

PALLADON VENTURES LTD.
Q2 2005
MANAGEMENT DISCUSSION AND ANALYSIS
for the six month period ending August 31, 2005

Unless otherwise indicated herein all dollar amounts refer to Canadian dollars

1.1 DATE OF REPORT: NOVEMBER 16, 2005

1.2 OVERALL PERFORMANCE

The Company is in the business of acquiring, exploring, and developing mineral resource properties.

The Company's primary assets consist of mineral rights on 130,000 hectares in the Deseado Massif region of Patagonia, Argentina; 8,000 hectares in and around the Tacalto Project in Northern Argentina; the 70,000 acre Western Utah Copper Project, near Milford, Utah; 5420 acres of gold projects in Utah and Nevada; and the Iron Springs properties (the "Iron Mountain Project") covering 5,000 acres of patented and unpatented claims encompassing the Comstock, Mountain Lion and Rex iron ore mines in Utah.

The Iron Mountain Project

On June 15, 2005, the Company received results of tests performed on iron ore from the Comstock/Mountain Lion mine. The study commenced in early May 2005. Composite bench samples were taken from the three major areas in the pit by an independent consultant and were then delivered to Dawson Metallurgical Laboratories, split into four representative samples, and crushed to four different sizes. Head and product samples were sent to Lerch Brothers of Minnesota for analysis of iron, phosphorous, sulfur, silica and alumina. The composite materials tested assayed 56% Fe.

The Company performed the tests to determine if the iron product at the site could be upgraded to a saleable grade greater than 63.5% Fe. The success of the tests provided further validation to continue with development plans. The final product contained nearly 68% Fe with 0.4%P, 0.004%S, 2.4%SiO₂ and 0.8%Al₂O₃. The iron recovery into the concentrate was 97%. It was also determined that the ore ground easily with a work index of 5.2 kwh/st. These tests were then used to design the milling circuit for the concentrator, and these studies are included in an updated NI 43-101 technical report, which was completed and filed subsequent to the end of the quarter. (see Subsequent Events – Iron Mountain Technical Report)

On August 2, 2005, the Company signed a contract with a Chinese purchaser to sell one million tons of fine iron ore concentrate over a twelve-month period. The contract provided for standard commercial terms, including the posting of a letter of credit.

During the quarter the Company selected Gilbert Development Corp. of Cedar City, Utah to be the contract miner for the Iron Mountain Project. Gilbert mobilized immediately in order to

perform necessary groundwork and construction activities.

Loan Agreement

The purchase price for the Iron Mountain Project was US\$10.0 million of which US\$50,000 was paid on signing, US\$1.3 million was a credit at closing for the amount of the reclamation bond obligation assumed by Palladon and WUCC, the former joint venture partner in the Iron Mountain Project, and US\$8.65 million paid in cash at closing, which occurred in April, 2005. In order to finance the purchase price the Company obtained an interim loan from Luxor Capital Group, LC ("Luxor"). Luxor had earlier purchased approximately 4.4 million common shares of Palladon stock and had become the Company's largest shareholder. The principal amount of the interim loan was US\$9.3 million at an interest rate of 20% per annum, maturing Oct.14, 2005.

Proposed Debenture & Joint Venture

As partial consideration for the interim loan, Luxor was extended the right to provide the Company with a convertible debenture facility (the "Debenture Facility") to replace the interim loan and provide working capital. On April 8, 2005, the Company announced that it had arranged a US\$13 million convertible debenture facility with Luxor. The Debenture Facility proposal consisted of 5% convertible notes (the "Notes") with a term of five years and would include the granting of up to 7,800,000 share purchase warrants (the "Warrants") to Luxor and/or its affiliates, subject to shareholder and TSX Venture Exchange approval.

The principal amount of the Notes would be convertible into common shares at a conversion price of \$0.90 per share. As a result, if fully converted the Notes would have resulted in the issuance of up to approximately 17.7 million common shares at then current C\$ - US\$ exchange rates. The Warrants were to be for a term of two years with an exercise price of \$0.99 per share. The proceeds of the Debenture Facility would include working capital for the development of the Iron Mountain Project and the purchase of WUCC's interests in the Iron Mountain Project. The structure of the Debenture Facility saw the holding of the Iron Mountain Project in a new subsidiary of the Company to be owned 50% by the Company and 50% by Luxor. The terms of the term facility ultimately provided by Luxor were substantially different than those of the original Debenture Facility.

During the quarter the Company renegotiated the terms of the Luxor financing and agreed to replace the interim loan with a secured five-year term loan in the principal amount of US\$12,750,000 to bear interest at 9.25% per annum, calculated quarterly (the "Term Loan"). The Term Loan proceeds will be applied towards repayment of the outstanding interim loan provided by Luxor used to acquire the Iron Mountain Project. The balance of proceeds under the Term Loan will be applied towards working capital, out of which the Company will contribute US\$500,000 for working capital to the Palladon Iron Corporation (PIC), the Utah incorporated subsidiary established to own and operate the Iron Mountain Project.

As consideration for granting the Term loan, the Company will grant to Luxor 2,357,137 share purchase warrants exercisable at \$0.62 per share for a period of two years. (see Subsequent Events – Renegotiated Financing & Loan) Luxor will also acquire a 50% equity interest in PIC for US\$3 million.

Western Utah Copper Project

Drilling and exploration continued during the quarter. The Company focused on completing a NI 43-101 technical report on the Western Utah Copper Project, filed subsequent to quarter end. (see Subsequent Event – Western Utah Copper Project Technical Report) Also, the copper project near Milford incurred costs relating to the fieldwork and claim fees of \$693,105, consulting \$402,131, project supplies \$854,843, for a total of \$1.9 million during the period.

Historic Resources on the copper project are derived from these 1998 Nevada Star feasibility study figures covering the eastern portion of the district. The Company expects to update and expand upon the 1998 report when feasibility studies on copper production commence. Expenditures are expected to rise when these feasibility studies commence.

Argentina

On August 8, 2005, the Company announced the acquisition of an option to earn a 60% interest in the 8,000 hectare La Sarita Project adjacent to the Company's Tacalto project in Salta, Argentina. The Company believes the two projects jointly will have excellent exploration potential for copper and gold. Expenditures during the quarter were related to maintenance and reconnaissance fees of US\$288,522, and assessment expenditures of \$US 62,623 associated with the acquisition of the La Sarita property.

Consideration for the option consisted of a total of 50,000 common shares of Palladon issued to Argentine Frontier Resources Inc. ("AFRI") on August 29, 2005, and under the terms of the option, to issue up to a further 700,000 shares in periodic issuances to December 8, 2008, in the event that Palladon elects to continue to exercise its option. In addition, Palladon must incur exploration expenses on the properties of \$US150,000 and make a payment of \$US75,000 to AFRI by December 8, 2005. Palladon thereafter has periodic exploration expenditure requirements totaling an additional \$US1,350,000 to December 8, 2008, and additional payments totaling \$US325,000 to December 8, 2008, should it elect to proceed with earning its interest in the properties

Great Basin Gold

During the quarter, the Company performed some early stage exploration work on the Caldera Project in Nevada, and early stage mapping and rock chip sampling on several other Great Basin Projects. Assays for rock chip samples from the Caldera project were received subsequent to quarter end. (see subsequent events – Caldera Assays) During the quarter, forty-five new claims were added to the Caldera property position, and data from previous operators was acquired, including 77 drill hole summaries, rock chip summaries, and soil anomaly reports. The data was derived from work conducted by Exxon, Noranda, and Homestake Mining between 1983 and 1997 on what is now the eastern portion of the property. Expenses during the quarter are related to these activities and the ongoing maintenance of property titles. The Company will develop more comprehensive budgets for the Great Basin properties and will increase expenditures when the Company's development stage projects become commercially productive.

1.3 SELECTED ANNUAL INFORMATION

The following financial data are selected information for the Company for the three most recently completed financial years:

	Years Ended		
	February 29 <u>2005</u>	February 28 <u>2004</u>	February 28 <u>2003</u>
Total Revenues	\$ -	\$ -	\$ -
Loss before discontinued operations & extraordinary Items	\$(1,862,960)	\$(585,199)	\$(191,408)
Basic and Diluted loss per share before discontinued operations and extraordinary items	\$ (0.08)	\$ (0.03)	\$ (0.07)
Net Loss	\$(1,862,960)	\$(585,199)	\$(191,408)
Basic and Diluted loss per share before discontinued operations and extraordinary items	\$ (0.08)	\$ (0.03)	\$ (0.07)
Total Assets	\$ 8,706,945	\$ 7,904,342	\$ 215,328
Total Long Term Liabilities	\$ 734,250	\$ 1,068,000	\$ -
Cash dividends per share	\$ -	\$ -	\$ -

1.4 RESULTS OF OPERATIONS

Quarter Ended August 31 2005

Activities in this quarter continued with the Company's planned expansion and consolidation of its properties. Iron Mountain property expenditures of \$340,760 were due to continuing geological work and preparation for future operations. The copper project near Milford incurred costs relating to fieldwork and claim fees of \$693,105, consulting \$402,131, project supplies \$854,843, for a total of \$1.9. Exploration expenditures of \$351,145 were recorded for seasonal geological work and on new and existing property option agreements in Argentina.

Administrative costs showed an increase in office and investor relations of \$103,212 and \$35,660 respectively but were in line with the Company's increased activity. Costs are closely monitored and variances from budgets are investigated to management's satisfaction.

1.5 SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	2005			2004		2003		
	Q2 Aug. 31	Q1 May. 31	Q4 Feb. 28	Q3 Nov. 30	Q2 Aug. 31	Q1 May. 31	Q4 Feb. 28	Q3 Nov. 30
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss before discontinued operations and extraordinary items:								
Total	(823,251)	(818,838)	(453,095)	(818,158)	(395,259)	(196,448)	(302,220)	(119,851)
Per share	\$ (0.01)	\$ (0.37)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Per share, fully diluted	\$ (0.01)	\$ (0.37)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Net loss:								
Total	\$ (823,251)	\$ (818,838)	\$ (453,095)	\$ (818,158)	\$ (395,259)	\$ (196,448)	\$ (302,220)	\$ (119,851)
Per share	\$ (0.01)	\$ (0.37)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Per share, fully diluted	\$ (0.01)	\$ (0.37)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)

1.6 LIQUIDITY

On August 31, 2005, the Company had \$398,627 in cash and \$27,211,535 in resource properties. The Company intends to continue exploration and evaluation work.

The Company has a working capital of \$(17,755,638), which includes \$16,572,766 of obligations that were refinanced or paid after the end of the quarter. Refer to Subsequent Events below with respect to details. Management is currently negotiating additional funding for current working capital, construction budgets, and plant investment for both the Iron Mountain and Western Utah Copper Projects. The Company notes that it reports on the re-financing of the Iron Mountain Project. (Refer to Sections 1.2 and 1.7 below with respect to details.)

1.7 CAPITAL RESOURCES

The capital resources of the Company include mineral properties, carried at \$27,211,535. The Company's intention is to commit additional funds for continuing exploration activities, as detailed in section 1.2, and subsequent events.

1.8 OFF BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements to which the Company is committed other than equity and debt associated with the Murdoch property and the new Iron Ore contract signed on August 2, 2005.

1.9 TRANSACTIONS WITH RELATED PARTIES

For the quarter ended August 31, the Company incurred and accrued management fees of \$16,873 to directors and officers of the Company (2004: \$309,643) and rent of \$9636 (2004: \$43,429) to a director of the Company.

Management Fees

Company Controlled by		
A.W. Williams	16,873	60,000
G.S. Young - President	-	133,912
D. Silver - Officer	-	59,231
Outside Consultants	364,246	-
Bonus A.Williams	-	52500
Bonus H.K. MacDougall	-	2000
Bonus C.Dempster (former director)	-	2000
	<u>\$ 381,119</u>	<u>\$ 309,643</u>

Rent

G.S Young - President	8,436	38,629
Company Controlled by A.W. Williams	1,200	4,800
Outside rent	5245	-
	<u>\$ 14,881</u>	<u>\$ 43,429</u>

Included in accounts payable as at August 31 2005 is \$ 1,358,371 (February 28 2005: \$26,863) due to related parties. Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. These transactions were in the normal course of operations and are measured at the applicable rate of exchange at the time of the transaction. The related party is George S. Young, who is also a director and a one third owner of Deseado LLC, an Argentinian company as reported in Note 5.in the financial statements.

	August 31 2005	February 28 2005
G.S Young - President	1,358,371	36,891
Company Controlled by A.W. Williams	-2,538	-
Outside Creditors	259,798	-
D. Silver - Officer	-	19021
	<u>\$ 1,615,631</u>	<u>\$ 55,912</u>

1.10 SECOND QUARTER

The company's profit for this Quarter was \$242,887 (August 31 2004 (\$395,259)). This occurred due to the unrealized gain on foreign exchange of \$1,063,905 for the quarter that offset the actual operating loss for the three months of \$823,251. Outside consultants were used on all projects for \$364,246 and accounted for most of the cost increases. Office costs also rose as expected in the last report, although investor relations showed a reduction for the six-month period of some

\$6,885. As a result of these expenditures, cash decreased, reflecting the additional amounts invested in properties. Due to the renegotiation of the interim loan with Luxor within this period and its carry over into the coming month, foreign exchange gains were recorded and offset the overall loss of \$823,251.

1.11 PROPOSED TRANSACTIONS

The Company will allocate funds as they become available in the evaluation, acquisition, and exploration of attractive properties in Utah, Nevada, and Argentina. Palladon Iron Corporation has secured suitable office space within the Salt Lake area in line with the planned commencement of operations of the joint venture.

1.12 CRITICAL ACCOUNTING ESTIMATES

Loans Receivable

There are no current Loans receivable.

Mineral Properties

The company defers the cost of acquiring, maintaining its interests as well as for exploration and development of mineral properties. The properties are placed into production, abandoned, sold or considered to be impaired in value, as in the case of Choique La Brecca last year. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of mineral properties, with any excess included in operations.

Write-downs due to impairment in value are charged to operations. Except for the Choique La Breccia property costs, which were written off in February 2005, Management has determined that no other impairment provisions are necessary.

1.13 CHANGE IN ACCOUNTING POLICY

Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options to be expensed over their vesting period with a corresponding increase to contributed surplus. 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. Previously only share purchase options granted to non-employees followed this method and options granted to employees were not expensed.

The Company has adopted the new policy on a retroactive basis with no restatement of prior periods. Accordingly on March 1, 2004, deficit and contributed surplus were each increased by \$225,510 to account for share purchase option expense that would have been charged to operations in 2003 and 2004 with respect to employee share purchase options granted since March 1, 2002. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options. The company continues to adopt this approach and review this policy if necessary.

1.14 FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The carrying value of the Company's financial instruments, consisting of cash, accounts payable and accrued liabilities and amounts due to related parties approximate their fair value due to the short-term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The carrying value of the loans receivable also approximates fair value where applicable. The Company is exposed to fluctuations in foreign currencies through its operations in the United States and Argentina.

1.15 OTHER M D & A REQUIREMENTS

Share Capital

Authorized:

Unlimited common shares without par value

Issued:

Balance, February 28, 2005		25,459,527	\$ \$ 16,180,041
For Cash:			
Pursuant to exercise of warrants	- at \$0.36	328,815	118,373
	- at \$0.50	1,089,920	544,960
	- at \$0.80	696,666	557,333
	- at \$0.85	152,986	130,038
Pursuant to conversion of convertible debentures	- at \$0.69	945,157	652,158
Less; finders fee costs		-	(20,723)
Pursuant to exercise of options	- at \$0.50	40,000	20,000
Add; fair value of options		-	14,000
Pursuant to exercise of Agent's options	- at \$0.75	28,562	21,422
Pursuant to mineral property agreement	- at \$0.87	250,000	217,500
Pursuant to mineral property agreement	- at \$0.55	800,000	440,000
Pursuant to mineral property agreement	- at \$0.40	900,000	360,000
Pursuant to mineral property agreement	- at \$0.65	50,000	32,500
Balance, August 31, 2005		<u>30,741,633</u>	<u>\$ 19,267,602</u>

Escrow Shares:

As of August 31 2005, 37,500 (February 28 2005 37,500) common shares are held in escrow subject to direction for their release by regulatory authorities.

Commitments:

Stock-based compensation

The Company may grant share purchase options to directors, officers or employees to acquire

shares of the Company. Unless otherwise noted, the share purchase options vest when granted. Share purchase option activities for the three months ended August 31, 2005 and the year ended February 28, 2005 are summarized as follows:

	Six months ended August 31, 2005		Year ended February 28, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,590,000	\$0.55	850,000	\$0.51
Granted	350,000	\$0.75	140,000	\$0.50
Exercised	(40,000)	\$0.50	350,000	\$0.70
Granted	<u>-</u>		<u>250,000</u>	\$0.50
Outstanding, end of period	<u>1,900,000</u>	\$0.59	<u>1,590,000</u>	\$0.55
Exercisable, end of period	<u>1,900,000</u>		<u>1,590,000</u>	

As at August 31, 2005, there were 1,900,000 employee and director share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
210,000	\$0.50	January 26, 2006
700,000	\$0.45	September 9, 2008
150,000	\$0.80	November 26, 2008
140,000	\$0.50	October 22, 2009
350,000	\$0.70	October 22, 2009
<u>350,000</u>	\$0.75	April 21, 2010
<u>1,900,000</u>		

Share Purchase Warrants

As at August 31, 2005, the Company had 4,479,377-share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
199,860	\$0.50	July 31, 2005
3,287,922	\$0.80	February 27, 2006
269,907	\$0.85	February 27, 2006
249,110	\$0.86	April 26, 2006
283,867	\$0.86	March 15, 2007
81,874	\$0.86	July 21 2007
<u>106,837</u>	<u>\$0.86</u>	<u>August 8 2007</u>
<u>4,479,377</u>		

As of February 28, 2005, the company had received share subscriptions totaling \$361,905 in respect to warrant exercise after February 28, 2005, for 452,381 shares at \$0.80 per share. These shares were issued during the quarter ended May 31, 2005.

Agent's Options

In connection with a private placement completed during the year ended February 29, 2004, the Agents (Canaccord Capital Corp, and Pacific International Securities Inc.) were granted the option to acquire 1,193,876 units at \$0.75 per unit up to February 27, 2006. Each unit consists of one share and one-half share purchase warrant. Each warrant is exercisable at \$0.85 per share until February 27, 2006. During the period ended August 31, 2005, 28,562 units were acquired by the Agents, leaving 594,046 agent's options outstanding at August 31, 2005.

Subsequent Events

Renegotiated Financing & Loan – subsequent event

The company announced on September 26, 2005, that it had completed and closed a secured long-term loan in the principal amount of US\$12,750,000 to refinance the acquisition of the Iron Mountain Project. The Loan has an interest rate of 9.25% per annum, calculated quarterly and has a five-year term. The Loan proceeds have been applied towards repayment of the outstanding interim loan provided by Luxor that was used for the Iron Mountain Project acquisition, with the balance to be applied towards working capital, out of which the Company will contribute US\$500,000 for working capital for Palladon Iron Corporation (the "Iron Company"). As a part of the refinancing transaction, Luxor has also purchased a 50% equity interest in the Iron Mountain Project for \$US3.5 million. Luxor has also provided a US\$500,000 equity contribution to the Iron Company for the operation of the Iron Mountain Project.

As consideration for granting the Loan, the Company granted to Luxor 2,357,137 share purchase warrants exercisable at \$0.62 per share for a period of two years.

Prior to entering into the purchase agreement for the Iron Mountain Project, the Company and Western Utah Copper Company (WUCC) entered into a Joint Venture Agreement, which provided that the Company shall have a 65 % interest in the Iron Springs property, and WUCC shall have a 35 % interest. The parties subsequently negotiated for the buyout of WUCC's

interest for US\$4.7 million to be paid by the forgiveness of \$US1.2 million in loans receivable (Refer to Note 3 of the accompanying financial statements) previously made by the Company to WUCC and a loan payable of US\$3.5 million. This transaction was later renegotiated so that the Company paid US\$500,000 to WUCC as a finder's fee and for the relinquishment of its interest in the Iron Springs Properties. In addition, the Company accepted a conveyance of an undivided 50% interest in the Murdoch Railroad Property in full satisfaction of \$US1.2 million loans receivable from WUCC. (See Note 7 & Note 5 accompanying the financial statements). The purchase of the interest in the Iron Mountain properties and the relinquishment of the interest of WUCC closed in September 2005.

Iron Mountain Technical Report – subsequent event

The Company filed an updated NI 43-101 Technical Report on the Iron Mountain Project on SEDAR October 24, 2005.

Western Utah Copper Project Technical Report – subsequent event

The Company filed a NI 43-101 Technical Report on the Western Utah Copper Project on SEDAR September 14, 2005.

Caldera Assays – subsequent event

The Company announced the following assay results of the Caldera rock-sampling program November 1, 2005. One hundred and five (105) of the samples contained potentially ore-grade values of >0.34 grams gold per ton (0.01 opt). Four samples contained bonanza gold grades: 193.5 grams (5.65 opt), 63 grams (1.84 opt), 58.3 grams (1.7 opt), and 48.9 grams (1.4 opt) per ton gold, the highest rock chip values collected to date on the property. The first of these samples also contained 6370 grams of silver (186 opt Ag) and the second carried 1510 grams of silver (44 opt). These two samples were collected from float material but are believed to have not moved far from a nearby sub-crop source. Nearby samples carried from 0.2 to 63 grams of gold along a strike length of 335 meters. The other two bonanza samples were from narrow (1 foot or less) veins or mineralized breccias. None of these bonanza veins appears to have been drill tested. In addition to these veins, several other mineralized structural zones were recognized, which are either untested by drilling or poorly tested. These structural zones are up to at least 500 meters long and up to 25 meters wide in some places. The highest values on these three structural zones contain a minimum of 3 grams (0.09 opt) of gold with a maximum of 8 grams (0.23 opt) of gold per ton. The average of samples within 15 meters of these structures is 1.4 grams (0.04 opt) gold and 58 grams (1.7 ounces) of silver per ton.

Also subsequent to August 31, 2005:

Shares issued

	\$/Unit	Number of Shares	Amount
Balance August 31 2005		30,741,633	\$19,267,602
Exercise of Warrants	\$0.50	11,360	5680
Convertible Debentures	\$0.69	246,991	170,424
Exercise of Warrants	\$0.80	27,000	21,600
Balance October 31 2005		<u>31,026,984</u>	<u>\$ 19,458,306</u>