

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

PRELIMINARY INFORMATION

The following Management's Discussion and Analysis ("MD&A") of Palladon Ventures Ltd. ("Palladon" or the "Company") should be read in conjunction with the unaudited condensed interim financial statements for the three and nine months ended November 30, 2011 and 2010 and the related notes contained therein. In addition, the following should be read in conjunction with the audited financial statements for the year ended February 28, 2011 and the related MD&A. All financial information in this MD&A related to the current and prior fiscal years has been prepared in accordance with International Financial Reporting Standards ("IFRS"). It should be noted that the audited financial statements for the year ended February 28, 2011 were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), the reconciliation of which can be found beginning on page 24 of this MD&A. Palladon 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.

Additional information and public filings relating to the Company are available via the Palladon website at www.palladonventures.com and 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.

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.

HISTORY AND STRATEGY

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

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

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 on its balance sheet an investment in Palladon Iron Corporation, a private company, which has since been reorganized into CML Holdings, Inc. (“CML”).

CML is in the business of developing the Iron Mountain iron ore project (“Iron Mountain” or “the Project”), located seventeen miles west of Cedar City, Utah. Refer to the annual MD&A as of February 28, 2011 and 2010 for a detailed history of CML / Palladon Iron Corporation. Further information about Palladon and CML can be found via the Palladon website at www.palladonventures.com.

Palladon’s primary business activity is to manage its 19.3% investment in CML, which includes having one representative on the five person CML board of directors. As a significant minority shareholder, 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’s financing and investing activity 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, this MD&A includes the updates in chronological order as quarterly developments. Palladon management believes that this approach is the best way for Palladon shareholders to fully evaluate Palladon and its investment in CML.

OPERATING PERFORMANCE

First Quarter Developments

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.,

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

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-

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

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

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

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 3rd. 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

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

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.

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

On May 31, 2011 Palladon issued the following press release:

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

CML Holdings Shareholder Update

Dear Shareholder,

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

I am pleased to provide an update concerning our investment from Tangshan Jidong Products and Materials Trading Group Co., Ltd (“Tangshan”) and an update on the construction of our concentrate facility.

Tangshan Update

On February 28, 2011, as previously announced, CML Holdings (“CML”) closed the sale of \$2mm of stock to Tangshan (the “Initial Sale”). The Initial Sale contemplated that CML would conclude a second stock sale of \$18mm to Tangshan by March 31, 2011 (the “Second Sale”). The Second Sale required a Stock Purchase Agreement between CML and Tangshan as well as integrating Tangshan into the existing Shareholders Agreement between and among the original shareholders of CML. For a number of external factors, the necessary documents were not agreed to and the second round of financing did not occur as planned on March 31, 2011.

I am pleased to announce that on May 27th CML and Tangshan signed a Stock Purchase Agreement for the sale of stock to Tangshan in the amount of \$18mm. In addition, Tangshan and the shareholders of CML have agreed to terms including Tangshan in the Shareholders Agreement. Pursuant to the Stock Purchase Agreement, Tangshan will purchase \$18mm of stock in CML subject to final government approval in China, which shall take no more than 45 days from the date of the signed Stock Purchase Agreement. Upon the closing of the Second Sale, combined with the stock purchased in the Initial Sale, Tangshan will own 10% of CML. In addition, the CML Board will be expanded from its current four members to five. Tangshan will nominate one member of the Board with the remaining four nominees unchanged.

The pro forma share ownership is listed below:

	As of 5/27/2011	Second Sale	Pro Forma	%
Luxor Capital and affiliates	2,039,082		2,039,082	69.4%
Palladon Ventures Ltd.	566,580		566,580	19.3%
Management + vendors (1)	39,333		39,333	1.3%
Tangshan	37,786	256,102	293,888	10.0%
Total	2,682,781	256,102	2,938,883	100.0%

(1) Excludes 19,667 restricted shares issued to management subject to certain vesting schedules.

In addition to the investment, Tangshan will continue to offtake one boat per month of run-of-mine ore from CML, and will offtake just under one-third of our expected concentrate production upon final construction of the concentrate facility. We are excited to conclude our agreements with Tangshan and welcome them to the CML team.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

Concentrator Update

Construction continues to progress rapidly and on schedule.

Building erection is nearing completion. Concrete crews have completed the main support matt for the mills, comprising 100 tons of steel and over 2000cy of concrete. Crews will continue with the pedestals for the mills and the remaining concrete work over the coming months. The electrical contractor was selected and began the main power feed to the plant, temporary power for construction, and lighting. All major equipment for the mill has been identified and purchased, with the first mechanical installations scheduled to commence in June.

Otherwise, it is business as usual at CML. Run-of-mine operations continue smoothly, with a monthly average of approximately 166,000 dry metric tonnes shipped in April and May. On the corporate front, our focus remains closing the second tranche of the Credit Suisse loan which we hope to close by the end of June. At that time I expect to provide a full financial and operating update and an outlook for 2012.

Thank you for your continued support.

Dale

Dale Gilbert
CEO CML Holdings, Inc.

John Cutler, CEO of Palladon, commented: "This update clearly documents that CML continues to make good progress toward their stated goals. The investment by Tangshan gives CML added flexibility and provides a new basis for valuing Palladon's stake in CML. Based on the Tangshan investment in CML, Palladon's revised 19.3% interest in CML is valued at approximately C\$38.9 million, or C\$1.42 per outstanding Palladon share."

Second Quarter Developments

On July 28, 2011 Palladon issued the following press release:

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

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

CML Holdings Shareholder Update

Dear Shareholder,

I am pleased to provide an update regarding our recent financing transactions, operations, construction of the plant as well as providing initial 2012 guidance.

Credit Suisse Loan

On July 25, 2011 CML closed the second tranche of its \$45 million loan with Credit Suisse. The commercial terms of the loan are identical to those previously disclosed and are summarized in Appendix I. Upon closing, the \$20 million of cash collateral backing the initial tranche of the term loan was released and will be used to fund the remaining construction of the concentrator.

The facility with Credit Suisse also required the Company to enter into certain hedging arrangements with respect to a portion of its 2012 and 2013 concentrate production. The hedges are cash-settled contracts in which CML has effectively sold forward the 62% Fe TSI Index as follows:

2012	690,000 metric tons	\$144 per metric ton
2013	1,200,000 metric tons	\$136 per metric ton

These hedges will serve to lock in a price for CML for those tons sold forward as further described in Appendix II. The hedge counterparties share in collateral with the term loan lenders and therefore the Company will not be required at any point to post cash collateral in the event the hedges are out-of-the-money.

Tangshan Investment

I am also pleased to report that CML and Tangshan have closed the second tranche of the \$20mm Tangshan investment. Tangshan received the necessary government approvals and CML received the \$18mm in two installments (July 8th and July 20th). Tangshan now owns 10% of the common stock of CML and will have the right to appoint one of the Company's five directors. In addition, with the closing of the \$18mm investment the concentrate offtake agreement with Tangshan becomes effective immediately. We welcome Tangshan as a stakeholder in CML and look forward to their assistance in building CML's brand in China.

Sources and Uses Update

As of the date of the Tangshan closing, CML has approximately \$46mm of cash on the balance sheet. This cash is net of all expected closing fees and expenses related to both the Credit Suisse loan and the Tangshan investment. In addition, the Company has

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

\$25mm of availability remaining under the Credit Suisse loan. Finally, the Company generates approximately \$1mm a month in free cash flow from the run-of-mine operations. Assuming a January 31, 2012 completion date for the concentrator, CML has approximately \$78mm of available resources on hand inclusive of the expected free cash flow. We currently estimate the remaining capital expenditures for the plant will be approximately \$45mm¹ (including \$5.6mm contingency), leaving us excess capital of \$33mm or \$39mm exclusive of contingencies².

Additional Capital Uses

In addition to the construction of the concentrator, CML plans to spend \$5-8mm between now and completion of the concentrator as described below:

Deposit on SAG Mill for second concentrator	\$3.0mm - \$4.0mm
Drill Tip Top and other mag anomalies; prove up Rex	\$1.0mm - \$2.0mm
Short line rail improvements	\$1.0mm - \$2.0mm

Deposit on SAG Mill for second concentrate

Subject to securing the required logistics, which we hope to accomplish in the coming few months, CML plans to increase its concentrate production from 2mm tons to 4mm tons. The longest lead-time item for this expansion is securing a SAG mill. We expect to secure the SAG mill in Q3 '11, with the current lead time for a SAG mill being approximately 12 months. We won't commit other significant capital toward the second concentrator until the logistics are in-place for us to ship the incremental capacity, but given the fungible nature of the SAG mill it makes sense for us to secure the mill now. Assuming the logistics can be arranged by year-end, we would hope to have the second concentrator constructed and operational by the start of 2013. The capital cost for the second concentrator will be similar to the first concentrator. At current transactable 2013 forward iron ore prices, the payback on the second concentrator is less than five months.

Drill Tip Top and other mag anomalies; prove up Rex

We are working to move substantially all of the non-compliant resources at the Rex (approximately 120mm tons), as well as other non-compliant resources into a 43-101 proven/probable reserves state of compliance. This will require twinning 10 historically drilled Rex holes, with logging of the drill core and geotechnical analysis to be done by a third-party geologist. We expect the total cost of putting the Rex into the proven &

¹ The fact that such a high proportion of the total capex remains to be spent is not an indicator of plant progress. Much of the outflow of dollars actually occurs in the last few months of construction, but many of those dollars have already been committed. The \$45mm total to complete includes \$5.6mm in contingency.

² CML is required to keep approximately \$12mm of this cash in a restricted account for the benefit of the term loan lenders to finance any cost overruns with the construction of the concentrator. Once the concentrator has been built and is ramped to commercial production, the \$12mm of cash (or whatever the remaining balance may be at the time) will be released to CML Holdings as unrestricted cash.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

probable category will be \$750,000-\$1,000,000 and we hope to have this completed by the end of Q4 '11. We can give no assurance at this time however, to the timing and that such resources will become 43-101 compliant. It is however, a top priority of the company.

Building off the mag survey work done in 2009 by Palladon Ventures, CML has identified select drill targets for resource expansion. The most promising of these targets is the Tip Top area which has seen limited mining by previous owners. The previous owners of CML mined approximately 4 mm tons from outcroppings at surface, but never mined or even drilled beyond the visible outcroppings. The 2009 mag survey shows strong mag anomalies covering a wide surface area surrounding and including Tip Top. Tip Top is situated directly above the Comstock Mountain Lion pit making it an ideal site from which to mine (overburden could be pushed into Comstock Mountain Lion pit once that pit is mined out). We will commence drilling Tip Top in Q4 '11 and will update you on results as they are received.

Short line rail improvements

The 14-mile spur line from Comstock Mountain Lion to the main Union Pacific line will require some moderate upgrades/maintenance this year including new rail ties, track upgrades and rail stabilization with new ballast in compliance with FRA standards. We expect the budget for this work to be \$1-\$2mm depending on the number of ties/length of track to be replaced.

Operations Update

Operations continue to run smoothly at CML. Shipments in May totaled 141,067 DMT tons and shipments in June totaled 143,394 tons. With the addition of new rail cars, our total fleet is up to 439 cars. We are now fully ramped in our logistics to an annual run rate in excess of 2mm tons. This gives us comfort that we will face few logistical issues when we switch from shipping run-of-mine ore to shipping 2mm tons of concentrate annually.

Construction Update

Plant construction is rapidly progressing with all major trades on site performing construction activities. The earthwork, building and site utilities have been substantially completed. Concrete crews have nearly completed the grinding area concrete and have started work on the thickener foundations and the ancillary buildings (office/storage/bathrooms/break facilities). The main electrical line has been run from the substation and temporary power has been pulled from it to use for construction and to power the building lights and service cranes. The mechanical installation contractor has commenced installing the ball mill components and will continue through completion as components arrive on site.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

Engineering is nearing completion with the majority of mechanical work completed and focus moving to the electrical, piping and instrumentation, which will likely complete within the next couple of months. All major components have been ordered with few remaining components to be procured.

Reserve Updates

Robert Cameron, mine engineering consultant for CML Metals Corporation, recently reviewed drill data and topographic information pertaining to what is referred to as the Burke Stockpile, located in the Old Pits area. The data contained assay information and drill logs for six drill holes that were drilled on the stockpile in 2009, and a 2-ft contour map of the area, created in 2009 by Aerographics. By evaluating the information, a total of 2.6mm tons with an average grade of 37% Fe within the stockpile have been placed into 43-101 Probable Reserve status.

This updates the total Probable Reserves for the Iron Mountain Property to 37.3 million tons with an average grade of 44.9% Fe. CML continues to evaluate other potential resources on the site and perform the necessary work to bring them into compliance.

Estimated Probable Iron Reserves as of July 11, 2011		
	Tons (millions)	Avg Fe Grade
C-ML pit	25.6	49.6%
C-ML Low-grade Stockpiles	9.1	33.9%
Burke Stockpile	2.6	37.0%
Total Estimated probable Iron Reserves		
	37.3	44.9%

2012 Guidance

Our 2012 guidance assumes a February 1, 2012 start date for the concentrator and a 4-6 week ramp period. Everything under our control is progressing at the rate required to complete the concentrator on-time, but the delivery time of certain pieces of equipment is, to some extent, beyond our control. We maintain constant dialogue with our vendors; the current expected completion date represents our best estimate given the equipment delivery date projections at present.

Production

Run-of-mine sales	300,000-400,000 DMT
Concentrate sales	<u>1,600,000-1,700,000 DMT</u>
Total	1,900,000-2,100,000 DMT

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

Again, the current 2012 production guidance assumes a February 1, 2012 start date for the plant. If the plant were delayed, we would expect about 167,000 tons of concentrate to be swapped into run-of-mine production for every month of delay.

Revenue per ton of sales

Our revenue per ton of concentrate sales is indexed to the daily spot price for 62% Fe grade iron ore, CFR China. This is a price published daily by multiple industry sources. We will effectively receive the average daily price for the past month prior to the arrival of our ship in China adjusted for penalties and net of marketing fees paid to our offtake partners. Please see Appendix II for a more detailed description of the calculation of our per ton price.

Run-of-mine is a niche product with limited buyers. We negotiate price with our partners for some deliveries and have fixed a price on others. We will not provide guidance specific to run-of-mine price, but see “cost of production” below for an estimate of run-of-mine margin per ton.

Cost of production

Our current estimate for the fully delivered cost for our iron ore to China in 2012 is \$68-71 per DMT of concentrate, net of premium Fe grade bonus payments. This estimate is subject to change based upon ocean freight rates, diesel costs, Fe grade premiums and other commodities that affect our operating costs. See Appendix III for a more detailed description of our concentrate costs.

Our cost of production per ton of run-of-mine is lower than concentrate given the lower mining costs and lack of milling and processing costs, but the price we receive per ton of run-of-mine is substantially lower. We currently make EBITDA of \$5-\$10 per DMT on our 53% Fe ROM sales and expect a similar result in 2012.

Capital expenditures and working capital

Outside of the capital spent on the first concentrator and the capital described in “additional capital uses” above we expect to incur \$2-\$3mm in maintenance capital costs in 2012. Should our Board approve the construction of the second concentrator, we will update this estimate for the capital costs associated with building the second plant. We do not expect a significant move positively or negatively in working capital for 2012.

Operating Goals for 2012

Our primary goal for 2012 is to complete the plant on-time and on-budget and to quickly ramp to an annual production rate of 2mm tons. All of our other operating goals are secondary to ensuring the plant operates at its capacity, produces the optimal end product,

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

and does so within the cost parameters we have projected to our shareholders, our lenders, and the Board.

In addition, management has identified two other operating initiatives for 2012: i) secure additional port capacity to allow production to increase to 4mm tons and ii) lower operating costs. We are working with certain ports on the west coast of the US as well as our rail partners to achieve a complete logistics solution to allow us increased production capacity. We are optimistic that we will achieve this result allowing us to start construction on the second concentrator in 2012, but no assurances can be given at this time. With respect to operating costs, once these initiatives are complete we believe \$7-\$12 per DMT of costs can be taken out of the business in 2012, reducing our delivered costs per DMT to \$56-64, net of premium Fe grade bonus payments. We will provide more detail on our cost initiatives in future shareholder updates.

We have made great strides at CML this past year. Raising \$45mm of project debt from a lender of Credit Suisse's stature is a major validation for our project. This was a six-month process from start to finish and involved a level of due diligence few mines of our size could withstand. We would like to thank Credit Suisse for all their hard work and their innovation in structuring the loan and the associated hedge program. This was a unique transaction and Credit Suisse's ability to tailor a product specific to CML is one of the reasons this project is succeeding. We're also excited to have Tangshan as a shareholder as we look forward to building partnerships with our customers in China.

CML Website

We would also like to direct you to our website at www.cmlmetals.com where we are posting updates and photos on a regular basis that highlight construction and our other activities.

Thank you for your continued support.

Dale

Dale Gilbert
CEO CML Holdings Inc.

Palladon also announces that it and all other CML shareholders have entered into an Amended Shareholders Agreement which reflects the addition of Tangshan as a new shareholder, and which includes a provision pursuant to which Palladon, Luxor and Tangshan have placed their CML shares into escrow pursuant to a Custody Agreement dated July 7, 2011 (the "Custody Agreement") with JPMorgan Chase Bank, N.A. The

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

purpose of the Custody Agreement is to facilitate, if required, the enforcement of the Amended Shareholders Agreement.

John Cutler, CEO of Palladon, commented: “This comprehensive update from CML adds valuable insight into the operational and financial dynamics of the Iron Mountain project. CML continues to execute on their business plan and has made great progress in advancing the mine, solidifying logistics and partnerships and moving the concentrate plant ahead on time and on budget. We are pleased with the closing of the recent financings and look forward to the commissioning of the concentrate plant in early 2012.”

Appendices to this press release follow.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

Appendix 1 – CS Term Loan

Amount:	\$45,000,000
Rate:	3 mo. LIBOR + 6% until completion of plant 3 mo. LIBOR + 5% post completion of plant
Maturity:	Amortizing quarterly through 2014
Mandatory Cash Sweep:	25% of free cash flow
Pre-Payable:	Anytime at par

Appendix II – Price Per Ton Calculation

Start with realized 62% Fe TSI Index price

-Deduct: Penalties + Fees

Impurities over limits (none expected)

Moisture over/under limits (none expected)

Marketing fees + expenses

= Net price for CML

Appendix II (cont'd) – Price Per Ton Calculation

CML price calculation example (2012)

	Hedged Production	Open Production
Volume	690,000	910,000-1,010,000
62% Index ⁽¹⁾	\$144 / DMT	\$155/ DMT
Marketing/Expense	<u>* 96%</u>	<u>* 96%</u>
Net Price	\$138 / DMT	\$149 / DMT

(1) Index price for “Hedged Production” is the weighted average hedged price for all 2012 hedged volume. Index price for “Open Production” is based upon approximate mid-market forward curve prices as of July 11th for 62% Fe grade ore delivered in calendar year 2012.

Appendix II (cont'd) – Price Per Ton Calculation

CML price calculation example (2013)

	Hedged Production	Open Production
Volume	1,200,000	2,800,000
62% Index ⁽¹⁾	\$136 / DMT	\$143/ DMT
Marketing/Expense	<u>* 96%</u>	<u>* 96%</u>
Net Price	\$131/ DMT	\$137 / DMT

(1) Index price for “Hedged Production” is the weighted average hedged price for all 2013 hedged volume. Index price for “Open Production” is based upon approximate mid-market forward curve prices as of July 11th for 62% Fe grade ore delivered in calendar year 2013.

Appendix III – Cost Summary for Concentrate

Cost Item	Costs per DMT
On-Site ⁽¹⁾	\$22-\$23 / DMT
Off-Site ⁽²⁾	\$38-40 / DMT
Ocean ⁽³⁾	\$33 / DMT
Fe Premium Bonus ⁽⁴⁾	<u>(\$25) / DMT</u>
Total	\$68-\$71 / DMT
2012 Cost Initiatives	<u>(\$7-\$12) / DMT</u>
2013 Cost Goal	\$56-\$64 / DMT

- 1) Includes mining, milling, testing, G&A and other
- 2) Includes all logistics excluding ocean freight
- 3) Ocean freight to China based on current freight rates and ports of departure
- 4) Assumes current Platts Fe Adjustment Factor of \$5 per DMT per 1% Fe above 62% and assumes CML product grade of 67%

Appendix IV- Calculation of Premium Bonuses

- In each of CML's offtake contracts there are provisions that allow the Company bonus payments for each shipment of concentrate grading higher than 62%
- CML expects to produce a 67%+ Fe grade product and therefore expects to receive significant bonus payments from its offtake partners
- The calculation of the bonus payments on a per DMT basis is as follows:
 - Bonus payment per DMT = (Actual CML Fe grade - 62) * Platts' Adjustment Factor
 - Platts' Adjustment Factor is a number published daily by Platts that represents the average premium paid by iron ore buyers on a per tons basis for every 1% of Fe above the 62% Index price
 - Current Platts' Adjustment Factor is approximately \$5 per ton per 1% Fe above 62%
 - So if CML produces 67% product, we would derive bonus payments = (67-62) * \$5 per DMT, or \$25/DMT
- Going forward, CML will report premium bonus payments as a reduction in cost similar to the manner in which base metals and precious metals producers show by-product sales as nets to cost

Third Quarter Developments:

On January 12, 2012 Palladon issued the following press release:

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

CML Holdings Shareholder Update

Dear Shareholder,

I am pleased to provide the following shareholder update regarding CML's construction of the concentrate plant, 2011 performance and additional 2012 operational guidance.

2011 was a great year of accomplishments for CML as the company completed many important steps to advance its plan to produce iron ore concentrate at its Iron Mountain facility. In 2011 we were pleased to have achieved the following:

- Successfully began shipments of run of mine ore to multiple west coast ports
- Secured multiple offtake partners and agreements
- Secured rail capacity and fleet of railcars
- Ramped up ocean shipments of CML ore to China
- Raised \$91 million in financing in total, including \$46 million of equity and \$45 million of debt
- Proved out greater than 2 million tons of annualized transportation logistics
- Achieved revenue in excess of \$120 million
- Opened new corporate facility in Cedar City, Utah
- On track to complete 2 million ton capacity concentrate facility on-time and on-budget

Concentrate Plant Construction

CML is now near completion of the construction of its two million ton per year concentrate facility. I am pleased to announce the project is expected to be completed on-time and on-budget, an accomplishment attributable to our team at CML, our superb engineering team at Samuel Engineering and the tireless efforts of each of our vendors. We are currently finishing the last phase of the plant and are simultaneously commissioning other parts of the facility. We expect the plant to be substantially completed by mid-January and the commissioning stage to be completed by the end of January. Upon completion of the plant commissioning, we will start to run material through the plant. We currently expect to be fully ramped to our 167,000 ton of concentrate per month capacity by the end of February.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

With the completion of the concentrate plant we will shift our production from run-of-mine ore to ore concentrate, which we expect to positively change the operating dynamics of our business. Instead of selling run of mine ore at a contained iron level of 52-54% Fe, we will transition to the processing and sale of concentrate at levels expected to be up to 67% Fe, or 5% over the world benchmark standard of 62% Fe. In exchange for a marginally higher cost to process our ore to concentrate form we expect to receive a relatively more attractive price per ton.

2011 Performance and Operations Update

For the ten-month period ended December 31, 2011, the company processed and sold approximately 1,425,000 tons of run of mine iron ore at an average Iron Content level of 54% Fe.

Operations continue to run smoothly at CML both at the mine and through our established transport logistics. As stated in our previous update, we believe the company's existing logistics can accommodate the sale and transportation of more than two million tons on an annualized basis. Shipments in December totaled 140,588 tons. The company's railcar fleet now stands at 539 cars, and is running, on average, five unit trains per week from Iron Mountain to two west coast ports.

Liquidity Update

As of January 9th the company's cash balance was approximately \$46 million. We project approximately \$24 million of additional plant expenses, largely related to the payment of invoices for parts and services already consumed. We therefore expect the company to have cash of approximately \$22 million upon final payment of all expenses related to the completion of the concentrate plant and expect to generate additional cash as we ramp up concentrate production.

2012 Guidance

Our 2012 guidance is substantially unchanged from the last shareholder update.

Though we will start production of concentrate at the plant a few weeks sooner than projected, we are keeping our production guidance for concentrate sales (below) static in order to build in some extra commissioning time.

Run-of-mine sales	300,000-400,000 DMT
Concentrate sales	<u>1,600,000-1,700,000 DMT</u>
Total	1,900,000-2,100,000 DMT

Since our last update, we have increased hedged tonnage under our hedging agreements with Credit Suisse. As of January 9th we have 870,000 tons hedged for 2012 at \$142 per ton. Again, this hedged price excludes the Fe premium we expect to receive for our ore as well as the

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

marketing fees paid to our offtake partners. Hedges of 1,200,000 tons at \$136 for 2013 production remain unchanged from our last update.

Operating Goals for 2012

Our primary operating goal for 2012 continues to be to bring the concentrate plant on-line as soon as possible and to quickly ramp to an annual production rate of two million tons. As we have previously stated, we want to ensure that the plant operates at its capacity, produces the optimal premium concentrate and does so within the parameters we have projected for our shareholders, our lenders, and the Board of Directors.

Expansion of Logistics and Production Capacity

We continue to study the feasibility of increasing of capacity to four million tons annually for 2013. Prior to making additional investment in increased capacity substantially beyond two million tons, we must first secure additional port capacity and rail contracts. We are currently working with our logistics partners toward that end.

Resources

The company's compliant resources remain unchanged from our July 28th update, but we have been active on several fronts to increase our stated reserves. First, we are currently twin drilling several core holes on the Rex deposit. Secondly, we have just recently completed four RC drill holes at the Tip Top deposit.

As always, thank you for your continued support.

Dale

Dale Gilbert
CEO CML Holdings Inc.

John Cutler, CEO of Palladon, commented: "This CML update confirms the concentrator is essentially built and we expect a successful commissioning and ramp up. We congratulate the team at CML Metals on this significant accomplishment and look forward to progress on additional initiatives."

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS

Palladon no longer owns any equipment.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

FINANCIAL RESULTS

Results for the first quarter period ended May 31, 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 first quarter ended May 31, 2011, the Company realized a Net Loss of \$89 thousand (2011 – Net Loss of \$298 thousand).

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

- Consulting expenses decreased to zero, as the Company reduced all activities related to developing its properties.
- Office and administration expense decreased to a de minimis amount, reflecting the downsizing of the corporate offices.
- Professional fees decreased to approximately \$20 thousand, due to reduced legal and accounting costs.
- Salaries, benefits and directors' fees decreased to \$36 thousand, reflecting the Company's extremely lean corporate and management function, which constitutes two independent directors, the Chief Executive Officer / Director, and a Chief Financial Officer.
- Shareholder communications decreased to \$13 thousand.
- Travel and promotion was nil, due to the curtailment of most travel.

Results for the second quarter period ended August 31, 2011

For the second quarter ended August 31, 2011, the Company realized a Net Loss of \$495 thousand (August 31, 2010 – Net Loss of \$179 thousand).

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

- Office and administration expenses totaling \$23 thousand includes the annual cost of D&O insurance.
- Professional fees decreased by \$48 thousand to \$40 thousand, reflecting reduced legal fees, and also accrual of most of the February 2011 audit related expenses as of the audit date.
- Salaries, benefits and directors' fees decreased \$24 thousand to a stabilized \$36 thousand quarterly run rate.
- Stock compensation expense of \$379 thousand reflects a non-cash charge to fully expense the 395,000 options granted during the quarter.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

Results for the third quarter period ended November 30, 2011

For the third quarter ended November 30, 2011, the Company realized a Net Loss of \$58 thousand (November 30, 2010 – Net Loss of \$81 thousand).

Summary of Quarterly Results

(\$000, except per share)	2012 QUARTER ENDED			2011 QUARTER ENDED				2010
	Q3 November 30	Q2 August 31	Q1 May 31	Q4 February 28	Q3 November 30	Q2 August 31	Q1 May 31	Q4 February 28
Comprehensive income (loss)	\$ (58)	\$ (495)	\$ (89)	\$ (224)	\$ (81)	\$ (179)	\$ (298)	\$ 13,798
Basic and diluted income (loss) per share	\$ (0.00)	\$ (0.02)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ 0.82

Quarters including and subsequent to the quarter ended May 31, 2011 (2012 Q1) are under IFRS, while prior quarters are under Canadian GAAP.

As noted in the “History and Strategy” section of this MD&A, until March 15, 2010, Palladon owned 100% of Palladon Iron Corporation (now known as CML Holdings, Inc.). On that date Palladon entered into a Satisfaction and Settlement Agreement whereby Palladon transferred ownership of 78.26% of CML in exchange for the full discharge of approximately \$42.5 million of loans payable.

As a result of the Satisfaction and Settlement Agreement, at February 28, 2010 CML was no longer consolidated into Palladon, and total assets and total liabilities decreased significantly. The impact of this reduced balance sheet was to eliminate a significant amount of quarterly and annual interest on long term debt, and large swings in foreign exchange gains and losses, as well as to significantly reduce many expense categories.

Comprehensive losses including and subsequent to the quarter ended May 31, 2010 (2011 Q1) reflect only the results of Palladon Ventures Ltd.

Transactions with Related Parties

The \$649 thousand due to related parties are disputed amounts owing to former directors and to an affiliate of a former director, and are unsecured and non-interest bearing. There are no amounts due to or from current related parties at November 30, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

Palladon had cash of \$190 thousand as of November 30, 2011, and has approximately \$175 thousand as of the date of this report. The current cash balance is estimated to be sufficient to

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

fund the Company's reduced operating expenses for the next six to nine months. The Company had a net working capital deficit of \$426 thousand at November 30, 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
- 410,000 options to purchase common shares with a weighted average exercise price of \$1.14, expiring October 31, 2012 and June 24, 2016.

Commitments

The Company has no significant commitments.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The condensed interim financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") applicable to the preparation of interim financial statements, including *Interim Financial Reporting* ("IAS 34") and *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1"), as issued by the International Accounting Standards Board ("IASB") and its interpretations. In preparing its condensed interim financial statements in accordance with IFRS, the Company found no adjustments to amounts previously reported in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, comprehensive income, and cash flow is set out here.

The accounting policies set out in Note 3 of the condensed interim financial statements have been applied in preparing the financial statements for the period ended November 30, 2011, in presenting an opening IFRS Balance Sheet at March 1, 2010 (the Company's date of transition), and in presenting the comparative financial information for the periods ended November 30, 2010 and February 28, 2011.

First Time Adoption of IFRS

The Company has elected to apply the following optional exemptions:

1. **Business Combinations** – IFRS 1 permits the first-time adopter to not apply IFRS 3, *Business Combinations* ("IFRS 3"), retrospectively to business combinations that occurred before the transition date. The use of this IFRS 1 exemption does not preclude a

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

review of the terms of past acquisitions to identify any assets or liabilities that would need to be recognized or derecognized under IFRS. The exemption also applies to transactions which were accounted for as asset acquisitions under Canadian GAAP, but which meet the definition of a business combination under IFRS.

The Company elected to apply this exemption as at the date of transition, and thereby has not restated business combinations that occurred prior to March 1, 2010. Review of past business combinations, to identify whether there were assets or liabilities that would need to be recognized or derecognized under IFRS, resulted in no adjustments.

2. **Borrowing Costs** – IAS 23, *Borrowing Costs* (“IAS 23”), requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. For example, certain items of plant and equipment that take a substantial time to complete would represent a qualifying asset. IFRS 1 provides an exemption whereby the Company may apply requirements of IAS 23 prospectively from the transition date. The Company has taken this exemption and elected to commence capitalization of borrowing costs for qualifying assets on March 1, 2010. Borrowing costs expensed prior to March 1, 2010 under Canadian GAAP were not capitalized.
3. **Share-based Payment Transactions** – This exemption permits the first-time adopter to not apply IFRS 2, *Share-based Payments* (“IFRS 2”) to equity instruments that vested before the date of transition. The Company has elected not to apply IFRS 2 to awards that vested prior to March 1, 2010.
4. **Fair Value as Deemed Cost.** This exemption permits the first-time adopter to use fair value as deemed cost for selected property, plant and equipment, which avoids reconciliation of historical cost in accordance with IAS 16, *Property, Plant and Equipment*. The Company elected to apply this exemption with respect to its investment in CML Holdings, Inc. Application of this exemption had no impact on the CML investment as at March 1, 2010.

Reconciliation to Previously Reported Financial Statements

IFRS 1 requires an entity to provide a reconciliation of equity, loss and comprehensive loss for comparative periods reported under previous GAAP. A reconciliation of the above noted change is included in the following Statements of Financial Position and Statements of Comprehensive Income for the dates noted below. The effects of transition from GAAP to IFRS on the cash flow are not material. Therefore, reconciliation of cash flows has not been presented.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. In accordance with IFRS 1, an entity’s estimates under IFRS at the date of transition must be consistent with the estimates made for the same date under previous GAAP, unless there is new objective evidence that the estimates were in error. The Company’s IFRS

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

estimates as of March 1, 2010, November 30, 2010 and February 28, 2011 are consistent with its Canadian GAAP estimates for the same dates.

A reconciliation between Canadian GAAP and IFRS Equity as at March 1, 2010 (date of transition to IFRS), November 30, 2010 and February 28, 2011 is provided below.

	March 1, 2010	November 30, 2010	February 28, 2011
Equity under Canadian GAAP	\$ 8,365,796	\$ 8,938,363	\$ 14,634,182
	-	-	-
Equity under IFRS	\$ 8,365,796	\$ 8,938,363	\$ 14,634,182

A reconciliation between Canadian GAAP and IFRS total comprehensive loss for the three and nine month periods ended November 30, 2010 and the year ended February 28, 2011 is provided below.

	Three months ended November 31, 2010	Nine months ended November 31, 2010	Year ended February 28, 2011
Comprehensive Loss under Canadian GAAP	\$ (80,610)	\$ (558,233)	\$ (782,068)
	-	-	-
Comprehensive Loss under IFRS	\$ (80,610)	\$ (558,233)	\$ (782,068)

Adjustments on transition to IFRS:

The following is a summary of the significant accounting differences considered as part of the IFRS transition project and, where appropriate, quantification of the adjustments required as of the transition date and for the comparative period.

a) Asset impairment

Both Canadian GAAP and IFRS require an entity to undertake quantitative impairment testing where there is an indication of impairment. Further, there is a requirement under IFRS for the Company to assess whether indicators of impairment exist as of the date of transition to IFRS.

Unlike Canadian GAAP, IFRS requires impairment charges to be reversed if circumstances leading to the impairment no longer exist. The Company has no historic impairment charges which could be reversed as of the transition date. As of the transition date, there were no indications of impairment under IFRS identified by management. Therefore, no formal quantitative impairment was undertaken.

PALLADON VENTURES LTD.

Management Discussion and Analysis

Three and Nine Months Ended November 30, 2011

(Expressed in Canadian dollars unless otherwise noted) Date of Preparation: January 13, 2012

Adjustments on transition to IFRS: None.

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 but are not limited to: securing adequate funding; completing construction of the concentrate plant; expanding its resource; the price for iron ore and iron ore concentrate; the cost of ocean freight and the cost of its operating activities.

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 condensed interim financial statements. Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.