

## **Preliminary Information**

The following Management's Discussion and Analysis ("MD&A") of Palladon Ventures Ltd. ("Palladon" or the "Company") should be read in conjunction with the Company's accompanying unaudited consolidated financial statements for the three and six months ended August 31, 2009 and 2008, and the related notes contained therein. In addition, the following should be read in conjunction with the audited consolidated financial statements for the year ended February 28, 2009, and the related MD&A. 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](http://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.

## **Description of Business and Fiscal 2010 First Half Developments**

### **Project History and Recent Project Developments**

Through its wholly-owned subsidiary Palladon Iron Corporation ("PIC"), Palladon is in the business of developing the Iron Mountain ("Iron Mountain" or "the Project") iron ore project located west of Cedar City, Utah. Mormon pioneers discovered the area's iron deposits in 1849, and began furnace operations in 1852. Previous operators include Columbia Iron Mining

Company (subsidiary of US Steel), Colorado Fuel and Iron Corporation and Geneva Steel. Eighty million metric tons of iron ore were produced from the district from about 1869 through the most recent mining period, which ceased in 1996. Palladon Iron Corp. was founded in 2005 as a private operating subsidiary of Palladon Ventures Ltd. to develop the Iron Mountain Project. With excellent access to the project via highways and a rail spur, Iron Mountain is positioned to become the major source of iron ore and value-added iron products in the western United States.

The Company's highest priority is the redevelopment of the Iron Mountain Project. Palladon initiated mining at Iron Mountain in September 2008. The Company had planned to use profits from shipping run-of-mine ("ROM") ore under the CKI contract (described below) to fund an iron ore concentrate facility. However, Palladon was unable to secure a viable port through which to ship the ROM ore. This, plus a significant decrease in iron ore prices since the CKI contract was signed, led the Company to cease mining operations at Iron Mountain as of the end of June 2009.

Although Palladon continues to explore all economic scenarios with respect to mining and shipping iron ore, the Company believes that it will be difficult to profitably ship ROM ore as previously envisioned. Therefore Palladon is pursuing a strategy to upgrade its iron ore to concentrate or alternative iron units ("AIU").

### **The Acquisition of Palladon Iron Corporation and Recent Financing 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 provided 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 bore interest at an 11.6% annual rate. An already existing Luxor term loan 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. On June 26, 2009, the US\$37.0 million total amount of principal and interest due to Luxor was extended to October 15, 2009. Refer to the "Liquidity and Capital Resources" section below for a description of this debt extension.

To fund the June 2008 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.

### **The China Kingdom International Contract and Subsequent Development**

On March 31, 2008, PIC signed a five-year Sales Agreement for the Purchase of Iron Ore with China Kingdom International (Australia) PTY LTD., / CKI Minerals & Metals ("CKI") to sell run-of-mine ore assaying 55% Fe (Iron) for use in steel mills in China. This two million tonne per year contract led Palladon to accelerate development of the Iron Mountain Project. Under the contract terms, the iron ore was to be delivered freight on board ("FOB") to the Port of Long Beach, California for US\$70 per metric tonne until March 31, 2009, and thereafter subject to adjustment based on the World Benchmark Price for iron ore.

No iron ore was shipped pursuant to this contract. On September 15, 2009 the Company announced that its wholly owned subsidiary PIC had notified CKI of the termination of the Sales Agreement for the Purchase of Iron Ore, subject to the dispute resolution mechanisms as set out in the agreement. When the Sales Agreement was negotiated and entered into, it was assumed by both parties that the iron ore would be delivered to CKI at the Port of Long Beach, and this assumption was specifically made part of the agreement. However, subsequent to the signing of the Sales Agreement, the Port of Long Beach proved unavailable, making performance of the agreement commercially impracticable.

### **The Independent Mining Contractor Contract and Second Quarter Developments**

PIC entered into a contract dated June 1, 2008 with an independent mining contractor whereby the contractor agreed to mine and process iron ore at the Iron Mountain Project until May 31, 2013. The 5-year contract was based upon the mine plan developed to meet the aforementioned CKI contract. The mining contractor 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 the contractor's operations. Under the contract terms, PIC agreed to a fixed rate per ton for the amount of ore mined and loaded, and rental rates for use of equipment provided by the contractor, subject to a minimum standby fee of US\$500,000 per month. The rates are subject to a 2% annual increase after the first year.

During the quarter ended August 31, 2009, the contractor agreed to waive any future standby charges under the contract in exchange for retention of unused advances in the amount of US\$1.0 million (CDN\$1.3 million), plus the transfer from PIC to the contractor of a piece of mining equipment with a net book value of US\$190 thousand (CDN\$186 thousand), plus a royalty on future production.

### **A Compliant Resource is Born – First Half Developments and Subsequent Event PEA**

The Company reached its initial 2008 production decision on the Iron Mountain Project despite the absence of a National Instrument 43-101 ("NI 43-101") compliant resource or feasibility study. Palladon believed that the quantity and grade of iron resources in the Comstock/Mountain Lion (CML) mine were sufficient to justify development of Iron Mountain. However, there was a risk that the Project had insufficient resources at an insufficient grade to support the recommencement of commercial operations. The Company believed that this risk was 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.

In early April 2009, amidst tumultuous iron ore market conditions and operational challenges with respect to shipping ROM ore, Palladon management engaged SRK Consulting (U.S.), Inc. ("SRK") in an effort to obtain an independent evaluation of the Iron Mountain Project. Initial positive evaluations led the Company to further engage SRK to define and upgrade the resource, and to complete a Canadian Institute of Mining and Metallurgy (CIM) NI 43-101 technical report on the merits of mining CML and the stockpiles. SRK's commission primarily comprised the following:

- Mineral & Surface Land Tenure
- Geology & Resources
- Mining
- Geotechnics
- Process
- Infrastructure
- Environmental Management & Permitting
- Technical Economic Models

One significant aspect of SRK's involvement was to suggest a drilling campaign to confirm the historic drilling previously conducted by previous operators.

On August 7, 2009, Palladon announced the first NI 43-101 compliant mineral resource estimate for CML and adjacent stockpiles. This resource estimate solidified previous non-compliant resource estimates, and gives Palladon the first compliant resource in the Company's history. On September 25, 2009 the Company announced that it had received the required NI 43-101 Preliminary Economic Assessment ("PEA") for CML and the adjacent stockpiles from SRK. This PEA does not address Palladon's other significant historic resources at the same Iron Mountain Project location. Highlights from the PEA include the following:

- The 40.35 million short tons of indicated resource at 45.32% Fe (Iron) converts into 37.5 million short tons mined at 43.3% Fe.
- The PEA production target of one million metric tonnes of direct reduced iron ("DRI") per year translates into 14.4 million metric tonnes produced over a fifteen year mine life.
- The \$378 per metric tonne modeled selling price for DRI generates per tonne operating margin and pre-tax cash flow of \$182.89 and \$133.99, respectively.
- Total pre-tax cash flow of \$1.9 billion flows from \$704.9 million of capital costs, which capital costs include \$118.1 million of total contingency costs.
- The resulting \$763 million cash flow NPV at 8% and 24% IRR are both considered very robust for such a brown-field project.

### **Iron Mountain – Potential Additional Resources**

In conjunction with production of the PEA as discussed above, Palladon and its advisors compiled an additional resource calculation for Rex and Homestake, two of several other deposits at the Iron Mountain Project. Discussion of this additional resource calculation is intended to provide investors with insight into the further expansion potential at the Iron Mountain Project.

*Note however that this additional resource calculation is non NI 43-101 compliant.* It is also specifically classified within the context of a forward-looking statement. Such a forward-looking resource estimate is subject to risks and uncertainties which could cause development of the resource to be significantly delayed or completely prevented. Such risks and uncertainties include, but are not limited to:

- The Company's ability to raise sufficient capital to fund development of the resource;
- The Company's ability to acquire the Rex deposit mineral claims that it does not own;
- Changes in prices for the Company's potential mineral products or increases in input costs;
- Litigation, legislative, environmental and other judicial, regulatory, political and competitive developments;
- 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;
- Changes in general economic conditions; and
- Changing foreign exchange rates.

*The reader is cautioned that actual results, performance or achievements with regard to this additional calculated resource may be materially different from those implied or expressed in the following statements.*

The potential resource, comprised of Rex and Homestake, is estimated to be in excess of 100 million short tons grading 42% Fe. The basis of the calculation for this additional resource is similar to that for the compliant resource described in the PEA. The primary reason that this additional resource was not included in the PEA is two-fold: Palladon has not obtained 100% of the Rex land claims, and Palladon needs to conduct a twin drilling campaign that could, when combined with historic drill data in a compliant manner, bring the additional resource into NI 43-101 compliant status.

Combining this additional resource with CML and stockpiles would double the mine life to more than thirty years, depending on assumed production rates. Likewise, using similar assumptions as to DRI or another AIU as the end product, the derived NPV and IRR results are comparable to those as reflected in the PEA. The major negative variable with respect to this additional resource is an estimated four to one strip ratio for Rex. Rex is also significantly deeper and more irregularly oriented than CML.

The long-term strategy with respect to developing Iron Mountain would be to mine CML and the adjacent stockpiles to produce an upgraded product in some combination of concentrate, DRI, iron nuggets or steel. The significant positive free cash flow from CML could be used to begin pre-stripping Rex and / or Homestake. Many potential synergies exist with respect to the logistics of developing the Iron Mountain Project to include Rex, Homestake and other Iron Mountain Project targeted deposits.

### **Railroad Spur Line**

The Iron Mountain Project is connected by an existing 14.6-mile rail spur line to the Union Pacific main line interchange tracks at Iron Springs. During the year ended February 28, 2009, PIC completed Phase 1 of a three-phase track safety upgrade program, which replaced 5,400 wood ties with cement ties, and 4,280 feet of 90-lb. rail with heavy duty 133-lb. rail. Subject to the Company raising additional funding, the plan is to implement Phases 2 and 3 gradually during the next three years.

Palladon Iron formed a wholly-owned subsidiary to act as the short-line railroad operating company over the spur line. This subsidiary and the Union Pacific Railroad ("UP") signed a track lease contract for the "Comstock Subdivision" (spur line) of the UP effective August 1, 2008. Through this agreement, Palladon will be able to move loaded and empty trains between the load-out facility at Iron Mountain and the interchange tracks at Iron Springs. To accomplish this, the Palladon railroad subsidiary contracted with a short-line operator to move the rail cars and to interface with the UP.

### **First Quarter Ended May 31, 2009 – Summary and Other Developments**

As noted above, in early April 2008 Palladon signed a contract to ship ROM ore. However, notwithstanding significant efforts, the Company was unable to secure a port from which to ship. Depressed iron ore prices further contributed to the Company's inability to profitably ship ore. Additionally, the previous CEO and CFO resigned during March, 2009.

Recognizing the challenges of profitably shipping ROM ore, new Palladon management, at the direction of the Board of Directors, immediately began exploring other options with respect to maximizing the value of Iron Mountain. To this end, the Company commissioned SRK Consulting (US) Inc. ("SRK") to evaluate the Iron Mountain Project.

### **Second Quarter Ended August 31, 2009 – Summary and Subsequent Event**

On August 7, 2009, Palladon announced the first NI 43-101 compliant mineral resource estimate for CML and adjacent stockpiles. On September 25, 2009, the Company announced that it had received the follow-on NI 43-101. The PEA demonstrates a very attractive project, both in terms of technical feasibility and economic value. The Iron Mountain Project expansion is supported by the existence of substantial infrastructure, including power to site, roads and a fourteen mile rail spur line. Significant community support exists at all levels – city, county and state. The

Company is also working to bring additional historic resources into compliance, which will further increase the potential for this project.

### **Additional Disclosure for Venture Issuers**

Other than immaterial quantities of iron ore sold to a local company, the Company has not generated revenue from operations in the two fiscal years ended February 28, 2009, nor for the current year six month interim period. These immaterial 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 Mineral Properties (Schedule 1) expenditures during the six months ended August 31, 2009 period were focused on developing Iron Mountain.

The Company's contract mine operator primarily conducted a pre-stripping program during the first and second quarters ended August 31, 2009 (until mining activities ceased in early June 2009), moving large amounts of waste rock from the Comstock/Mountain Lion (CML) pit. Additional iron ore was also stockpiled. These two expenditures totaled \$2.0 million of the \$2.8 million net increase in Mineral Properties for the first half of fiscal 2010. Consulting expenditures of \$842 thousand were the other major Mineral Properties category to increase during the first six months ended August 31, 2009. Consulting costs reflect the cost of the PEA, including related drilling activities and iron ore / alternate iron units market studies. The benefit of these expenditures should accrue to the Company by contributing more information to investors, from whom additional financing will be required.

There were no Equipment additions during the quarter ended August 31, 2009, but as noted above, a piece of equipment with a net book value of \$186 thousand was transferred to the Company's mine contractor in partial exchange for not incurring any further stand-by charges. An advance to the mine contractor of \$1.3 million, previously recorded in Mineral Properties, was also forgiven.

### **Financial Results**

#### **Results of Operations for the Three Months Ended May 31, 2009 Compared with the Three Months Ended May 31, 2008**

For the three months ended May 31, 2009, the Company realized a Net Gain of \$2.78 million (2008 – Net Loss of \$664 thousand). Items affecting the quarter are as follows:

- Substantially all of Palladon's assets and liabilities originate in US dollars, and other than some professional expenses paid in Canadian dollars, most of the Company's expenditures are also paid in US dollars. For financial reporting purposes, balance sheet items are translated into Canadian dollars at the period end rate or at an historical rate, depending on the asset or liability, and income statement items are converted at the period average conversion rate. The period end C\$ / US\$ conversion rate at May 31, 2009 and February 28, 2009 was 1.0913 and 1.26, respectively. The average rate for the

May 2009 quarter was 1.2151, while the average rate for the May 2008 quarter was 1.0054.

- The net gain for the quarter stems from a \$5.4 million gain on foreign exchange. This gain primarily reflects the increase in value of the Canadian dollar versus the US dollar between February 28, 2009 and May 31, 2009, and impact of this change on Loans Payable. Whereas Loans Payable increased by US\$ 735 thousand in the May 2009 first quarter, the reported C\$ amount decreased by \$5.3 million. This decrease in C\$ of loans payable is a major component of the foreign exchange gain for the quarter.
- Amortization increased to \$309 thousand from \$5 thousand last year, as a result of significant equipment additions during the fiscal year ended February 28, 2009.
- Interest expense increased to \$1.1 million from \$219 thousand, due to the incremental debt resulting from the purchase of the PIC non-controlling interest during the year ended February 28, 2009.
- Office and administration expense increased to \$345 thousand during the current quarter, from \$84,000 in the previous year first quarter. Significant expenditures during the quarter include \$111 thousand for liability insurance and \$86 thousand for sampling-related expenses from the Iron Mountain drilling program.
- Salaries and benefits increased to \$489 thousand from \$221 thousand. Overlapping expenditures to previous and current management, plus directors' fees, contributed to the increase. This expense category should decrease in future quarters, due to reductions in personnel that occurred during the quarter.

### **Results of Operations for the Three Months Ended August 31, 2009 Compared with the Three Months Ended August 31, 2008**

For the three months ended August 31, 2009, the Company realized a Net Loss of \$3.0 million (2008 – Net Loss of \$4.2 million). Significant items contributing to this loss include the following:

- Substantially all of Palladon's assets and liabilities originate in US dollars, and other than some professional expenses paid in Canadian dollars, most of the Company's expenditures are also paid in US dollars. For financial reporting purposes, balance sheet items are translated into Canadian dollars at the period end rate or at an historical rate, depending on the asset or liability, and income statement items are converted at the period average conversion rate. The period end C\$ / US\$ conversion rate at August 31, 2009 and February 28, 2009 was 1.0920 and 1.26, respectively. The average rate for the August 2009 quarter was 1.1136, while the average rate for the August 2008 quarter was 1.0270.
  - The depreciation in average value of the Canadian dollar compared with the US dollar in the August 2009 quarter versus the August 2008 quarter means that on a US dollar for dollar basis, an expenditure during the August 2009 quarter is 8.4% higher in reported Canadian dollar terms than the same dollar expended in the prior year August 2008 quarter.
- Amortization increased to \$251 thousand from \$40 thousand last year, as a result of significant equipment additions during the fiscal year ended February 28, 2009.

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- The 99% increase in consulting fees to \$111 thousand reflects fees paid in relation to amending and restating prior period financial statements, as well as for the 2009 audit. This category also includes fees paid to an investment advisory firm in its efforts to raise capital for the Company.
- Interest expense increased to \$1.8 million from \$759 thousand in the prior year. This increase is a function of higher debt levels stemming from the PIC acquisition in June 2008, as well as higher interest rates stemming from the extension of the Luxor debt negotiated on June 26, 2009.
- The increase in office and administration expense to \$220 thousand from \$69 thousand in the prior year second quarter includes sampling costs from the Cedar City office. These expenses supported completion of the Preliminary Economic Assessment. Liability and workers compensation costs were also higher as a lagging result of the Company having initiated mining in September of 2008.
- Professional fees increased from \$110 thousand last year to \$189 thousand in the August 2009 quarter. This increase reflects increased accounting fees stemming from amending and restating prior year interim statements to regain compliance with regulatory authorities. This increase also includes increased legal costs related to the June 26, 2009 Loans payable extension.
- The significant decrease in shareholder communications expense and transfer agent and filing fees reflects the absence of costs associated with the June 2008 equity capital raise.

The ability of Palladon to continue as a going concern depends upon its ability to develop and profitably operate the Iron Mountain Project, as well as to raise a minimum of US\$5 million by October 15, 2009. Refer to the "Subsequent Events" section below.

### Summary of Quarterly Results

Financial results for the eight most recently completed quarters:

(\$000, except per share)	2010 QUARTER ENDED		2009 QUARTER ENDED				2008 QUARTER ENDED	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	August 31	May 31	February 28	November 30	August 31	May 31	February 29	November 30
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net gain (loss) for the period	(\$3,001)	\$2,780	(\$3,316)	(\$5,955)	(\$4,235)	(\$664)	(\$2,561)	(\$450)
Basic and diluted net gain (loss) per share	(\$0.02)	\$0.02	(\$0.02)	(\$0.04)	(\$0.03)	(\$0.01)	(\$0.03)	(\$0.01)

The \$2.78 million gain during the May 31, 2009 quarter reflects a significant foreign exchange gain, which resulted from a dramatic depreciation of the Canadian dollar versus the U.S. dollar.

## **Liquidity and Capital Resources**

### **Liquidity**

The Company had cash of \$1.7 million as of August 31, 2009, and has approximately US\$664,000 as of the date of this report. The Company had a net working capital deficit of \$40.8 million at August 31, 2009, including Loans Payable as a current liability. The net working capital deficit at February 28, 2009 was \$38.6 million.

On the June 26, 2009, due date, Palladon negotiated an extension of the US\$37.0 million of principal and interest due to Luxor on October 15, 2009. The interest rate on both loans was increased to 12.5%, compounded quarterly, from 9.25% on the Term Loan and from 11.6% on the Deferred Loan. The Company also paid additional interest of US\$500,000, which was added to the Term Loan. Both Luxor loans are collateralized by a promissory note, a general security agreement, the shares of PIC and a mortgage on the Murdock Railway Property.

An automatic extension from October 15, 2009 to December 31, 2010 can be obtained if the Company completes an interim equity financing in the minimum amount of US\$5 million by the October 15, 2009 due date. A US\$500,000 principal repayment on October 15, 2009 is a required condition of the interim financing. Furthermore, in the event that the Company repays 65% of the total loans payable in cash by December 31, 2010, it has the option to repay the remaining balance by the issue of Palladon shares.

Upon closing of an October 15, 2009 interim financing, Palladon would pay to Luxor US\$1.75 million of additional interest in the form of Palladon common stock, with the number of shares calculated as US\$1.75 million divided by the per share price at which Palladon's common stock is issued or deemed to have been issued in the interim equity financing, provided that in no event shall the number of shares issued exceed 5% of Palladon's shares outstanding after giving effect for the interim financing. As long as the Luxor loans remain outstanding and subject to reduction for repaid amounts, Palladon will pay additional quarterly interest to Luxor equal to and in the form of 3% of the then total outstanding common shares of Palladon, on each quarter-ending anniversary date from and including December 31, 2009 through and including September 30, 2010.

On October 15, 2009 the Company announced a standstill agreement with Luxor that extends the October 15, 2009 due date to December 4, 2009. In connection with the standstill agreement, the Company repaid \$200,000 of the Luxor loan amount outstanding.

### **Capital Resources**

The capital resources of the Company include mineral properties carried at \$30.9 million, which the Company is committed to develop. Development of the Iron Mountain Project is contingent on the Company raising US\$5 million of equity capital by October 15, 2009 (See Subsequent Events), as well as the significant capital necessary to fund a Bankable Feasibility Study and the

production plan as outlined in the PEA. The PEA estimates capital requirements of US\$705 million to produce direct reduced iron.

### **Share Capital Data**

As of October 27, 2009 the Company had the following items issued and outstanding:

- 168,964,132 common shares
- 150,000 options to purchase common shares with a weighted average exercise price of \$0.40, expiring October 31, 2012
- 22,061,739 share purchase warrants with a weighted average exercise price of \$1.00, expiring December 26, 2009

### **Commitments**

- During the year ended February 28, 2009, PIC entered into a contract for a term expiring March 31, 2013 to supply 2,000,000 metric tonnes of iron ore during each twelve month period. Under the contract terms, the iron ore was to be delivered freight on board ("FOB") to the Port of Long Beach, California for US\$70 per metric tonne until March 31, 2009, and thereafter subject to adjustment based on the World Benchmark Price for iron ore.

No iron ore was shipped pursuant to this contract. On September 15, 2009, the Company announced that its wholly owned subsidiary Palladon Iron Corporation had notified the buyer – China Kingdom International (Australia) PTY LTD., / CKI Minerals & Metals ("CKI") – of the termination of the Sales Agreement for the Purchase of Iron Ore dated March 31, 2008 between PIC as seller and CKI as buyer, subject to the dispute resolution mechanisms as set out in the agreement. When the Sales Agreement was negotiated and entered into, it was assumed by both parties that the iron ore would be delivered to CKI at the Port of Long Beach, and this assumption was specifically made part of the agreement. However, subsequent to the signing of the Sales Agreement, the Port of Long Beach proved unavailable, making performance of the agreement commercially impracticable.

- 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.
- PIC entered into a contract dated June 1, 2008 with an independent mining contractor whereby the contractor agreed to mine and process iron ore at the Iron Mountain Project until May 31, 2013. Under the contract terms, PIC agreed to a fixed rate per ton for the

amount of ore mined and loaded, and rental rates for use of equipment provided by the contractor, subject to a minimum standby fee of US\$500,000 per month. The rates are subject to a 2% annual increase after the first year.

During the quarter ended August 31, 2009, contractor agreed to waive any future standby charges under the contract in exchange for retention of unused advances in the amount of US\$1.0 million (CDN\$1.3 million), plus the transfer from PIC to the contractor of a piece of mining equipment with a net book value of US\$190 thousand (CDN\$186 thousand).

- 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.

### Off-Balance Sheet Arrangements

There are no current commitments.

### Transactions with Related Parties

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:

	Three months ended		Six months ended	
	August 31,		August 31,	
	2009	2008	2009	2008
Consulting fees	\$67,615	-	\$121,882	\$3,000
Directors' fees	41,758	-	72,136	-
Salaries and benefits	48,718	\$95,849	210,033	194,485
<b>Total</b>	<b>\$158,091</b>	<b>\$95,849</b>	<b>\$404,051</b>	<b>\$197,485</b>

During the three and six months ended August 31, 2009, the Company paid consulting fees to a director – a former CPA with major accounting firm experience – as follows:

- To reconstitute the financial reporting and accounting function,
- To amend and restate three prior interim period financial statements and the related Management's Discussion and Analysis, and
- To close the books and prepare financial statements for the annual audit and to work with the outside audit firm to complete the annual audit for the period ended February 28, 2009.

Monthly directors' fees were paid for services rendered. Salaries and benefits for the six month period ended August 31, 2009 include salary and final payments to the previous CEO and CFO.

### **Subsequent Events**

On September 15, 2009 the Company announced that its wholly owned subsidiary Palladon Iron Corporation had notified the buyer – China Kingdom International (Australia) PTY LTD., / CKI Minerals & Metals (“CKI”) – of the termination of the Sales Agreement for the Purchase of Iron Ore dated March 31, 2008 between PIC as seller and CKI as buyer, subject to the dispute resolution mechanisms as set out in the agreement. See “The China Kingdom International Contract and Subsequent Development” above for further description.

On October 15, 2009 the Company announced a standstill agreement with Luxor that extends the October 15, 2009 loans payable due date to December 4, 2009. In connection with the standstill agreement, the Company repaid \$200,000 of the Luxor loan amount outstanding.

### **Additional Disclosure**

Additional disclosure relating to the Company's general and administrative expenses and resource property costs is provided in the Palladon Ventures Ltd. “Report and Consolidated Financial Statements” for the year ended February 28, 2009, available on the Company website at [www.palladonventures.com](http://www.palladonventures.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **Critical Accounting Estimates**

There are no critical accounting estimates.

### **Changes in Accounting Policy**

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

### **Disclosure Controls and Procedures**

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) (“NI 52-109”), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the Unaudited Interim Consolidated Financial Statements and this accompanying Interim MD&A (together the “Interim Filings”).

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

## **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 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. PICR was incorporated during the year ended February 28, 2007 as a wholly-owned subsidiary of PIC.

### b) Equipment and Amortization

Equipment is recorded at cost. 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

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.

### 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 Gain (Loss) Per Share

Basic gain (loss) per share is computed by dividing the gain (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted gain (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 22,211,739 as of August 31, 2009 (February 28, 2009: 33,341,819) were not included in the computation of diluted gain (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. 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 August 31, 2009 and February 28, 2009, 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 August 31, 2009.

j) Comprehensive Income

Comprehensive income includes both net gain (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 gain (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 quarter ended August 31, 2009 or the year ended February 28, 2009, 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 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 and marketable securities as held-for trading; amounts receivable as loans and receivables; accounts payable and accrued liabilities, loans payable and due to related parties as other financial liabilities. At August 31, 2009 and February 28, 2009, the Company had neither available-for-sale nor held-to-maturity financial instruments.

#### 1) 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 are included in Note 9.

##### 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 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.

#### 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, due to related parties 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.

### 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, as disclosed in Note 15. 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.