



**PALLADON VENTURES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS**

**For the financial year ended February 28, 2010
Date of report: June 28, 2010**

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 consolidated financial statements for the year ended February 28, 2010 and 2009 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, 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, 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 Developments

Selected Annual Information

(\$ in thousands)	February Year Ended		
	2010	2009	2008
Revenue	\$0	\$0	\$0
Net income (loss)	\$12,597	(\$14,170)	(\$4,022)
Basic and diluted income (loss) per share	\$0.07	(\$0.10)	(\$0.06)
Total assets	\$9,080	\$42,528	\$25,782
Total loans payable	\$0	\$45,393	\$9,252

Recent Developments

Until March 15, 2010, Palladon owned 100% of Palladon Iron Corporation (“PIC”), which was subsequently renamed CML Metals Corporation (“CML”). On that date Palladon and Luxor Capital Partners, LP (“Luxor”) entered into a Satisfaction and Settlement Agreement whereby Palladon transferred ownership of 78.26% of PIC to Luxor in exchange for the full discharge of all liabilities due to Luxor. Because of the de minimis business activity at PIC subsequent to Palladon’s fiscal year ending February 28, 2010, the Satisfaction and Settlement Agreement is reflected in the financial statements and in this MD&A as of February 28, 2010. The effect of the Satisfaction and Settlement Agreement is to deconsolidate the PIC balance sheet from Palladon and to instead reflect an Investment in Palladon Iron Corporation. The fiscal 2010 activity at PIC is included in the Consolidated Statements of Operations and Deficit, as well as the Consolidated Statements of Cash Flows. The Company’s sole business activity going forward is to manage its investment in Palladon Iron Corporation, now known as CML Metals Corporation.

Project History

PIC 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. PIC 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.

PIC initiated mining at Iron Mountain in September 2008. PIC 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, PIC was unable to secure a storage barn at the Port of Long Beach through which to ship the ROM ore. This, plus a significant decrease in iron ore prices from when the CKI contract was signed, led PIC to cease mining operations at Iron Mountain as of the end of June 2009.

The Acquisition of PIC and Recent Financing Developments

The Iron Mountain Project is wholly-owned by PIC, which was in turn wholly-owned by Palladon Ventures Ltd from June 26, 2008 until March 15, 2010.

Prior to 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.

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 were secured by the assets and equity of PIC. Refer to the “Liquidity and Capital Resources” section below for a chronology related to PIC and the Luxor debt.

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 was 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 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, 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 then wholly-owned subsidiary PIC 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 that agreement.

When the Agreement was negotiated and entered into, both parties understood that the iron ore would be delivered to CKI at the Port of Long Beach. This understanding was set forth in the Agreement. At that time, both parties knew that PIC had not yet entered into a signed agreement for the storage of the iron ore at the Port of Long Beach, and both parties knew that the performance of the Agreement would be dependent upon PIC successfully obtaining such a signed storage agreement. Subsequent to the signing of the Agreement, and despite its best efforts, PIC was unable to secure a signed agreement for a storage facility at the Port of Long Beach. This made it commercially impracticable or impossible for either party to perform its obligations under the Agreement.

On January 4, 2010, more than four months after PIC notified CKI that the Agreement was terminated, CKI first notified PIC that it did not agree with PIC’s assertion that the Agreement was terminated.

On January 8, 2010, Palladon announced that PIC has submitted a Request for Arbitration with respect to the termination of the Sales Agreement for the Purchase of Iron Ore (the “Agreement”) dated March 31, 2008, between PIC as seller and CKI as buyer.

Pursuant to the Agreement, all disputes between the parties were to be resolved by arbitration in Salt Lake City, Utah, under the Rules of Arbitration of the International Chamber of Commerce. Accordingly, PIC submitted a request for arbitration to the International Chamber of Commerce, seeking a determination of the issue of whether the Agreement is terminated due to the commercial impracticability or impossibility of either party to perform its obligations under the Agreement.

The Independent Mining Contractor 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. Pursuant to the contract terms, PIC agreed to pay a fixed rate per ton for 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 were 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

PIC 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. PIC believed that the quantity and grade of iron resources in the Comstock / Mountain Lion mine were sufficient to justify development of Iron Mountain. However, there was a risk that the Project had insufficient resources and/or an insufficient grade to support the recommencement of commercial operations. PIC believed that this risk was mitigated to some extent by the integrity of the previous operators’ reporting standards, and by the fact that the iron ore produced 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, PIC engaged SRK Consulting (U.S.), Inc. (“SRK”) in an effort to obtain an independent evaluation of the Iron Mountain Project. Initial positive evaluations led PIC 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 the Comstock / Mountain Lion deposits 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 conducted by previous operators.

On August 7, 2009, PIC announced the first NI 43-101 compliant mineral resource estimate. This resource estimate solidified previous non-compliant resource estimates, and gave PIC the first compliant resource in the Company’s history. On September 25, 2009 PIC announced that it had received the required NI 43-101 Preliminary Economic Assessment (“PEA”) for the Comstock / Mountain Lion deposits and the stockpiles from SRK. This PEA did not address PIC’s other significant historic resources located 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, PIC 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. 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.

This additional resource calculation 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:

- PIC's ability to raise sufficient capital to fund development of the resource;
- PIC's ability to acquire the Rex deposit mineral claims that it does not own;
- Changes in prices for PIC'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 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 and was not included in the PEA is two-fold: PIC has not yet obtained 100%

of the Rex land claims, and PIC 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 Comstock / Mountain Lion deposits 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 iron 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 are the Comstock / Mountain Lion deposits.

The long-term strategy with respect to developing Iron Mountain would be to mine the Comstock / Mountain Lion deposits and adjacent stockpiles to produce an upgraded product in some combination of concentrate, DRI, iron nuggets or steel. The significant positive free cash flow from Comstock / Mountain Lion 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 raising additional funding, the plan is to implement Phases 2 and 3 gradually during the next three years.

PIC 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, PIC 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 PIC signed a contract to ship ROM ore. However, notwithstanding significant efforts, it was unable to secure a port from which to ship. Depressed iron ore prices further contributed to the inability to profitably ship ore. Additionally, the previous CEO and CFO resigned during March, 2009.

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Recognizing the challenges of profitably shipping ROM ore, new 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, PIC commissioned SRK Consulting (US) Inc. (“SRK”) to evaluate the Iron Mountain Project.

Second Quarter Ended August 31, 2009 – Summary

On August 7, 2009, PIC announced the first NI 43-101 compliant mineral resource estimate for the Comstock / Mountain Lion deposits and adjacent stockpiles. On September 25, 2009, PIC announced that it had received the follow-on NI 43-101. The PEA demonstrated 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. PIC is also working to bring additional historic resources into compliance, which will further increase the potential for this project.

Third Quarter Ended November 30, 2009 and Fourth Quarter Ended February 28, 2010

During the last two quarters of the year the Company focused on reducing expenditures. PIC acquired further land claims at the Iron Mountain project. Palladon focused on managing its dwindling cash and negotiating the debt discharge with Luxor.

Additional Disclosure for Venture Issuers

Palladon no longer owns any equipment or any mineral properties. All such assets were either written off or transferred to PIC as part of the Settlement and Satisfaction Agreement signed with Luxor on March 15, 2010. All Mineral Property (see financial statement Schedule 1) expenditures during the year ended February 28, 2010 were focused on developing the Iron Mountain Project.

Financial Results

Results of Operations for the Three Months Ended May 31, 2009

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

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.
- 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.

Results of Operations for the Three Months Ended November 30, 2009

For the three months ended November 30, 2009, the Company realized a Net Loss of \$980 thousand (2008 – Net Loss of \$5.6 million). A \$4.5 million swing in foreign exchange explains a significant portion of this year over year change, from a \$3.5 million foreign exchange loss in November 2008 to a \$1.1 million gain in November 2009.

Palladon ceased mining activities as of the end of June 2009, during the current year's second fiscal quarter ending August. The Company commenced activities midway through the third fiscal quarter of last year ending November. Thus, the current year third fiscal quarter ended November 2009 reflects reduced expenditures in most categories, when compared with both the third fiscal quarter of the previous year and the second fiscal quarter of the current year. The Company has focused on reducing costs and conserving cash wherever possible.

Results of Operations for the Three Months Ended February 28, 2010

For the three months ended February 28, 2010, the Company realized a Net Gain of \$13.8 million (2009 – Net Loss of \$3.3 million). This \$13.8 million gain reflects the \$15.5 million gain on debt settlement from exchanging 78.26% of PIC for discharge of all Luxor debt.

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Summary of Quarterly Results

(\$ in thousands)	2010 QUARTER ENDED				2009 QUARTER ENDED			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	February 28	November 30	August 31	May 31	February 28	November 30	August 31	May 31
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net income (loss)	\$13,798	(\$980)	(\$3,001)	\$2,780	(\$3,316)	(\$5,955)	(\$4,235)	(\$664)
Basic and diluted net income (loss) per share	\$0.08	(\$0.01)	(\$0.02)	\$0.02	(\$0.02)	(\$0.04)	(\$0.03)	(\$0.01)

Liquidity and Capital Resources

Liquidity

The Company had cash of \$186 thousand as of February 28, 2010, and has approximately US\$500 thousand as of the date of this report. The cash increase since year end reflects the May 2010 private placement sale of 20 million shares at US\$0.055 totaling US\$1.1 million. The Company invested US\$435 thousand of the private placement proceeds in a CML private placement, which maintained Palladon's 21.74% ownership interest in CML.

The Company had a net working capital deficit of \$469 thousand at February 28, 2010. The net working capital deficit at February 28, 2009 was \$38.6 million, which included \$45.4 million of Loans payable as a current liability.

Loans payable totalling approximately \$42.5 million (US\$40.3 million) owed to Luxor Capital Partners, LP were fully discharged as of February 28, 2010. Events leading up to this event are as follows.

On the June 26, 2009 due date, Palladon negotiated an extension of the Luxor loans' maturity date to October 15, 2009. The interest rate on both loans was increased to 12.5%, compounded quarterly. The Company also incurred additional interest of US\$500,000, which was added to the loan.

On October 15, 2009, the Company announced a standstill agreement with Luxor that extended 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.

On December 4, 2009, Palladon announced that effective immediately the Company and Luxor had entered into a letter of agreement (the "Letter Agreement"), subject to TSX Venture Exchange approval, to the extension agreement dated June 26, 2009, and to the standstill agreement dated October 15, 2009. The Letter Agreement granted Palladon an irrevocable option (the "Payment Option") to acquire from Luxor the entirety of its outstanding loans including interest (the "Loan Amount"), by paying US\$30 million on or before March 31, 2010.

In the event that the Company did not exercise the Payment Option on or before March 31, 2010, Luxor had agreed to reduce the outstanding Loan Amount to US\$25 million, in exchange for transfer and assignment by the Company of 50% of the equity of PIC to Luxor (the "Luxor Equity"), subject to terms and conditions to be set out in a definitive agreement. Such terms included, but were not limited to, Luxor having control of the PIC board of directors.

However, the TSX Venture Exchange did not approve the Letter Agreement. Therefore, on March 15, 2010 Palladon and Luxor entered into a Satisfaction and Settlement Agreement whereby Palladon transferred ownership of 78.26% of PIC to Luxor in exchange for the full discharge of all liabilities due to Luxor. Because of the de minimis business activity at PIC subsequent to Palladon's fiscal year ended February 28, 2010, the Satisfaction and Settlement Agreement is reflected in these financial statements as of February 28, 2010.

Capital Resources

Palladon's only significant asset is an \$8.8 million investment in Palladon Iron Corporation, now known as CML Metals Corporation. The Company recently raised funds via a private placement in order to fulfill a capital call from CML and to fund the Company's reduced operating expenses for approximately the next eighteen months. The recent investment in CML maintains Palladon's 21.74% ownership interest. Any future capital calls from CML will require Palladon to either raise capital or suffer dilution of its investment.

Share Capital Data

As of the date of this report the Company had the following items issued and outstanding:

- 188,964,132 common shares
- 150,000 options to purchase common shares with a weighted average exercise price of \$0.40, expiring October 31, 2012

Commitments

The Company has no significant commitments.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

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:

	February 28,	
	2010	2009
Consulting fees	\$187,491	\$3,000
Directors' fees	125,290	-
Salaries and benefits	302,735	486,954
Total	<u>\$615,517</u>	<u>\$489,954</u>

The amounts were recorded at their exchange amount, which is the amount agreed to by the parties.

Subsequent Event

On May 11, 2010 the Company sold 20,000,000 shares at CN\$0.05654 (US\$0.055) per share for gross and net proceeds of US\$1,100,000.

Additional Disclosure

Significant Accounting Policies

a) Principles of Consolidation

These financial statements include the accounts of the Company. The operations of former U.S. subsidiaries Palladon Iron Corporation and PIC Railroad Inc. ("PICR") were consolidated through February 28, 2010. Because of the de minimis business activity at PIC subsequent to Palladon's fiscal year ended February 28, 2010 until the date of the Satisfaction and Settlement Agreement dated March 15, 2010, the Satisfaction and Settlement Agreement is reflected in these financial statements as of February 28, 2010. The effect of the Satisfaction and Settlement Agreement is to deconsolidate the PIC balance sheet from Palladon and to instead reflect an investment in Palladon Iron Corporation. The fiscal 2010 activity at PIC is included in the consolidated statements of operations and deficit. The Company's sole business activity is to manage its 21.74% investment in Palladon Iron Corporation, which is recorded at fair value.

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 – other	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. Effective as of February 28, 2010, the Company does not own any equipment.

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 was in the process of exploring and developing its mineral properties and had 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 carrying 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 Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted income (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 150,000 as of February 28, 2010 (February 28, 2009: 33,341,819) were not included in the computation of diluted income (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 will be 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, 2010 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 February 28, 2010.

j) Comprehensive Income

Comprehensive income includes both net income (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 income (loss) until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a category of shareholders' equity on the balance sheet. The Company had no OCI transactions during the years ended February 28, 2010 or 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, 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 income (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; investment in Palladon Iron Corporation as available-for-sale, accounts payable and accrued liabilities, and due to related parties as other financial liabilities.

In 2009, the CICA amended Section 3862, “Amendment to Financial Instruments – Disclosures” to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company categorizes its financial instruments which are measured at fair value as level 1, except for its investment in PIC which is at level 2.

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

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. Under the policy, the non-controlling interest is presented as a component of shareholders' equity.

m) 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 adoption of this standard did not have any significant impact on its consolidated financial statements.

n) Future Accounting Pronouncements

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.

Critical Accounting Estimates

There are no critical accounting estimates.

Changes in Accounting Policy

There have been no changes in accounting policies.

Future Accounting Changes

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period ended May 31, 2011, which includes presentations of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company will develop an IFRS conversion plan comprised of three phases:

PRELIMINARY PLANNING AND SCOPING PHASE:

DESCRIPTION AND STATUS: The IFRS conversion plan will include consideration of the impacts of IFRS on the Company's financial statements, internal control over financial reporting, information systems and business activities such as foreign operations, if any, compensation metrics, and personnel and training requirements. Based on Management's preliminary review of IFRS and current Company processes, minimal impact is expected on information systems and compensation metrics.

DETAILED IMPACT ASSESSMENT PHASE:

DESCRIPTION AND STATUS: This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS and evaluation of the impact on outstanding operational elements such as debt covenants and budgeting. The Company expects to complete this phase by the end of 2010.

IMPLEMENTATION PHASE:

DESCRIPTION AND STATUS: This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will

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include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective February 1, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects.

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, 2010, available on the Company website at www.palladonventures.com and on the SEDAR website at www.sedar.com.