	(\$0.06)	(\$0.22)
Total assets	\$42,528	\$25,782	\$23,675
Total loans payable	\$45,393	\$9,252	\$11,390

Iron Mountain Project Developments

Iron Mountain is wholly-owned by Palladon Iron Corporation, which is in turn wholly-owned by Palladon Ventures Ltd. Until June 26, 2008, PIC was jointly owned by Palladon and the New York-based private equity firm Luxor Capital Partners, LLC (“Luxor”).

On June 26, 2008 Palladon acquired Luxor’s interest in PIC. This acquisition allowed the Company to fully consolidate PIC under Palladon ownership and provides Palladon shareholders with 100% of the future economics in the Iron Mountain project.

Palladon paid US\$65 million for Luxor’s 56% ownership of PIC. The purchase price consisted of US\$40 million in cash paid to Luxor at closing, as well as a US\$25 million deferred seller note due to Luxor on June 26, 2009, twelve months after closing. The deferred seller note bears interest at an 11.6% annual rate. An already existing loan from Luxor in the amount of US\$8.9 million was combined with the PIC financing. Both loans are secured by the assets and equity of PIC. The total amount of principal and interest payable to Luxor on June 26, 2009 is US\$37.0 million. On June 26, 2009 Palladon and Luxor negotiated an extension of this debt. (See Subsequent Events).

To fund the PIC purchase, the Company conducted a private placement of 87,375,169 units at a price of CDN\$0.70 per unit (871,885 additional units were paid to underwriters as a partial commission). Each unit consists of one common share and one quarter (1/4) of one transferrable warrant. Each whole warrant is exercisable at CDN\$1.00 per warrant share for a period of eighteen months from the closing date.

On April 1, 2008 PIC signed a five-year contract with China Kingdom International (“CKI”) to sell run-of-mine ore assaying 55% Fe (iron) for use in steel mills in China.

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This contract led Palladon to accelerate development of the Iron Mountain project, including the PIC acquisition and related financing discussed above.

Effective June 1, 2008 PIC hired Gilbert Development Corp. as the contract miner for the Iron Mountain project. The 5-year contract was based upon the mine plan developed to meet the CKI contract. Gilbert was to perform all mining duties at the site, including drilling, blasting, crushing, screening, hauling, blending, conveying, stacking and railcar loading. Palladon personnel were to oversee Gilbert's operations.

PIC received approval of the Amended Notice of Intention to Commence Large Mining operations from the Utah State Division of Oil, Gas and Mining. This approved the new dump designs and allows Palladon Iron Corporation to resume all mining activities. In early September 2008 Palladon commenced mining at Iron Mountain.

The Company reached a production decision on the Iron Mountain project despite the absence of a recent NI 43-101 compliant resource study or feasibility study. Palladon believed that the quantity and grade of iron resources in the Comstock/Mountain Lion mine is sufficient to justify the production decision, but there is a risk that the project has insufficient resources at an insufficient grade to support the recommencement of commercial operations. The Company believes that this risk is mitigated to some extent by the integrity of the previous operators' reporting standards, and the fact that the iron ore product has been commercially viable in the past.

The Iron Mountain project is connected by an existing 14.6-mile rail spur line to the Cedar City main line inter-exchange tracks at Iron Springs. Phase 1 of a three-phase track safety upgrade program began with PIC signing a contract to replace 5,400 ties and 4,280 feet of 90-lb. rail with heavy duty 133-lb. rail. The upgrade of the track from the mouth of the mine to Iron Springs was completed, and the plan is to implement Phases 2 and 3 gradually during the next three years.

Palladon Iron formed PIC Railroad Inc. as a wholly-owned "operating" subsidiary to facilitate the following short-line railroad contracts. PIC Railroad Inc. and the Union Pacific Railroad ("UP") signed a track lease contract effective August 1, 2008 for Palladon's use of a UP spur line called the "Comstock Subdivision." Through this agreement, Palladon will be able to move all loaded and empty trains between the load-out facility at Iron Mountain and the interchange tracks adjacent to the UP mainline at Iron Springs. PIC Railroad Inc. also signed an operating agreement with a short-line railroad operator to move all the rail cars and to interface with the UP.

The Company had planned to use profits from shipping ROM ore under the CKI contract to fund an iron ore concentrate facility. However difficulty in finding an economic port solution, along with a significant decrease in iron ore prices since the Company commenced mining, has led the Company to reassess its options. Palladon ceased mining operations at Iron Mountain as of the end of June 2009. (See Subsequent Events).

Results of Operations for the Twelve Months Ended February 28, 2009, compared with the Twelve Months Ended February 29, 2008

Palladon's net loss from operations for the twelve months ended February 28, 2009 was \$14.2 million, as compared to a \$4.0 million net loss in the previous year.

General and Administrative expenses totaled \$6.6 million, a \$3.6 million increase over the \$3.0 million total in the previous year. Major components of this increase include:

- Amortization expense increased to \$702 thousand from \$21 thousand in the previous year. This increase reflects the \$5.1 million increase in Property and Equipment during the year. Substation costs of \$3.7 million, and Secondary Power to Site costs of \$485 thousand were transferred from Mineral Properties to Equipment. A mine office building, a mobile stacker and assay sampling equipment were other major equipment additions which contributed to the increased amortization expense.
- Consulting, professional and management fees increased \$456 thousand versus the previous year. Increased consulting costs reflect a wide variety of expenditures required to bring Iron Mountain into production, including environmental, geological, port and mining consultants. The increased legal and professional expenses reflect costs to negotiate the CKI contract, costs to acquire PIC, costs to procure the equity private placement and costs to implement the Iron Mountain mine plan.
- Interest expense increased \$2.1 million over the prior fiscal year, due to increased debt and depreciation of the Canadian dollar versus the U.S. dollar.
- Office and Administration expenses increased \$281 thousand to \$453 thousand, reflecting increased support to initiate mining at Iron Mountain.
- Salaries and Benefits increased to \$1.2 million from \$938 thousand in the prior year, reflecting increased headcount as Palladon initiated mining.

Additional Disclosure for Venture Issuers

Other than intermittent quantities of iron ore sold to a local cement plant, the Company has not generated revenue from operations in the two fiscal years ended February 28, 2009. These iron ore sales are recorded as a reduction of carrying value in the Mineral Property section of the Iron Mountain project. All of Palladon's expenditures during the current year were focused on developing Iron Mountain to ship ROM iron ore.

First quarter ended May 2008. As noted above, in April 2008 Palladon signed a contract to ship ROM ore. To that end, the Company began expanding its Equipment and its Mineral Properties expenditures. May 2008 Equipment expenditures were negligible, and expenditures in the Mineral Properties category were also small, consisting of payments to consultants for plant engineering and port development \$47 thousand, as well as expenditures to complete construction on the Transformer of \$38 thousand.

Second quarter ended August 2008. Palladon accelerated its planned advancement of the Iron Mountain project during the quarter. Expenditures included additional geologic work, equipment purchases, substation installation, environmental studies and engineering services. Equipment purchases included:

- \$82 thousand for mine planning and analysis software
- \$65 thousand for mine vehicles
- \$220 thousand for a mine office building and \$164 thousand for the associated land, both of which are immediately adjacent to the Iron Mountain property
- \$266 thousand for a mobile stacker, used to move ore onto the stockpile

Mineral Property expenditures included:

- Payment of \$1.1 million mine mobilization fees to the Company's contract mine operator
- \$175 thousand to complete construction of the substation
- \$911 thousand to substantially complete construction of power lines to Iron Mountain

Palladon also raised equity capital and purchased the 56% of PIC that it did not already own.

Third quarter ended November 2008. Palladon commenced mining at Iron Mountain in early September. Equipment expenditures included:

- Purchase and installation of a rail scale, costing \$120 thousand
- Computers, surveying and assaying equipment totaling \$155 thousand
- The secondary power line was placed into service, which is reflected as a \$485 thousand transfer from Mineral Properties.
- Likewise, the Substation – including Transformer – was placed into service, with the \$3.7 million accumulated cost transferred in from Mineral Property

The Company's contract mine operator completed the installation of most major pieces of equipment and began stockpiling iron ore and moving waste as part of a pre-stripping plan. Major expenditures within Mineral Properties included:

- Capitalization of \$583 thousand of stockpiled iron ore and \$455 thousand from pre-stripping waste rock
- During the quarter the Company made substantial progress upgrading its spur rail line, by spending \$1.4 million for the first phase of a three year upgrade project to replace and repair rail, ties and roadbed. These improvements are long-tailed by their nature, and therefore will be available for trains when Palladon develops profitable shipping options.
- As noted above, the built-out cost of the Transformer and Substation, totaling \$3.7 million, was transferred to Equipment. Power line assets costing \$485 thousand were also placed into service and thus transferred out of Mineral

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Properties. The Transformer, the Substation and the Power Lines also represent significant long-term assets.

Fourth quarter ended February 2009. The Company's initial plan was to ship ROM ore through the Port of Long Beach. However the Company was unable to contract a loading facility at the port. Significant time and effort was directed toward finding alternative ports. Both Stockton, California and Guaymas, Sonora, Mexico were evaluated. While the Company continues to pursue ROM shipping options, the high cost of transporting ore, combined with depressed iron ore market prices, means that a profitable solution to shipping iron ore remained elusive.

Mineral Properties expenditures increased \$3.2 million during the quarter, comprised primarily by \$1.56 million of Pre-stripping expenditures, plus a \$1.5 million Advance made to the Company's contract mine operator to fund the acquisition of a rock truck that had been ordered specifically for use at Iron Mountain. A small amount of iron ore was also stockpiled.

Summary Quarterly Results

(\$ in thousands)	2009 QUARTER ENDED				2008 QUARTER ENDED			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	February 28	November 30	August 31	May 31	February 29	November 30	August 31	May 31
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net loss for the period	(\$3,316)	(\$5,955)	(\$4,235)	(\$664)	(\$2,561)	(\$450)	(\$687)	(\$323)
Basic and diluted net loss per share	(\$0.02)	(\$0.04)	(\$0.03)	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)

Liquidity

Cash totaled \$8.0 million at February 28, 2009, and is approximately US\$2.0 million as of the date of this report.

The Company had a net working capital deficit of \$38.6 million at year end, including Loans Payable as a current liability. The net working capital deficit at February 29, 2008 was \$695 thousand.

Loans Payable increased to \$45.4 million at February 28, 2009, compared with \$9.3 million at February 29, 2008.

On June 26, 2009 US\$37.3 million total amount of principal and interest due to Luxor was extended until October 15, 2009. Further extension through December 2010 is conditioned on the Company raising a minimum of US\$5 million in equity capital by October 15, 2009. This new capital will be used to fund feasibility study expenditures

and general corporate expenses through December 2010. (See Subsequent Events). There can be no assurance that Palladon will be able to raise the required US\$5 million.

Commitments

- During the quarter ended May 31, 2008, Palladon Iron Corporation signed a five-year contract with China Kingdom International (CKI) and its Australian subsidiary, China Kingdom International Australia. The contract provided for the sale of run-of-mine iron (ROM) ore at an initial annual quantity of 2,000,000 metric tonnes per year. Pricing was fixed through March 31, 2009 at US\$70 per metric tonne, and was to adjust for future annual periods based on changes in the World Benchmark prices for iron ore. The contract price quoted freight on board ("FOB") west coast U.S. port, with CKI responsible for all ocean-going freight including the contracting and scheduling of ocean vessels.

The decrease in iron ore prices and the Company's inability to contract a port through which to ship ore left Palladon with no profitable options to ship ROM ore. Palladon continues to discuss the situation with CKI.

- The Company has entered into a five-year lease ending April 30, 2014 for office premises located in Salt Lake City, Utah. First year rent is US\$9,888 per month, increasing annually thereafter at an inflation factor, to \$11,129 per month in the final year.
- The Company has entered into an agreement to supply, if requested, a minimum of 12,000 tons of iron ore per year over a four-year term ending December 31, 2011.
- Effective June 1, 2008 PIC entered into a mining contract with Gilbert Development Corp. The contract called for monthly standby payments to Gilbert of approximately US\$500,000 in the event that mining stopped during the contract period. This contract was renegotiated subsequent to February 28, 2009. (See Subsequent Events).
- To the best of its knowledge, management believes that it is in compliance with all applicable laws and regulations, including environmental laws and regulations. As required by law, the Company has provided a Reclamation Bond and cash to provide a total of US\$1,426,000 as security for future reclamation work on the Iron Mountain property.

Capital Resources

The capital resources of the Company include mineral properties carried at \$28.2 million, which the Company is committed to develop. The Company's intention to commit additional funds is contingent on raising US\$5 million of equity capital by October 15, 2009 (See Subsequent Events).

Off-Balance Sheet Arrangements

There are no current commitments.

Transactions with Related Parties

For the years ended February 28, 2009 and February 29, 2008 the Company incurred the following transactions with related parties consisting of current and/or former directors of the Company or private companies controlled by them:

	February 28, 2009	February 29, 2008
Gain on debt settlement		(\$66,248)
Legal		18,648
Consulting	\$3,000	15,000
Salaries and benefits	486,954	404,285
Total	<u>\$489,954</u>	<u>\$371,685</u>

Fourth Quarter Financial Results

The fourth quarter net loss was \$3.3 million, compared with a \$2.6 million net loss in the prior year fourth quarter. Major items comprising the increased loss include:

- Amortization expense of \$226 thousand, compared with a negligible \$10 thousand in the prior year fourth quarter. This increase reflects the significant equipment additions during the current year.
- Interest expense increased to \$1.0 million during the fourth quarter, versus \$88 thousand in the prior year fourth quarter.

Subsequent Events

Palladon Iron Corporation initiated commercial mining operations at Iron Mountain on September 11, 2008, in anticipation of shipping ROM ore. A small amount of iron ore was mined and stockpiled. Unfortunately, coincident with the commencement of mining,

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and within the context of a global recession, the iron ore industry began a precipitous decline. Spot market prices for iron ore decreased significantly along with demand. As noted above, the decrease in iron ore prices, along with Palladon's inability to contract a port from which to ship its ore, caused the Company to never commercially ship ROM ore. Although global conditions have since stabilized, current iron ore prices remain significantly below year earlier levels.

Therefore, as of late June 2009, Palladon ceased mining operations at Iron Mountain until such time as the Company can profitably ship ROM ore or is in the position to further develop the mine.

On June 26, 2009 Palladon announced that it had executed an agreement (the "Extension Agreement") with Luxor Capital Group, LP ("Luxor"), to extend the term of the Company's two loans payable to Luxor in the aggregate amount (including principal, capitalized accrued interest and fees) of approximately US\$37.3 million (the "Luxor Loans"), which loans were otherwise payable in full on June 26, 2009. The agreement extends the maturity of the loans payable until October 15, 2009. A second extension of the loans until December 31, 2010 is contingent on the Company raising a minimum of US\$5 million in equity capital during the first extension period.

The first loan extension will allow SRK Consulting (U.S.), Inc. ("SRK") to continue its project work on the Iron Mountain project. An important milestone in the near term will be the filing of a NI 43-101 compliant Preliminary Economic Assessment Report, including a resource statement. Recent and ongoing confirmation drilling at Comstock/Mountain Lion and on stockpiles at the property is anticipated to allow SRK to bring portions of Palladon's iron ore resource into compliance with Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") guidelines. The Second Extension Period, if exercised, would allow the Company time to complete a bankable feasibility study for the project and to continue proving up additional resources.

The Company continues to explore near-term and intermediate-term shipping options that would provide cash flow to the Company. The Preliminary Economic Assessment Report will allow the Company to accelerate discussions involving near-term financing and strategic options for the project.

Critical Accounting Estimates

There are no critical accounting estimates.

Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements for a period necessarily involves the use of

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estimates that have been made using careful judgment. Actual results may differ from these estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These financial statements include the accounts of the Company and its U.S. subsidiaries Palladon Iron Corporation ("PIC") and PIC Railroad Inc. (PICR). PIC was incorporated as a wholly-owned subsidiary in Utah on April 6, 2005 and holds the Iron Mountain mineral properties. During the year ended February 28, 2006, the Company sold 50% of its interest in PIC and at February 29, 2008 held 44% (2007:44%) of its issued shares. During the quarter ended August 31, 2008 the Company purchased the 56% of PIC that it did not own, thereby establishing 100% ownership (Note 6). PICR was incorporated during the year ended February 28, 2007 as a wholly-owned subsidiary of PIC and is currently inactive.

b) Equipment and Amortization

Equipment is recorded at cost. Additions are amortized at one-half the normal rate during the year of acquisition. Plant and equipment under construction is not amortized until construction is complete and the assets are available for use. The Company provides for amortization using the following rates:

Building	10% declining balance
Mining equipment – long lived	20% declining balance
Mining equipment	30% declining balance
Office furniture and equipment	30% declining balance

c) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing its mineral properties until such time as the property is placed into production, abandoned, sold or considered to be impaired in value. When operational, mineral property will be amortized on a unit of production basis. Proceeds received on the sale of interests in mineral properties and incidental sales are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the

property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

d) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Common equivalent shares (consisting of shares issuable on the exercise of common stock options and warrants) totalling 33,341,819 as of February 28, 2009 (February 29, 2008: 29,713,329) were not included in the computation of diluted loss per share because the effect was anti-dilutive.

e) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely-than-not that they can be realized.

f) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

g) Stock-based Compensation

The Company accounts for all grants of options to employees, non-employees and directors in accordance with the fair value method for accounting for stock-based compensation. The fair value of stock options granted to non-employees is re-measured on each balance sheet date. Compensation expense for employees is generally amortized using the straight line method over the period from the grant date to the date the options vest. Compensation expense for non-employees is recognized immediately for past services and pro-rata for future services over the service provision period. Compensation for non-employees is re-measured at each balance sheet date until the earlier of vesting date or the date of completion of the service. Upon exercise of share purchase options,

the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

h) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At February 28, 2009 and February 29, 2008, the Company did not have any asset retirement obligations.

i) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Except as provided, management believes there has been no impairment of the Company's long-term assets at February 28, 2009.

j) Comprehensive Income

Comprehensive income includes both net loss and other comprehensive income ("OCI"). OCI is the change in shareholders' equity from non-owner sources which is not included in the calculation of net loss until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category of shareholders' equity on the balance sheet. The Company had no OCI transactions during the periods ended February 28, 2009 and February 29, 2008, and neither opening nor closing balances for AOCI.

k) Financial Instruments Recognition, Measurement, Disclosure and Presentation

All financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the trade date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale

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financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the statement of operations. Transaction costs on the acquisition of financial assets and liabilities that are classified as other than held-for-trading are expensed.

The Company has made the following designations of its financial instruments: cash as held-for trading; amounts receivable as loans and receivables; accounts payable and accrued liabilities as other financial liabilities. At February 28, 2009 and February 29, 2008, the Company had neither available-for-sale nor held-to-maturity financial instruments.

l) Newly Adopted Accounting Pronouncements

Going-concern

In June 2007, the Canadian Institute of Chartered Accountants (“CICA”) amended Handbook section 1400, “General Standards of Financial Statement Presentation,” which requires management to make an assessment of the Company’s ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern. Effective March 1, 2008 the Company adopted this standard and the adoption had no impact on the Company’s financial position or results of operations.

Capital Disclosures

In December 2006, the CICA issued Section 1535 “Capital Disclosures,” which specifies the disclosure of information that enables users of an entity’s financial statements to evaluate its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance. The mandatory effective date is for annual interim financial statements for years beginning on or after October 1, 2007. Effective March 1, 2008, the Company adopted this standard and the related disclosures have been included in Note 8.

Financial Instruments Disclosures and Financial Instruments Presentation

Sections 3862 and 3863 replace Section 3861, “Financial Instruments Disclosure and Presentation,” and establish standards for presentation of financial and non-financial derivatives and specify information that should be disclosed about them. These new sections place increased emphasis on disclosure about the nature and extent of risk

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arising from financial instruments and how the entity manages those risks. The effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. Effective March 1, 2008 the Company adopted these standards (see Note 9).

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations* (“Section 1582”), 1601 – *Consolidated Financial Statements* (“Section 1601”) and 1602 – *Non-controlling Interests* (“Section 1602”) which replaces CICA Handbook Section 1581 – *Business Combinations* and 1600 – *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this section is permitted. If the Company chooses to early adopt any of these Sections, the other two sections must also be adopted at the same time.

During the year ended February 28, 2009 the Company early adopted Handbook Section 1601, Consolidations, Handbook Section 1602, Non-controlling Interests, and Handbook Section 1582, Business Combinations. These sections replace the former CICA Handbook Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. Acquisition-related costs will be expensed as incurred and restructuring charges will be expensed in the periods after the acquisition date.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard states that changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The new Sections 1582, 1601 and 1602 have been applied effective March 1, 2008 and except for presentation of the non-controlling interest, no restatement of the comparative periods was required. Under the new policy the non-controlling interest is presented as a component of shareholders’ equity.

m) Future Accounting Pronouncements

Goodwill and Intangible Assets

The CICA issued new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of these new accounting standards. The Company believes they will not have any significant impact on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS cannot be reasonably estimated.

Financial Instruments

The Company's financial instruments consist of cash, amounts receivable, marketable securities, accounts payable, accrued liabilities and loans payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. As of the end of the period the Company is not exposed to any significant credit risk.

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Foreign Exchange Risk

The Company's activities are conducted in U.S. dollars within the United States. Financial results are translated into Canadian dollars for financial reporting purposes. As of February 28, 2009, cash totalling \$6.3 million was held in U.S. dollars.

Liquidity Risk

The Company's exposure to liquidity risk is dependent on purchasing commitments and obligations, and the raising of funds to meet commitments and sustain operations. The Company is a development stage company and is reliant on external fundraising to support its operations. The Company manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions not in the ordinary course of business. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months.

The Company is specifically exposed to cash repayments of the loans payable on October 15, 2009 if it cannot raise US\$5 million of equity capital on or before then. If the loans payable are extended, the Company is further exposed to repayment on or before December 31, 2010. Given these circumstances and the uncertainty that the Company can raise additional financing, commence profitable operations and further refinance or extend the loans, the Company could lose all of its interest in the Iron Mountain properties and related equipment.

Market Risk – Interest Rate and Foreign Exchange

The Company's activities are conducted in U.S. dollars within the United States. Financial results are translated into Canadian dollars for financial reporting purposes.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and its loans payable. Fluctuations in market interest rates on cash do not have a significant impact on the Company's results of operations due to their short-term nature. In addition, the fixed interest rates of 9.25% and 11.6% that existed for the February 28, 2009 loans payable, were amended and consolidated to a fixed 12.5% as part of the June 26, 2009 extension, as described in Note 15 to the financial statements. A 1% change in interest rates can lead to an increase or decrease of monthly interest expense of \$36,000 for loans payable as measured on February 28, 2009.

The Company is also exposed to foreign exchange risk on its U.S. dollar denominated accounts payables, loans payable and cash. The Company had no forward exchange contracts to manage its foreign currency risk. As at February 28, 2009, the Company had U.S. dollar denominated assets and liabilities of: cash in the amount of US\$6.3 million; accounts payable of US\$427,000; and loans payable with a face value of US\$33.9 million, for a net asset exposure of US\$28.0 million. A \$0.01 exchange rate change as measured on February 28, 2009 can result in a foreign currency gain or loss of \$280,000.