PALLADON VENTURES LTD.

UNAUDTED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED MAY 31, 2010

PALLADON VENTURES LTD.

Notice of No Auditor Review of Interim Financial Statements

Under *National Instrument 51-102, Part 4, subsection 4.3 (3)(a)*, if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"*John W. Cutler*"
President and Chief Operating Officer

July 30, 2010

PALLADON VENTURES LTD.

INTERIM BALANCE SHEETS

May 31, 2010 and February 28, 2010

	Unaudited May 31, 2010	February 28, 2010
Cash	$603,919	$185,821
GST recoverable	2,554	1,157
Marketable securities	24,750	58,500
Total Current Assets	631,223	245,478
Investment in CML Metals Corporation - Note 5	9,247,141	8,800,000
Reclamation deposits - Note 4	34,468	34,726
Total Assets	9,912,832	9,080,204
Accounts payable and accrued liabilities	65,174	65,174
Due to related parties - Note 9	649,234	649,234
Total Current Liabilities	714,408	714,408
Total Liabilities	714,408	714,408
Share capital - Note 8	96,860,942	95,730,142
Contributed surplus - Note 8	3,071,383	3,071,383
Deficit	(90,733,901)	(90,435,729)
Total Shareholders' Equity	9,198,424	8,365,796
Total Liabilities and Shareholder's Equity	$9,912,832	$9,080,204

Nature of Operations and Ability to Continue as a Going Concern - Note 2

APPROVED BY:

"John W. Cutler"
John W. Cutler, *Director*

"Leonard J. Sojka"
Leonard J. Sojka, *CFO*

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.

INTERIM STATEMENTS OF OPERATIONS AND DEFICIT

for the three months ended May 31, 2010 and 2009

	Unaudited	
	Three Months Ended	
	May 31, 2010	May 31, 2009
General and Administrative Expenses:		
Amortization	-	$308,594
Consulting - Note 9	$93,902	139,969
Interest on long-term debt	-	1,140,706
Office and administration	11,301	344,799
Professional fees	37,808	48,082
Rent	-	53,680
Salaries and benefits - Note 9	-	488,763
Shareholder communications	3,482	9,124
Telephone	-	2,948
Transfer agent and filing fees	15,936	11,249
Travel and promotion	6,138	38,899
Loss before Other	(168,567)	(2,586,813)
Other:		
Unrealized gain (loss) on marketable securities	(33,750)	11,250
Write-off other assets	-	(1,338)
Gain (loss) on foreign exchange	(95,855)	5,357,137
Net income (loss) for the period	(298,172)	2,780,236
Deficit, beginning of the period	(90,435,729)	(103,032,460)
Deficit, end of the period	(90,733,901)	($100,252,223)
Basic and diluted income (loss) per share	($0.00)	$0.02
Weighted average number of shares outstanding	173,311,958	168,964,132

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three months ended May 31, 2010 and 2009

	Unaudited	
	Three Months Ended	
	May 31, 2010	May 31, 2009
Operating Activities:		
Net income (loss) for the period	($298,172)	$2,780,236
Items not involving cash:		
Amortization	-	308,594
Unrealized (gain) loss on marketable securities	33,750	(11,250)
Unrealized foreign exchange (gain) loss	-	(6,922,718)
Accrued interest	-	838,929
Write-off of other assets	-	1,338
	(264,422)	(3,004,871)
Changes in non-cash working capital items:		
Amounts receivable	-	44,577
GST recoverable	(1,397)	-
Accounts payable and accrued liabilities	-	(26,420)
Cash used in operating activities	(265,819)	(2,986,714)
Investing activities:		
Investment in CML Metals	(447,141)	-
Reclamation bonds	258	(75,883)
Mineral property costs, net of recoveries	-	(1,632,199)
Cash used in investing activities	(446,883)	(1,708,082)
Financing activities:		
Issuance of shares for cash	1,130,800	-
Cash provided from financing activities	1,130,800	-
Foreign exchange loss (gain) on cash held in US$	-	854,069
Increase (decrease) in cash during the period	418,098	(3,840,727)
Cash, beginning of the period	185,821	8,014,594
Cash, end of the period	$603,919	$4,173,867
Supplemental disclosure of cash flow information:		
Cash paid for interest	-	$248,352

PALLADON VENTURES LTD.

NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
May 31, 2010

Note 1 **Interim Financial Statements**

While the information presented in these interim financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period presented.

These interim financial statements follow the same accounting policies and methods of their application as the Company's February 28, 2010 consolidated financial statements, except that these income statements do not consolidate the operations of Palladon Iron Corporation. These interim financial statements should be read in conjunction with the Company's February 28, 2010 audited annual financial statements.

Certain comparative figures for the periods have been reclassified to conform to the current period's presentation.

Note 2 **Nature of Operations and Ability to Continue as a Going Concern**

Palladon Ventures Ltd. ("Palladon" or the "Company") was incorporated on August 25, 1980 under the Company Act of British Columbia. The Company is publicly listed on the TSX Venture Exchange (the "Exchange") and on the Frankfurt exchange.

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 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 February 28, 2010 year end. The effect of the Satisfaction and Settlement Agreement was to deconsolidate the PIC balance sheet from Palladon and to instead reflect an investment in Palladon Iron Corporation, which has now been renamed Investment In CML Metals Corporation. The operations of PIC for the year ended February 28, 2010 were included in the consolidated statements of operations and deficit.

CML Metals Corporation is a development stage company focused on mining iron ore from its wholly-owned Iron Mountain Project located in southwest Utah. CML may incur further losses in the development of its business. CML's ability to continue as a going concern may depend upon its ability to generate and maintain future profitable operations and to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the next fiscal year.

Note 2 **Nature of Operations and Ability to Continue as a Going Concern** – (cont'd)

Realization values may be substantially different from carrying values as shown, and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

At May 31, 2010, the Company had a working capital deficit of $83,185, has not yet achieved profitable operations and has accumulated a deficit of $90,733,901 since inception. Palladon may incur further losses in the management of its investment in CML, which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to realize value from its investment in CML, and to fund operations going forward.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements for a period necessarily involves the use of estimates that have been made using careful judgment. Actual results may differ from these estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Note 3 **Significant Accounting Policies**

a) Principles of Consolidation

The effect of the Satisfaction and Settlement Agreement was to deconsolidate the PIC balance sheet from Palladon and to instead reflect an investment in Palladon Iron Corporation, which due to a name change is now shown on the balance sheet as "Investment in CML Metals Corporation" The Company's primary business activity is to manage its investment in CML, which is recorded at fair value.

The operating activities of former U.S. subsidiaries Palladon Iron Corporation and PIC Railroad Inc. ("PICR") were included in the 2010 consolidated statements of operations and deficit. The current year fiscal 2011 financial statements include only the accounts of the Company. However, prior year comparative periods include the activities of PIC. In that operations of the Company and PIC were inextricably intertwined, and the then consolidated companies effectively operated as one company, meaningful disaggregation of the prior year operations of PIC would be extremely difficult, if not impossible, and would require a high degree of estimation. The net result would not be meaningful to investors or cost effective to shareholders.

b) Equipment Amortization

Equipment was recorded at cost. The Company provided for amortization using the following rates:

Building	10% declining balance
Mining equipment – long lived	20% declining balance
Mining equipment – other	30% declining balance

Note 3 **Significant Accounting Policies** – (cont'd)

Office furniture and equipment	30% declining balance

Additions were amortized at one-half the normal rate during the year of acquisition. Plant and equipment under construction was not amortized until construction was complete and the assets were available for use. Effective as of February 28, 2010, the Company does not own any equipment.

c) 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 May 31, 2010 (February 28, 2010: 150,000) were not included in the computation of diluted income (loss) per share because the effect was not significant.

d) 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.

e) 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.

f) 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.

Note 3 **Significant Accounting Policies** – (cont'd)

g) 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 May 31, 2010 and February 28, 2010, the Company did not have any asset retirement obligations.

h) 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 May 31, 2010.

i) 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 interim period ended May 31, 2010 or for the year ended February 28, 2010, and neither opening nor closing balances for AOCI.

j) 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

Note 3 **Significant Accounting Policies** – (cont'd)

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 CML Metals 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 CML which is at level 2.

k) 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.

Note 3 **Significant Accounting Policies** – (cont'd)

l) 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.

m) 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.

Note 4 **Reclamation Deposits**

At February 28, 2010, total security deposits held by third parties were $34,468 (February 28, 2010: $34,726).

Note 5 **Investment in CML Metals Corporation**

The $9,247,141 Investment in CML Metals Corporation as of interim period ended May 31, 2010 (February 28, 2010: $8,800,000) is recorded at fair value, which value was determined by a private placement that PIC completed with arms length parties on May 10, 2010.

Note 6 **Management of Capital**

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition and exploration of mineral properties. The Company's primary objectives in managing capital are to:

- Safeguard the Company's ability to continue as a going concern.

Note 6 **Management of Capital** – (cont'd)

- Maintain an optimal capital base in order to support the capital requirements of its operations, including growth opportunities and maintaining investor confidence.

The capital of the Company consists of shareholders' equity. The Board of Directors does not establish quantitative return on capital for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements. The Company relies on capital markets to support continued growth.

Note 7 **Financial Instruments**

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

a) Credit Risk

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

b) Liquidity Risk

The Company's exposure to liquidity risk is dependent on purchasing commitments and obligations, and the raising of funds to meet commitments and sustain operations. The Company is a development stage company and is reliant on external fundraising to support its operations. The Company manages liquidity risk by continuously monitoring actual and projected cash flows. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months.

c) Market Risk

The Company has market risk attributable to its marketable securities held for trading. The investments consist of shares of public companies which were received as partial consideration in an option agreement. The investments held for trading are carried on the balance sheet at the fair market value of the investments, with the change in fair value being recognized as unrealized gain (loss) on marketable securities in the statement of operations and deficit. Based on management's knowledge and experience of the financial markets, the Company does not believe it is subject to significant market risk as a result of holding these marketable securities.

d) Foreign Exchange

As at May 31, 2010, the Company is not subject to foreign exchange risk, other than as US dollar accounts are converted to Canadian dollars for reporting purposes.

Note 8 **Share Capital**

Shares Authorized: Unlimited common shares without par value.

Shares Issued:

		Number of Shares	Share Capital	Contributed Surplus
Balance February 28, 2010 and 2009		168,964,132	$95,730,142	$3,071,383
Private placement, at	$0.05654	20,000,000	1,130,800	-
Balance May 31, 2010		188,964,132	$96,860,942	$3,071,383

Commitments:

a) Share Purchase Options:

The Company may grant share purchase options to directors, officers or employees to acquire shares of the Company. Unless noted otherwise, the share purchase options vest when granted. Share purchase option activity for the interim period ended May 31, 2010 and the year ended February 28, 2010 is summarized as follows:

	Quarter ended May 31, 2010		Year ended February 28, 2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable beginning of period	150,000	$0.40	1,030,000	$0.55
Cancelled	-	-	(880,000)	0.58
Exercised	-	-	-	-
Outstanding end of period	150,000	$0.40	150,000	$0.40

Each of the 150,000 share purchase options outstanding entitles the holder to purchase one common share at $0.40 per share until expiration on October 31, 2012.

b) Share Purchase Warrants:

Each warrant entitles the holder to purchase one common share. Activity for the interim period ended May 31, 2010 and year ended February 28, 2010 is as follows:

Note 8 **Share Capital** – (cont'd)

	Quarter ended May 31, 2010		Year ended February 28, 2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable beginning of period	-	-	32,311,819	$0.84
Expired	-	-	(32,311,819)	0.84
Exercised	-	-	-	-
Outstanding end of period	-	-	-	-

Note 9 **Related Party Transactions**

The Company incurred the following transactions with related parties consisting of current and/or former directors of the Company or private companies controlled by them:

	Three months ended May 31,	
	2010	2009
Consulting fees	$60,363	$54,267
Directors' fees	-	30,378
Salaries and benefits	-	161,315
Total	$60,363	$245,960

Company officers are paid as consultants. The amounts were recorded at their exchange amount, which is the amount agreed to by the parties.

Due to related parties are owing to former directors and to an affiliate of a former director, and are unsecured, non-interest bearing and due on demand.

Note 10 **Non-cash Transactions**

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the cash flow statements. The following transactions were excluded from the statement of cash flows:

During the year ended February 28, 2010:

a) The Company settled $42,457,716 of debt in exchange for its 78.26% in PIC, and increased the remaining carrying value of PIC by $7,311,241 to reflect its fair value.