



**PALLADON VENTURES LTD.  
A DEVELOPMENT STAGE COMPANY  
MANAGEMENT DISCUSSION AND ANALYSIS**

**For the financial year ended February 28, 2011  
Date of report: June 13, 2011**

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 financial statements for the years ended February 28, 2011 and 2010 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](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.

As applied to both the Company and its Investment in CML Holdings, Inc., such risks and uncertainties include, but are not limited to, the ability to raise sufficient capital to fund development, changes in general economic conditions or financial markets, changes in prices for 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, and changing foreign exchange rates, which are described more fully in the Company's filings with Securities regulators.

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## **Description of Business and Fiscal 2011 Developments**

### **Selected Annual Information**

(\$ in thousands)	February 28 Year Ended		
	2011	2010	2009
Net income (loss)	(\$782)	\$12,597	(\$14,170)
Comprehensive income (loss) per share	(\$0.04)	\$0.75	(\$1.02)
Total assets	\$15,441	\$9,080	\$42,528
Total loans payable	\$0	\$0	\$45,393

### **Project History**

Until March 15, 2010, Palladon owned 100% of Palladon Iron Corporation (“PIC”). 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 and waiver of all intercompany advances due by PIC to Palladon. Because of the de minimis business activity at PIC subsequent to Palladon’s fiscal year ended February 28, 2010, the Satisfaction and Settlement Agreement was reflected in the audited annual financial statements and MD&A as of the February 28, 2010 year end. The effect of the Satisfaction and Settlement Agreement was for Palladon to deconsolidate the PIC balance sheet and to instead reflect an investment in Palladon Iron Corporation, which has now been renamed CML Metals Corporation, which is a wholly owned subsidiary of CML Holdings, Inc. (“CML”). The operations of PIC for the year ended February 28, 2010 were included in the consolidated statements of operations and deficit.

CML is in the business of developing the Iron Mountain (“Iron Mountain” or “the Project”) iron ore project located west of Cedar City, Utah. Refer to the annual MD&A as of February 28, 2010 for a detailed history of Palladon Iron Corporation, now known as CML Metals Corporation.

Palladon’s primary business activity is to manage its 19.3% investment in CML, which is a private company. As a significant minority shareholder, Palladon has one representative on the five person CML board of directors. Palladon receives periodic updates from CML, which Palladon discloses in press releases as soon as possible. Palladon management believes that

Palladon shareholders are best served by Palladon releasing the CML updates without edit, as delivered by CML. Because Palladon financing and investing activity during the year directly relates to CML, Palladon also believes that its activities are best described in juxtaposition with the related CML activities. Therefore, instead of summarizing Palladon activities and the CML updates, Palladon has included the updates herein in chronological order as quarterly developments. Palladon management believes that this approach affords Palladon shareholders the best way to fully evaluate Palladon and its investment in CML.

### **First Quarter Developments**

During the quarter Palladon worked with Luxor to transfer control of CML. Activities at CML during the first quarter were outlined in a press release dated June 11, 2010, as follows:

Palladon is pleased to provide an update on CML Metals Corporation's ("CML Metals" or "CML") progress to sell and ship iron ore from the Iron Mountain property located near Cedar City, Utah.

CML, formerly known as Palladon Iron Corporation, has signed an offtake agreement with China Kingdom International ("CKI") for the shipment of 600,000 dry metric tonnes annually of run-of-mine iron ore to be shipped from the port of Richmond, California. The ore will be ultimately sold to Hebei Iron and Steel ("HBIS"), which is one of the largest steel companies in China. The term of the contract is two years and the parties have agreed to review the price for the run-of-mine product every six months. CML expects to ship its first vessel to CKI by the end July, 2010. After initial shipments begin and CML is comfortable with all logistics, CML believes it will be able to step up production and increase shipments significantly above the base offtake volumes, market conditions permitting.

While CML is initially shipping run-of-mine ore, CML is actively pursuing a concentrate strategy to further improve project economics. To this end, CML has commenced engineering and other studies related to the construction and financing of a concentrate facility. If CML is in a position to produce a concentrate product before the end of the two-year contract term, the price would adjust accordingly to reflect world iron ore pricing.

In addition to executing the offtake agreement, CML has entered into long-term agreements with all required logistics partners, including rail, port, and railcar leasing companies. In completing these agreements, CML has now contracted for all the material handling logistics associated with the production and shipment of iron ore.

As part of the offtake agreement CML and CKI have agreed to settle all claims relating to the arbitration dispute arising out of CML's prior offtake agreement with CKI. Under the terms of the settlement, CML will make certain cash payments and pay commissions to

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CKI. Including the costs to settle these claims, CML expects to be profitable in 2010 and significantly profitable in 2011 based on current market conditions

CML has also retained RK Equity Capital Markets to advise CML in connection with capital raising activities. RK Equity is a FINRA member broker-dealer specializing in corporate finance advisory and capital raising primarily in the natural resource sector.

### **Second Quarter Developments**

Activities at CML during the second quarter were outlined in a press release dated September 20, 2010, as follows:

CML has informed the Company that it is currently loading iron ore onto a Supramax vessel at the Levin Terminal, Port of Richmond, California. The cargo, approximately 50,000 tons of run-of-mine ore from CML's mine in Utah, is scheduled for imminent departure.

According to Dale Gilbert, CEO of CML Metals, "the company is nominating a second ship for departure to China in mid-October. Thereafter, we anticipate maintaining a consistent schedule of monthly shipments. Depending on future market conditions, CML's existing capacity allows for significant expansion in early 2011."

### **Third Quarter Developments**

On October 12, 2010, Palladon announced that, at its Annual General and Special Meeting of shareholders to be held on Monday, November 8, 2010, the Company would seek shareholder approval for a resolution authorizing the consolidation of its common shares on a one (1) for ten (10) basis. Shareholders approved the resolution.

On December 2, 2010, Palladon released the following press release related to activities at CML Metals:

Palladon is pleased to relay the following letter to shareholders received yesterday from CML Metals Corporation ("CML") providing an update on operations, sales and shipments of run-of-mine ore from Iron Mountain to customers in China. Additionally, CML lays out its concentrate strategy with a scheduled completion date in early 2012 and financing plans to fund the \$65 million capital expenditure budget necessary to design and build the concentrate facility at Iron Mountain.

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## CML Metals Shareholder Update

Dear Shareholder,

I am pleased to provide an update on the state of our operations and financing for the construction of the concentrator facility.

### Operations Update

Since shipping commenced in September, CML has sold and delivered 142,145 metric tons of run-of-mine ore to various purchasers. In addition, CML has booked shipments through January for approximately 100,000 tons of ore to be sold and delivered to buyers in China. At the current sales price for run-of-mine ore, CML is exceeding its production and logistics costs and expects to be profitable in the fourth quarter. With increasing customer demand, CML is undertaking to double its run-of-mine capacity to 100,000 tons per month and is actively working with the logistics providers, including numerous ports on the western coast of the US and Canada, to assess the viability of doing so for February deliveries.

### Concentrator Update

Pursuant to the Company's strategy of moving as quickly as possible to a concentrate product, CML has contracted Samuel Engineering, a highly respected engineering/design firm, for the numerous projects that are required to design and construct the concentrator plant. The Metallurgical Test Work Program is in its final stages, specifying the filtration and water separation circuit that will remove the process water from the concentrate. The test work needed to facilitate the design of the grinding and magnetic-separation circuits of the plant has been completed. The resulting flow sheet and subsequent variability testing indicate a final Fe content up to 67.5%, which is considered a premium concentrate product, significantly above the index standard of 62%. Plant design and equipment procurement have also commenced with major components being identified and integrated into building design and plant layout; preliminary drawings are already in circulation. Construction schedules are being updated as projects progress and continue to show plant completion, and concentrator production, in early 2012.

### Financing Update

On November 23<sup>rd</sup>, CML signed a non-binding term sheet with an internationally recognized bulge bracket bank outlining material terms for a potential \$45 million loan. Such loan may be funded in two phases: a) an initial \$20 million loan, which is expected to close this year, and b) a \$25 million add-on loan that is subject to various closing conditions including a final independent engineer's report and an offtake agreement in place for the sale of concentrate. Although CML and the lender have not yet finalized

definitive terms or entered into definitive commitment agreements, the parties are working diligently towards that end. As with all loans, the loan will be subject to various customary and other conditions precedent including final credit approvals, satisfactory documentations and the completion of due diligence by such bank (and the bank has not provided any guarantees that any commitments will be forthcoming prior to satisfaction of such conditions). CML is seeking to have full loan documentation completed by year-end after which more details concerning the facility will be provided.

In order to facilitate the closing of the Phase I facility and to fully-finance the construction of the concentrator, CML will be raising \$20mm of equity by year-end. To fund its \$20 million equity portion of the construction budget, CML expects to either raise equity from its existing shareholders, or from new investors. In the event equity is raised from existing shareholders, each shareholder will have a right to maintain their existing ownership of CML by participating in the offering. We will provide more detail on the equity offering in the coming days.

Thank you again for your continuing support.

Dale Gilbert  
CEO CML Metals Inc.

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Palladon is pleased with the progress CML has made in ramping up production and proving out its logistics plans. The Company continues to believe pursuing a concentrate scenario is the best strategy and fully supports the plans outlined above. Although details have not been finalized, CML indicated \$20 million equity capital will be required from either an outside source or existing shareholders. If the \$20 million in equity is financed by existing investors, Palladon would have the right to buy up to 21.7% of the shares, which would equate to approximately \$4.34 million. We will inform investors when we know more from CML on whether the equity will come from new or existing investors.

In addition, on the corporate front, the Company is seeking the necessary regulatory related approvals such that it can set and disclose an effective date for the 10 for 1 reverse share consolidation which was approved at Palladon's recent Annual General and Special Meeting. Palladon will announce the effective date promptly once it has been set.

On December 30, 2010 Palladon issued the following press release:

The Company announced that it intends to carry out, subject to approval from the TSX Venture Exchange (the "Exchange"), a non-brokered private placement of up to CDN\$6.0 million at a price of not less than CDN\$0.06 per share (the "Private Placement").

The primary use of proceeds from the Private Placement will be the funding of Palladon's US\$5.56 million proportionate share, or 21.7%, of a US\$25.6 million equity financing ("the Equity Portion") being undertaken by CML Metals Corporation ("CML"). Luxor Capital Partners, LP ("Luxor"), the majority shareholder of CML, has informed Palladon that it has completed the balance of the equity financing of US\$20.0 million.

The US\$25.6 million equity financing is part of a total US\$70.5 million capital raise currently being pursued by CML to fund the build-out of CML's proposed concentrate facility at the Iron Mountain project located near Cedar City, Utah. As previously announced, CML is working to complete the balance of the capital raise through the completion of a US\$45.0 million debt facility (the "Debt Facility") and currently expects to close on the Debt Facility before the end of January 2011.

All of the securities issued pursuant to the Private Placement will be subject to a four month hold period from the date of issue. Insiders of the Company may subscribe for in excess of 25% of the aggregate proceeds of the Private Placement. If any insiders participate in the Private Placement, such subscriptions (the "Insider Participations") will be considered to be related party transactions within the meaning of Exchange Policy 5.9 and Multilateral Instrument 61-101 ("MI 61-101"). Palladon intends to rely on the exemptions from the valuation and minority shareholder approval requirements of MI 61-101 contained in Sections 5.5(a) and 5.7(1)(a) of MI 61-101 in respect of any such Insider Participations based on that the fair market value of such Insider Participations will not exceed 25% of Palladon's market capitalization. In connection with the Private Placement and subject to Exchange approval, Palladon may pay finder's fees in cash or securities to eligible finders in accordance with the policies of the Exchange.

In addition, Palladon announced that both it and Luxor will be required to pledge all of their respective shares in CML as security under the Debt Facility pursuant to the terms of a pledge agreement to be entered into with the lender under the Debt Facility. [Note: On March 2, 2011, as part of a reorganization at CML, Palladon's pledged shares in CML Metals Corporation were exchanged for unpledged shares in CML Holdings, Inc. There was no change to Palladon's economic interest in CML.]

John Cutler, CEO of Palladon, commented: "We are pleased with the progress being made toward realizing on our long held strategy of shipping concentrate from the Iron Mountain project to a global market."

Palladon today also provided an update with respect to its proposed share consolidation (the "Consolidation"). Palladon has received the requisite shareholder approval and Exchange approval for the Consolidation and currently expects to implement same following completion of the Private Placement. Palladon will announce the effective date for the Consolidation promptly once it has been set.

## **Fourth Quarter Developments**

On January 13, 2011 Palladon issued the following press release:

Palladon announces updates with respect to recent financing activity, investing activity, and an update from CML Metals Corporation.

First, as stated in its December 30, 2010 release, Palladon is in the process of completing, subject to approval from the TSX Venture Exchange (the "Exchange"), a non-brokered private placement of up to CDN\$6.0 million at a price of not less than CDN\$0.06 per share (the "Private Placement"), to fully fund Palladon's US\$5.6 million proportionate share of a US\$25.6 million equity financing being undertaken by CML Metals Corporation ("CML"). Luxor Capital Partners, LP informed Palladon that it has completed its US\$20 million share of the equity financing.

Palladon is diligently working to complete this private placement with Qualified Investors within the next 10 days. The per share price is currently anticipated to be approximately CDN\$.065 cents, which is consistent with the valuation of CML used in the current capital call issued to Luxor Capital and Palladon.

Second, in a news release dated January 4, 2011, Luxor Capital Group LP announced that it had acquired beneficial ownership of 37,608,310 common shares of Palladon Ventures Ltd. As a result, Luxor now beneficially owns a total of 39,061,452 common shares of Palladon, representing approximately 20.67 per cent of the issued and outstanding common shares of Palladon. Luxor acquired the Palladon shares by a share purchase with Jana Master Fund Ltd., Jana Nirvana Fund LP and Jana Nirvana Master Fund LP for a total acquisition cost of CDN\$2,444,540. The share purchase agreement contained customary representations and warranties for a transaction of a similar size and nature.

Finally, what follows is a letter to CML shareholders from Dale Gilbert, CEO of CML Metals Corporation, which Palladon received on January 12, 2011.

CML Metals Shareholder Update January 12, 2011

Dear Shareholder,

I am pleased to provide a year-end update for the calendar year ending December 31, 2010.

### 2010 in Review

2010 was an important and successful year at CML Metals. In March of 2010, the former Palladon Iron Corporation was restructured into CML Metals, and with the restructuring

my responsibilities shifted from CEO of Palladon Ventures to CEO of CML Metals. In the nine months since the ownership change at CML, my team and I have made significant accomplishments toward establishing CML as the premier producer of iron-related product in the Western United States. Our accomplishments include each of the following:

- Ended the arbitration with CKI International with no additional monies to be paid CKI unless CKI were to establish offtake agreements for CML or introduce a financing partner to CML. The ending of the arbitration allowed CML to enter into new offtake negotiations with other interested parties and allowed for the sale of spot cargoes in the second half of 2010. The Company does not expect to enter into any additional contracts with CKI in the future.
- Negotiated and executed logistics contracts for the provision of short and long haul rail services, rail cars, port access and contract mining allowing CML to commence production and sale of run-of-mine (ROM) product in September 2010.
- Sold approximately 190,000 tons of ROM ore from September to the end of the year to various Western and Asian purchasers for use in China. The ROM sales generated positive cash flow excluding overhead and expenditures related to the construction of the concentrator while also securing important logistics partners for the eventual sale of concentrate product.
- Hired Samuel Engineering, a highly respected engineering/design firm, to conduct the EPCM (Engineering, Procurement, and Construction Management) required to design and construct the concentrator plant. During 2010 Samuel Engineering, in conjunction with CML, completed a very precise, ground-up, Metallurgical Testwork Program that yielded a world-class 67%+ Fe (Iron) concentrate product and commenced basic and detailed engineering on the concentrate plant based on the testing program. Equipment procurement commenced with RFQ's being issued for most major components, while near-final flowsheet, plant layout, building, and earthwork plans were distributed for review and finalizing.
- Retained JBR Environmental, an Environmental Engineering firm, to assist in the permitting process for current and future operations. All permits for current operations were brought up to date and put in-place with the required agencies in conjunction with the commencement of mining operations. As of the end of the year, with the exceptional participation from state and local agencies, the permitting process for the production of concentrate was in its final stages with all necessary permits on-track and expected to be in place by End of Q1 2011.
- Hired a COO and CFO as well as other important staff positions as the Company prepares to ramp its labor force in anticipation of increasing production as well as

construction and eventual completion of the concentrator.

- Raised \$22mm of equity from our existing shareholders and signed a term sheet for a \$45mm loan facility from an internationally recognized bulge bracket bank. CML expects the combination of the equity proceeds and the loan facility, if it is funded, to fully fund the construction of the concentrate plant.

### Financing Update

On November 23, 2010, CML signed a non-binding term sheet with an internationally recognized bulge bracket bank outlining material terms for a potential \$45 million loan. Such loan may be funded in two phases: a) an initial \$20 million loan, which is expected to close this month, and b) a \$25 million add-on loan that is subject to various closing conditions including a final independent engineer's report and an offtake agreement in place for the sale of concentrate. Although CML and the lender have not yet finalized definitive terms or entered into definitive commitment agreements, the parties are working diligently towards that end. As with all loans, the loan will be subject to various customary and other conditions precedent including final credit approvals, satisfactory documentations and the completion of due diligence by such bank (and the bank has not provided any guarantees that any commitments will be forthcoming prior to satisfaction of such conditions). CML is seeking to have full loan documentation completed by the end of January.

In addition to the loan, CML also received \$22mm in equity funding from its existing shareholders this year. Approximately \$21.5mm of that funding came from Luxor Capital, the Company's majority shareholder, with the balance coming from Palladon Ventures. Palladon has the option to fund approximately \$5.5mm by January 31" which would bring the total amount of equity contributed to CML to \$27.5mm since the restructuring.

The ownership of CML is more fully described below:

	A	B	C	D
Luxor	78.3%	75.8%	81.9%	76.5%
Palladon	21.7%	21.1%	15.8%	21.3%
Mgmt + Other	0.0%	3.2%	2.4%	2.2%

Where:

- A = as of restructuring, March 2010 inclusive of the \$2mm equity raise into CML concurrent with the restructuring
- B = after one-time stock grants to key employees and certain third-party vendors
- C = after Luxor Capital's \$20mm investment in December
- D = assumes Palladon fully exercises its option to acquire an additional \$5.5mm of CML stock

2011 Outlook

*Production*

CML has booked shipments for January and February of 2011 in amounts totaling approximately 100,000 tons. The FOB price for those shipments is in the low to mid \$60 a ton range. At this pricing, CML is cash flow positive, but not substantially so. The cash flow the ROM business generates is an ancillary benefit to CML however; the real benefit is the securing of the logistics in order to guarantee CML access to two million tons of rail and port capacity when the concentrator is completed. Without the ROM business, securing these logistics would have been impossible.

Currently CML is producing at a monthly rate of 50,000 tons. The fully-ramped concentrator production rate will approximate 167,000 tons per month, or more than triple our current rate of production. CML expects to gradually ramp toward this production rate throughout 2011. We expect the first step of this ramp to occur in February/March of 2011. On January 11<sup>th</sup> CML secured additional port and rail car capacity that will enable us to more than double current production as early as the end of February (dependent on the time to mobilize the rail cars and arrange a customer for the additional tonnage).

In addition to the increasing of production, CML expects to announce in January an offtake contract with a major offtake partner for a portion of both its ROM and concentrate production. The details of the offtake contract will be provided once the final contract has been signed, subject to confidentiality requirements on the part of our offtake partner. We are excited about this partnership and I look forward to discussing the details further with you shortly.

*Financing*

CML remains on-track to close its previously disclosed loan facility. The holidays set us back a few weeks, but we hope to have the loan facility in-place no later than the end of January. Our initial capital expenditure budgets, compiled with the assistance of Samuel Engineering, estimate a total budget for the concentrator of \$55-\$65mm including

contingencies. If Palladon fully exercises its right to purchase its pro rata share of CML and the loan facility closes, CML will have access to \$72.5mm of financing plus the ROM cash flows to fund its construction budget and deal closing expenses.

*Concentrator*

With the equity from Luxor Capital in-place we have started to move forward with Samuel on the construction of the plant. The most important item from a plant design standpoint is the SAG mill. We have identified a SAG mill with the help of Samuel and expect to procure the mill in the month of January. The SAG mill was the longest potential lead-time item for CML and an item that needed to be procured before design and building work could be finalized. With the SAG mill identified and hopefully secured in the coming weeks, we remain on-target for a Q1 2012 completion date. Once completed we expect production of 2 million tons per annum from the concentrator.

We are very proud of our accomplishments in 2010 and we remain excited about our prospects in 2011 and beyond. We are doing everything in our power to control costs (operating and capital) and advance the project as quickly as possible. Iron ore prices remain robust, but we are mindful of their volatility and we are taking all the steps we can to increase efficiency and productivity.

Thank you again for your continuing support.

Dale Gilbert

CEO CML Metals Corporation

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John Cutler, CEO of Palladon, commented: "We continue to be impressed with the progress being made by CML at the Iron Mountain Project. Not only have they established a solid logistics plan which they are working to expand, they are also putting in place the components necessary to capitalize on the concentrate opportunity."

As outlined above, Palladon's near term priority is to complete the announced Private Placement such that it can fully fund its \$5.6 mil pro rata share of the CML equity raise.

On January 27, 2011 Palladon issued the following press release:

Palladon is pleased to announce the closing of its private placement of common shares ("Shares") previously announced on December 30, 2010 (the "Private Placement").

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In total, the Company has issued an aggregate of 84,991,434 Shares at CDN\$0.06965 per Share for gross proceeds of CDN\$5,919,654. Following the closing of the Private Placement, an aggregate of 273,955,566 Shares are issued and outstanding.

The primary use of proceeds from the Private Placement will be the funding of the Company's US\$5.56 million proportionate share of a US\$25.6 million equity financing being undertaken by CML Metals Corporation.

All of the Shares issued in the Private Placement are subject to a four month hold period which expires on May 28, 2011.

Insiders of the Company subscribed for a total of 25,276,721 Shares (the "Insider Participations"). The Insider Participations are exempt from the valuation and minority shareholder approval requirements of Multilateral Instrument 61-101 ("MI 61- 101") by virtue of the exemptions contained in Sections 5.5(a) and 5.7(1) (a) of MI 61 - 101 based on that the fair market value of such Insider Participations did not exceed 25% of the Company's market capitalization.

On February 3, 2011 Palladon issued the following press release:

Palladon announces the following update from Dale Gilbert, CEO of CML Metals Corporation.

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CML Metals Shareholder Update

Dear Shareholder,

I am pleased to provide an update concerning our financing and plant construction.

Financing

On Monday, January 31<sup>st</sup> CML closed the first \$20mm tranche of a two-tranche, \$45mm loan with Credit Suisse. The first tranche is fully collateralized by \$20mm of the approximately \$25.6mm cash the Company raised from its shareholders in December of 2010 and January of 2011. The proceeds of the first tranche will be used to fund capital expenditures related to the construction of the concentrate plant. The \$25mm second tranche and the \$20mm of cash collateral backing the first tranche will be released to fund the remaining capital expenditure required to construct the plant upon the Company meeting certain conditions, precedent to closing, including the production of an Independent Engineer's report satisfactory to Credit Suisse, in its sole discretion. The Company hopes to close the second tranche of the facility in the second quarter of 2011.

The terms of the facility include an interest rate equal to the following: a) between the closing of the facility and the earlier of: the funding of the second tranche, or the maturity of the first tranche (in the event the second tranche fails to close)- LIBOR + 3%; b) between the closing of the second tranche and the completion of the concentrate plant (including a ramp-up period)- LIBOR + 6%; c) thereafter- LIBOR + 5%. In the event the second tranche closes, the facility shall begin amortizing in the second half of 2012 with a final maturity date of January 2015. In the event the second tranche fails to close, the first tranche will mature on June 30, 2012.

### Plant Construction

We continue to make substantial progress at CML as we begin to realize our goal of completing a 2mm ton per year concentrate facility at Iron Mountain. Construction has already commenced on the site, with earthwork being completed in preparation for the start of building construction in the forthcoming weeks. The building itself has been purchased and has entered into the final design and manufacturing process. Equipment procurement has started with the purchase of a SAG Mill (Semi-Autogenous Mill), the primary grinding mill in the plant and longest-lead time component, and RFQ's have been issued for most other major components.

The addition of Credit Suisse as a partner to our project is an exciting development and one that further validates all the hard work the CML team has put into this project the past year. The company is proud to be working with world class partners and their involvement in the project gives us even greater credibility in the industry. We'd also like to thank our financial advisors, RK Equity Advisors for arranging and structuring the financing. RK Equity remains on retainer with the Company as we seek to close the second tranche of the Credit Suisse facility and as continued financial advisors to the company.

Thank you for your continued support.

Dale

Dale Gilbert  
CEO CML Metals Corporation

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John Cutler, CEO of Palladon, commented: "CML continues to make good progress at Iron Mountain. In support of the CML debt financing, both Luxor and Palladon have pledged all of their CML shares as security under the credit agreement."

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On February 7, 2011 Palladon issued the following press release:

Palladon is pleased to announce that further to receipt of the required shareholder and TSX Venture Exchange ("TSXV") approval, the Company intends to implement its previously announced proposed share consolidation (the "Consolidation") of all of its issued and outstanding common shares ("Shares") on the basis of one (1) post-consolidation share for every ten (10) pre-consolidation Shares.

Accordingly, effective at market opening on February 8, 2011, the Company's Shares will commence trading on the TSXV on a post-consolidated basis. Following completion of the Consolidation, the Company will have approximately 27,395,506 Shares issued and outstanding.

Letters of transmittal are being mailed to registered shareholders of Palladon requesting them to forward certificates representing their Shares to Olympia Trust Company in exchange for certificates representing the number of post-consolidation Shares of Palladon to which they are entitled in accordance with the instructions contained in the letters of transmittal. If a registered shareholder does not receive a letter of transmittal by February 28, 2011, please contact the Company at the contact information below.

On March 10, 2011 Palladon issued the following press release:

Palladon announces the following update from Dale Gilbert, CEO of CML Holdings Inc.

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CML Metals Shareholder Update

Dear Shareholder,

I am pleased to provide an update concerning our financing, offtake arrangements, hedging transactions, corporate restructuring and concentrator construction.

#### Financing

On February 28, 2011 CML Holdings, Inc. ("CML", see description of corporate restructuring below) and Tangshan Jidong Products and Materials Trading Group Co., Ltd ("Tangshan") entered into a stock purchase agreement for the sale to Tangshan of \$2mm of common stock in CML at a per share price of \$52.93 (the "Initial Purchase"). The parties also have an agreement in place for the sale of an additional \$18mm of stock in CML at the same per share purchase price (the "Second Purchase"). This Second Purchase is subject to final due diligence on the part of Tangshan, the completion of final documentation and the obtaining of all necessary governmental approvals in China by

Tangshan. Tangshan's right to purchase the additional \$18mm of stock from CML expires on March 31, 2011. If Tangshan fails to close the Second Purchase, Tangshan will remain minority shareholders in CML with limited shareholder rights. Assuming the Second Purchase closes, Tangshan will own, after both purchases, 12.5% of the common stock outstanding of CML.

Tangshan Jidong Products and Materials Trading Group Co., Ltd., is a large commerce and logistics company specializing in international trade, automobile refitting, real estate development, logistics, storage and catering services. It was founded as a state-owned company in 1994, and then privatized in 1999. The company has more than 3,000 employees with a variety of technical skills and expertise. The company has been ranked in the "Top 100 Enterprises" in Hebei Province, China for eight consecutive years. It has also been ranked as one of the "China Top 500 Enterprises" and "China Top 500 Enterprises in Service Industry" for five consecutive years. The company is now one of 20 largest commerce and logistics corporations as recognized by the Hebei Provincial Government in China.

#### Tangshan Offtake Arrangements

Concurrent with the closing of the Initial Purchase, CML also entered into offtake agreements with Tangshan. Both offtake agreements with Tangshan are subject to Tangshan completing the Second Purchase.

The first offtake agreement (the "Tangshan ROM Offtake") is for the sale of run-of-mine ("ROM") ore to Tangshan for the period extending from March 31, 2011 to the earlier of: a) June 30, 2012 or b) the completion of CML's concentrator facility. The Tangshan ROM Offtake is for approximately 45,000-50,000 tons of ROM product per month and settles at a fixed price subject to penalties and premium for certain levels of impurities and iron grade. The fixed price of the Tangshan ROM Offtake is within current market prices and insures CML of profitability on the contract assuming the Company's current cost of production and stable ocean freight rates.

The second offtake agreement (the "Tangshan Concentrate Offtake") is for the sale of concentrate product commencing upon completion of the concentrate facility. The Tangshan Concentrate Offtake is for approximately one-third of the Company's estimated annual production and has a term of four years. The price is benchmarked to Platt's CFR China Index subject to penalties and premiums for impurities and iron ore grade. The Tangshan Concentrate Offtake also includes a marketing fee for Tangshan in-line with market rates for such services. For product sold under the Tangshan Concentrate Offtake, based upon current market conditions and the metallurgical test work and plant design completed to date, CML expects, net of marketing fees paid to Tangshan, to earn a premium above the 62% Platt's benchmark price for iron ore, the most commonly quoted benchmark price.

### Trafigura Offtake Agreements

CML also would like to announce the signing of another set of offtake agreements with Trafigura, AG. The first offtake agreement (the “Trafigura ROM Offtake”) is for the sale of ROM ore to Trafigura from the period extending from February 1, 2011 through the earlier of: a) June 30, 2012 or b) the completion of CML’s concentrator facility. The Trafigura ROM Offtake is for approximately 50,000 tons of ROM product per month. The settlement price for the Trafigura ROM Offtake is based upon a fixed percentage discount to the then 62% Platt’s Benchmark Index price for the month of settlement subject to penalties and premiums for impurities and iron ore grade.

The second offtake agreement with Trafigura (the “Trafigura Concentrate Offtake”) is for the sale of concentrate product commencing upon completion of the concentrate facility. The Trafigura Concentrate Offtake is for approximately one-third of the Company’s estimated annual production and has a term of four years. The price is benchmarked to Platt’s CFR China Index subject to penalties and premiums for impurities and iron ore grade. The Trafigura Concentrate Offtake also includes a marketing fee for Trafigura in-line with market rates for such services. For product sold under the Trafigura Concentrate Offtake, based upon current market conditions and the metallurgical test work and plant design completed to date, CML expects, net of marketing fees paid to Trafigura, to earn a premium above the 62% Platt’s benchmark price for iron ore, the most commonly quoted benchmark price.

Trafigura is one of the world's leading international commodity traders, specializing in the oil, minerals and metals markets, with 67 offices in 44 countries in Europe, Africa, Asia, Australia, and North, Central and South America. Its principal corporate offices are in Amsterdam, Geneva, London and Lucerne. Trafigura's primary trading businesses are the supply and transport of crude oil, petroleum products, renewable energies, coal, refined metals, ferrous and non-ferrous ores and concentrates. It is the world's second largest independent non-ferrous trading company and the third largest independent oil trader. Founded in 1993, the company is owned by its founding shareholders and senior management. It has achieved substantial growth in the last five years, growing turnover from US\$18 billion in 2004 to US\$79.2 billion in 2010.

### Hedging Transactions

In February, CML entered into a series of iron ore hedges with Credit Suisse as required by the terms of the Company’s credit facility with Credit Suisse. The first series of hedges relates to CML’s production under the Trafigura ROM Offtake. By entering into hedges with Credit Suisse for the production sold to Trafigura under the Trafigura ROM Offtake, CML has effectively fixed the price it will receive under that contract subject to penalties and premiums for impurities and iron ore grade. Before netting out the transaction costs associated with the Credit Suisse hedges, the price fixed under the

Trafigura ROM Offtake agreement by virtue of the hedges with Credit Suisse, is substantially similar to the fixed price under the Tangshan ROM Offtake agreement. The fixed price received under the hedged Trafigura ROM Offtake is within current market prices and insures CML of profitability on the contract assuming the Company's current cost of production and stable ocean freight rates.

CML also entered into a hedging contract with Credit Suisse for a portion of the Company's 2012 production. For 2012 CML has sold forward 180,000 tons of production at a benchmark price for 62% Fe grade ore of \$141 per ton CFR. The forward sales settle 30,000 per month from January to June 2012. If the Company's concentrate facility is producing by 2012, CML, on its 180,000 tons of hedged production, will have locked in \$141 per ton CFR plus premiums expected from producing above the hedged 62% Fe grade (CML estimates 67%+ Fe grades on its production) less marketing costs, netting a price higher than \$141 per ton CFR based on current market conditions. If the concentrator is not producing, the company will sell its tonnage under its ROM offtake agreement with Trafigura and the hedges will serve to lock in a price at or near the Company's current cost of ROM production.

#### Corporate Restructuring

On March 2, 2011, CML Metals, Inc. ("Metals") became a wholly-owned subsidiary of CML Holdings, Inc. Shareholders in Metals contributed all of their shares to CML Holdings, Inc. and received shares of CML Holdings, Inc. in return so that their beneficial interests remained unchanged. With respect to the credit facility with Credit Suisse, CML Metals continues to be the borrower, and the shares of CML Metals owned by CML Holdings, Inc. are being pledged as collateral. This restructuring arrangement should provide CML Holdings, Inc. with additional flexibility if it chooses to develop its business beyond the scope of the Concentrator Plant project. The corporate restructuring in no way changed the economic or voting interests of any of the former, direct shareholders of CML Metals.

#### Concentrator Construction Update

Construction on the Concentrator Plant continues to move forward at a rapid pace. The mass excavation, of approximately 100,000 cubic yards was completed on February 25th and the first concrete footing was poured shortly after on March 3<sup>rd</sup>. Concrete work is expected to continue through the better part of the month, with the building arriving on site towards the end of the month and erection starting immediately thereafter. Equipment procured now includes the SAG mill, Ball mill, Magnetic Separators, and Hydro-Cyclones. Requests for quotes have been issued on the majority of remaining components. Additional test work is being performed to optimize the de-watering circuit and engineering continues to be completed for portions of the plant.

### Mine Operations

The operations at the mine continue on the planned ramp-up to our optimal production of 2 million tons per annum. March marks our first month with two vessels scheduled for shipment to China, previous months had only one. CML also accepted delivery of an additional 133 railcars bringing the total fleet to 283, with an additional 126 cars to be delivered in approximately two weeks.

We are very excited about the addition of Tangshan and Trafigura to our growing list of world-class partners. Both bring immediate credibility in the international iron ore markets and provide CML with consistent and reliable offtake arrangements for both our ROM and concentrate production. The fixed price nature of the ROM contracts allows us to lock-in profitability for the remainder of 2011 as we move toward our ultimate goal of producing concentrate in January of 2012.

We look forward to closing the Second Purchase with Tangshan. The additional capital provided by the Second Purchase will allow us incremental cushion in our concentrate construction plan as well as the flexibility to consider other strategic opportunities. I look forward to updating you on some of these opportunities as they are developed further.

Thank you for your continued support.

Dale Gilbert  
CEO CML Holdings Inc.

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John Cutler, CEO of Palladon, commented: "CML continues to make great progress at Iron Mountain. We wholeheartedly support their efforts."

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

Palladon no longer owns any equipment. All equipment was either written off or transferred to CML as part of the Settlement and Satisfaction Agreement signed with Luxor on March 15, 2010.

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## **Financial Results**

### **Results of Operations for the fiscal year ended February 28, 2011**

Subsequent to the Settlement and Satisfaction Agreement, Palladon significantly reduced operating activities in an effort to conserve funds. The accounting function was outsourced and corporate offices were downsized. Operating expenses decreased significantly.

For the fiscal year ended February 28, 2011, the Company realized a Net Loss of \$782 thousand (2010 – Net Gain of \$12.6 million).

Items affecting the current year compared with the prior year are as follows:

- Consulting expenses decreased 64% to approximately \$154 thousand, as the Company reduced all activities related to developing its properties. The fiscal 2011 amount includes accrual of \$97 thousand as payment to settle a fee dispute with an unrelated company from which the Company had sought advisory services in prior years.
- Amortization decreased to zero, due to the elimination of all equipment.
- Interest on long-term debt was zero, due to the elimination of all debt.
- Office and administration expense decreased 91% to approximately \$44 thousand, reflecting the deconsolidation of CML and downsizing of the corporate offices.
- Professional fees decreased 54% to approximately \$163 thousand, due to reduced legal and accounting costs.
- Rent was reduced to zero due to outsourcing corporate offices.
- Salaries, benefits and directors' fees decreased to \$198 thousand, approximately 82%, due to elimination of all employees other than the President and CFO.
- Transfer agent and filing fees increased to approximately \$71 thousand, reflecting costs from equity financings and a reverse share consolidation.
- Travel and promotion decreased 93% to approximately \$8 thousand, due to deconsolidation of CML and the curtailment of most travel.

During the fiscal year ended February 28, 2010, as a result of the Settlement and Satisfaction Agreement, Palladon recorded a \$15.5 million gain on debt settlement, a related \$2.0 million loss from the write-off of other assets, and a related \$8.3 million foreign exchange gain.

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### Summary of Quarterly Results

(\$ in thousands)	2011 QUARTER ENDED				2010 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
Net income (loss)	(\$224)	(\$81)	(\$179)	(\$298)	\$13,798	(\$980)	(\$3,001)	\$2,780
Basic and diluted net income (loss) per share	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.02)	\$0.82	(\$0.06)	(\$0.18)	\$0.16

### Liquidity and Capital Resources

#### Liquidity and Capital Resources

Palladon had cash of \$591 thousand as of February 28, 2011, and has approximately US\$360 thousand as of the date of this report. The current cash balance is estimated to be sufficient to fund the Company's reduced operating expenses for the next twelve months. Any future capital calls from CML will require Palladon to either raise capital or suffer dilution of its investment. The Company had a net working capital deficit of \$162 thousand at February 28, 2011.

#### Share Capital Data

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

- 27,395,506 common shares
- 15,000 options to purchase common shares with a weighted average exercise price of \$4.00, 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:

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	February 28,	
	2011	2010
Consulting fees	\$18,863	\$25,926
Directors' fees	49,213	125,290
Salaries and benefits	148,896	464,301
Total	<u>\$216,972</u>	<u>\$615,517</u>

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

Included in accounts payable and accrued liabilities is \$12,000 (2010 - \$Nil) due to directors.

## **Changes in Accounting Policies Including Initial Adoption**

### **Recent Accounting Pronouncements**

International Financial Reporting Standards ("IFRS"):

In February 2008, the CICA Accounting Standards Board (AcSb") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, at which time Canadian GAAP will cease to apply for Palladon Ventures Ltd., and will be replaced by IFRS. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of fiscal 2012, including comparative IFRS financial results and an opening balance sheet as at March 1, 2010. The first annual IFRS financial statements will be prepared for the year ended February 28, 2012, with restated comparatives for the year ended February 28, 2011.

Management is in the process of developing an IFRS conversion plan. The conversion plan is comprised of three phases: IFRS diagnostic assessment, implementation and education, and completion of all integration system and process changes, including identification of any potential IFRS 1 exemptions.

During the evaluation of requirements for conversion to IFRS, the Company considered the areas noted below, to assess the impact on accounting policies, the financial statements, and changes to accounting systems and business processes. The Company believes that the changes identified to date are minimal, and that the systems and processes can accommodate the necessary changes.

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## IFRS 1, First-Time Adoption of International Financial Reporting Standards

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions to the general requirement for full retrospective application of IFRS. Set out below is the most significant area management has identified to date, where changes in accounting policies may have potential impact on the Company's financial statements.

### Impairment of Assets (IAS36)

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. IAS36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell, and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

The Company's accounting policies relating to impairment of assets will be changed to reflect these differences. However, the Company does not expect this change to have an immediate impact to the carrying value of its assets. The Company will perform impairment assessments as at the IFRS Transition Date.

The Company will update its significant accounting policies and complete the preparation of IFRS information during May 2011, including the fiscal 2011 opening balance sheet and quarterly comparative information. The Company will also finalize the design of its IFRS financial statements. Due to the Company's current small administrative and accounting structure, management is confident that once the policy choices are approved by the audit committee, the implementation phase will be completed in May 2011.

### **Risk and Uncertainties**

Palladon's main operational risk is to finance operations going forward. Palladon's main financial risk is the decrease in value of its investment in CML.

The business of mineral deposit exploration, extraction and development involves a high degree of risk. CML is currently mining, shipping and exporting run-of-mine iron ore. CML is also in the process of constructing a concentrate plant. The main operating risks for CML include: securing adequate funding; complete construction of the concentrate plant; expand its resource; the price for iron ore and iron ore concentrate; the cost of ocean freight and the cost of its operating activities.

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### **Management's Responsibility for Financial Statements**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and facilitate the preparation of relevant and timely information.