



THE NEW PLAYER IN IRON ORE

# ADRIANA RESOURCES INC.

**Interim Consolidated Financial Statements  
nine months ended July 31, 2009  
(Unaudited – Prepared by Management)**

The accompanying unaudited interim consolidated financial statements of Adriana Resources Inc. for the nine months ended July 31, 2009 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditor.



**Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

**July 31, 2009**

The accompanying unaudited interim consolidated financial statements of Adriana Resources Inc. for the nine months ended July 31, 2009 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditor.

**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**(Expressed in Canadian dollars - unaudited)**

	July 31, 2009	October 31, 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,056,072	\$ 2,233,362
Short-term investments (Note 11)	1,773,000	5,900,000
Restricted cash	-	50,000
Other receivables	229,708	485,815
Prepaid expenses	98,428	255,536
	<u>3,157,208</u>	<u>8,924,713</u>
<b>Property and equipment</b> (Note 4)	34,995,349	32,211,577
<b>Mineral properties</b> (Note 5)	9,001,208	9,984,400
<b>Intangible asset</b> (Note 3)	18,884,276	17,386,718
	<u>\$ 66,038,041</u>	<u>\$ 68,507,408</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 876,933	\$ 2,392,257
Due to related parties (Note 9)	319,305	102,760
Current portion of interest payable (Note 6)	218,923	172,151
	<u>1,415,161</u>	<u>2,667,168</u>
<b>Interest payable</b> (Note 6)	397,762	-
<b>Convertible debenture</b> (Note 6)	8,167,146	7,577,860
<b>Future income tax liabilities</b> (Note 3 and 7(b))	7,052,643	5,911,484
<b>Non-controlling interest</b>	12,113,306	11,213,665
	<u>29,146,018</u>	<u>24,703,009</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 7(b))	75,056,410	75,800,899
<b>Equity portion of convertible debenture</b> (Note 6)	2,207,021	2,207,021
<b>Contributed surplus</b> (Note 8)	2,931,034	2,270,515
<b>Deficit</b>	(43,302,442)	(39,141,204)
	<u>36,892,023</u>	<u>41,137,231</u>
	<u>\$ 66,038,041</u>	<u>\$ 68,507,408</u>

Nature of operations (Note 1)  
 Commitments (Note 10)  
 Subsequent events (Note 14)

*The accompanying notes are an integral part of the consolidated financial statements.*

Approved on behalf of the Board of Directors:

"Richard Barclay"  
 Director

"Donald Siemens"  
 Director

**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Operations**  
**(Expressed in Canadian dollars - unaudited)**

	<i>Three months ended July 31,</i>		<i>Nine months ended July 31,</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
<b>Administrative expenses</b>				
Amortization	\$ 15,782	\$ 12,590	\$ 49,632	\$ 36,331
Bank charges and financing interest	358,458	1,077	1,044,795	162,000
Business Development	70,079	14,355	140,307	70,411
Conferences	20,055	22,110	83,863	71,289
Consulting fees	28,500	19,000	85,500	57,000
Investor relations	88,728	140,638	319,596	409,538
Professional fees	219,474	132,908	460,203	372,183
Property investigation	9,866	11,139	55,624	44,413
Exploration expenditures	94,224	-	394,681	-
Rent and office expenses	215,912	168,183	464,721	482,110
Salaries and benefits	517,792	500,677	1,187,311	1,055,106
Transfer agent and filing fees	10,624	240	26,693	31,589
Travel	70,120	32,687	146,600	117,237
<b>Loss from operations</b>	<b>(1,719,614)</b>	<b>(1,055,604)</b>	<b>(4,459,526)</b>	<b>(2,909,207)</b>
<b>Other income (expenses)</b>				
Interest income	49,138	61,439	77,159	179,157
(Loss) gain on foreign exchange	(41,196)	23,490	40,587	154,884
Loss on disposal of equipment	-	(14,042)	-	(14,042)
Non-controlling interest	104,943	167,811	88,747	382,579
Gain on disposal of subsidiary	91,795	-	91,795	-
<b>Net loss for the period</b>	<b>(1,514,934)</b>	<b>(816,906)</b>	<b>(4,161,238)</b>	<b>(2,206,629)</b>
<b>Deficit, beginning of the period</b>	<b>(41,787,508)</b>	<b>(29,139,634)</b>	<b>(39,141,204)</b>	<b>(27,749,911)</b>
<b>Deficit, end of the period</b>	<b>\$ (43,302,442)</b>	<b>\$ (29,956,540)</b>	<b>\$ (43,302,442)</b>	<b>\$ (29,956,540)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.06)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding</b>	<b>72,476,813</b>	<b>69,992,810</b>	<b>72,476,813</b>	<b>66,181,880</b>

**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian dollars - unaudited)**

	<i>Three months ended July 31,</i>		<i>Nine months ended July 31,</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	\$ (1,514,934)	\$ (816,906)	\$ (4,161,238)	\$ (2,206,629)
Items not involving cash:				
Amortization	15,782	12,590	49,632	36,331
Loss on disposal of equipment	-	14,042	-	14,042
Interest on long-term debt	179,830	-	589,286	57,789
Stock based compensation	160,697	146,641	461,627	292,429
Non-controlling interest	(104,943)	(167,811)	(88,747)	(382,579)
Gain on disposal of subsidiary	(91,795)	-	(91,795)	-
Changes in non-cash working capital				
Receivables and other current assets	14,981	(476,709)	413,215	(550,791)
Accounts payable and accrued liabilities	(73,617)	157,363	(1,423,741)	(1,576,857)
<b>Cash used in operating activities</b>	<b>(1,413,999)</b>	<b>(1,130,790)</b>	<b>(4,251,761)</b>	<b>(4,316,265)</b>
<b>Investing activities</b>				
Sales proceeds from (purchase of) short-term investments	2,300,000	4,141,868	4,127,000	(1,555,930)
Acquisition of property and equipment	(344,220)	(2,352,726)	(2,174,467)	(21,808,581)
Mineral property expenditures	(499,981)	(1,364,442)	(1,038,529)	(2,865,176)
<b>Cash provided by (used in) investing activities</b>	<b>1,455,799</b>	<b>424,700</b>	<b>914,004</b>	<b>(26,229,687)</b>
<b>Financing activities</b>				
Proceeds from share issuance, net of issue costs	-	(27,119)	-	29,009,731
Proceeds from options exercised	-	-	-	70,000
Proceeds from government tax credits	130,792	-	2,160,467	-
<b>Cash provided by financing activities</b>	<b>130,792</b>	<b>(27,119)</b>	<b>2,160,467</b>	<b>29,079,731</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>172,592</b>	<b>(733,209)</b>	<b>(1,177,290)</b>	<b>(1,466,221)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>883,480</b>	<b>1,290,608</b>	<b>2,233,362</b>	<b>2,023,620</b>
<b>Cash and cash equivalents, end of period</b>	<b>1,056,072</b>	<b>557,399</b>	<b>1,056,072</b>	<b>557,399</b>
<b>Non-cash investing and financing activities:</b>				
Interest paid	-	-	-	-
Income taxes paid	-	-	-	-

The accompanying notes are an integral part of the consolidated financial statements.

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**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended July 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

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**1. NATURE OF OPERATIONS**

Adriana Resources Inc. (the "Company") was incorporated under the laws of British Columbia and continues under the Canada Business Corporation Act. The Company's principal business activities include the acquisition, exploration of resource properties and development of an iron ore port facility in Brazil. The Company is currently listed on the TSX Venture Exchange.

These unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. These interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements dated October 31, 2008. However, they do not include all of the information and disclosure as required by Canadian GAAP for annual financial statements and should be read in conjunction with the Company's audited financial statements including the notes thereto for the year ended October 31, 2008.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. 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.

As at July 31, 2009, the Company has no source of operating cash flows and has not yet achieved profitable operations, has accumulated losses of \$43.3 million since its inception, and expects to incur further losses in the development of its business, all of 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 the success of the Company in its applications for environmental and operating permits for the future construction of an iron ore facility in Brazil and its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and commitments (Note 5 and 12), keep its properties in good standing and repay its liabilities arising from normal business operations when they come due. Even though the Company is making all efforts to secure the aforementioned permits, there are no assurances that the permits will be granted or that the proposed port facility will advance to the development or construction stage; nor are there certainties that the Company can be successful in obtaining any additional financing to meet its operational and capital requirements.

**2. NEW ACCOUNTING PRONOUNCEMENTS**

*International Financial Reporting Standards ("IFRS")*

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to adopt IFRS, replacing Canada's own GAAP, for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company with its fiscal year beginning November 1, 2011. The transition date of November 1, 2011 for the Company will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. The conversion to IFRS will impact the Company's accounting policies, information technology, internal controls and disclosure procedures. The transition may also impact business activities, such as foreign currency, certain contractual arrangements, debt covenants, capital requirements and compensation arrangements. The Company is currently evaluating the future impact of IFRS on its financial statements and continues in investing in training of its employees to ensure a timely conversion.

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*Business Combinations (Section 1582)*

In January 2009, the AcSB issued CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The adoption of Section 1582 will affect the Company's accounting for business combinations, if any, on or after January 1, 2011.

*Consolidated Financial Statements (Section 1601)*

In January 2009, the AcSB issued CICA Handbook Section 1601 to establish standards for the preparation of consolidated financial statements. The Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after November 1, 2011. The Company has not yet determined the impact of the adoption of this new Section.

*Non-Controlling Interests (Section 1602)*

This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after November 1, 2011.

**3. ACQUISITION OF BRAZORE HOLDINGS LTD.**

Pursuant to an agreement dated August 21, 2007 with Athena Resources LLC ("Athena"), the Company transferred a 50% interest in its subsidiary, Brazore Holdings Ltd. ("Brazore Holdings") to Athena in exchange for Athena's 93.5% interest in Brazore Ltda. Under the terms of the agreement, the Company maintained and increased its interest in Brazore Holdings by funding Brazore Ltda.'s plan to develop the port as follows: (1) US \$5.5 million by October 20, 2007 (paid) to maintain a 50% ownership interest, (2) US \$19 million by November 29, 2007 (paid) to earn a 60% interest. The Company can earn an additional 15% (for a total of 75% interest) by funding a further US \$33 million by August 20, 2009. The US \$24.5 million has been used for the purchase of the land and initial engineering and feasibility studies. On April 1, 2009, the Company provided notice to Athena that the Company will not proceed with the funding of the Third Tranche (US \$33 million). With the execution of the agreement, Athena and the Company (through its subsidiary, Brazore Resources Inc.) will hold a 40% and a 60% interest, respectively in Brazore Holdings.

As at July 31, 2009, the primary intangible asset of Brazore Holdings, was the land comprising two waterfront lots on the coast of Brazil purchased in December, 2007 through its 93.5% owned subsidiary, Brazore Ltda.

Brazore Holdings has agreed to pay to Athena a royalty of \$0.50 per dry tonne of iron ore transported or shipped through the port facility to an aggregate maximum of \$3 million. The royalty is payable as an advance royalty of US \$250,000 in equal consecutive quarterly installments to the US \$3 million maximum. During the period ended July 31, 2009, the Company has made five installments totaling US \$1.25 million which were capitalized under port design and development.

The transaction is subject to a finder's fee agreement with Alper Consulting Inc. ("Alper") whereby the Company is to pay to Alper a fee between 1% and 5% of development expenditures of the project to a maximum \$350,000. As of July 31, 2009, the Company has paid the finder's fee of \$222,877 by issuing 47,418 common shares at \$1.05 and a cash payment of \$173,088. Subsequent to the period end, on

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August 25, 2009, the Company paid the balance of the finder's fee of \$127,123 by issuing 231,132 common shares at \$0.55.

The transaction is considered to be an asset acquisition for accounting purposes since Brazore Holdings does not constitute a business in accordance with EIC 124. When an asset is acquired other than in a business combination and the tax basis of that asset is less than its cost, the cost of future income taxes recognized at the time of acquisition should be added to the costs of the asset. Accordingly, the Company has recorded the surplus of the asset's carrying amount as an intangible asset, which includes the income tax effect in accordance with Brazilian income tax rate. At July 31, 2009, the intangible asset was \$18,884,276 and future income tax liabilities was \$6,420,654 (2008 - \$15,207,617, \$4,948,984 respectively).

On August 20, 2008, the Company reached an agreement (the "Port Agreement") with ArcelorMittal (subsequently amended on January 6, 2009, April 22, 2009 and June 1, 2009); on the principal terms for the development of an iron ore port facility in the State of Rio de Janeiro, Brazil. The Port Agreement includes the following material elements:

- Through a series of transactions, ArcelorMittal has an option to acquire 80% of the Port for total consideration of approximately \$40.5 million USD with the Company holding the remaining 20% and preemptive rights until the Port reaches a capacity of 20 million tonnes per annum ("Mtpa"). ArcelorMittal will also have drag-along rights in respect of the Company's shareholding in the port, subject to the Company's right of first refusal;
- ArcelorMittal has the right to acquire up to 19.9% of the Company's common shares in two private placements and will also be granted a seat on the Company's Board of Directors;
- The parties will each fund their pro rata portion of the Port development;
- Adriana anticipates that ArcelorMittal will assist the Company in sourcing funding for the Company's portion of the Port development costs ("Port Debt"); and
- The parties will share in the capacity of the Port in proportion to their ownership.

Pursuant to the terms of the Port Agreement, the Company has agreed to acquire all of the third party owned interests in Brazore Holdings, of which the Company currently beneficially owns 60% of the outstanding issued share capital. The acquisition cost for the minority interest, held by Athena will be \$19.6 million USD. The Company and Athena have agreed that up to \$19.6 million USD of the purchase price will be paid in shares of the Company at a deemed price of \$1.10 CDN. In addition to the consolidation of the minority interest in Brazore Holdings, the Company has agreed to acquire the minority interests of its Brazilian subsidiary, consisting of 6.5% interest, for consideration of approximately \$3.5 million USD. The Company and the minority interest holders have agreed that up to \$1 million USD of the purchase price may be paid in shares of the Company at a deemed price of \$1.10 CDN.

The Port Agreement is subject to applicable regulatory and corporate approvals and the negotiation and execution of a definitive agreement by the parties.

On June 1, 2009, the Company and ArcelorMittal had amended the Port Agreement as follows:

- A commitment by ArcelorMittal to fund both a significant portion of the Company's monthly costs and 80% of substantial third party consultant costs incurred in connection with the Company's port permitting process in Brazil;

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- Deferral of annual interest payments due to ArcelorMittal (approved by the TSX Venture Exchange on August 17, 2009), the extension of the unsecured convertible debenture dated September 10, 2008, issued by the Company in favour of ArcelorMittal to September 10, 2012; and
- Extension of the Port Agreement for a period of 6 months (to November 30, 2009) to be followed by further extensions of 6 months if required.

**4. PROPERTY AND EQUIPMENT**

	2009 Cost	Accumulated Amortization	2009 Net Book Value
Land	\$ 24,367,759	\$ -	\$ 24,367,759
Port design and development	10,280,286	-	10,280,286
Computer equipment	157,967	84,734	73,233
Office furniture and equipment	198,921	43,049	155,872
Leasehold improvements	99,120	3,143	95,977
Computer software	67,657	45,435	22,222
	<b>\$ 35,171,710</b>	<b>\$ 176,361</b>	<b>\$ 34,995,349</b>

	2008 Cost	Accumulated Amortization	2008 Net Book Value
Land	\$ 24,278,486	\$ -	\$ 24,278,486
Port design and development	7,561,404	-	7,561,404
Computer equipment	146,934	65,862	81,072
Office furniture and equipment	196,435	33,375	163,060
Leasehold improvements	98,936	684	98,252
Computer software	64,293	34,990	29,303
	<b>\$ 32,346,488</b>	<b>\$ 134,911</b>	<b>\$ 32,211,577</b>

Costs capitalized under "Port design and development" are related to permitting, environmental, geological, topographical, seismic surveying, travel to port site and royalty payments to Athena.

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**5. MINERAL PROPERTIES**

	Labrador Trough \$	MIE Property \$	UNAD Property \$	Mustavaara \$	Total \$
Balance, October 31, 2007	4,456,458	5,286,713	503,847	1,299,900	11,546,918
Acquisition and maintenance	970,859	48,810	-	330,416	1,350,085
Camp and expediting	1,687,480	94,776	16,032	-	1,798,288
Drilling and demobilization	1,453,415	349,193	22,500	-	1,825,108
Equipment	516,796	22,355	-	-	539,151
Geochemistry and metallurgical	427,056	34,744	8,114	151,903	621,817
Geological and geophysics	315,650	46,961	8,376	5,648	376,635
Permits	148,097	21,524	6,958	123,010	299,589
Professionals and consultants	136,139	44,436	2,829	110,531	293,935
Surveying	76,015	47,564	-	-	123,579
Salaries and benefits	142,656	206,793	11,427	168,600	529,476
Travel	106,538	18,824	2,184	114,031	241,577
Less: government tax credit	(452,759)	-	-	-	(452,759)
Incurred during the year	5,527,942	935,980	78,420	1,004,139	7,546,481
Write-off of mineral property interests	-	(6,222,693)	(582,267)	(2,304,039)	(9,108,999)
Balance, October 31, 2008	9,984,400	-	-	-	9,984,400
Acquisition and maintenance	183,376	-	-	-	183,376
Camp and expediting	(18,300)	-	-	-	(18,300)
Geochemistry and metallurgical	87,508	-	-	-	87,508
Geological and geophysics	304,248	-	-	-	304,248
Permits	55,200	-	-	-	55,200
Professionals and consultants	367,177	-	-	-	367,177
Salaries and benefits	166,075	-	-	-	166,075
Travel	31,991	-	-	-	31,991
Incurred during the period	1,177,275	-	-	-	1,177,275
Less: government tax credit	(2,160,467)	-	-	-	(2,160,467)
Balance, July 31, 2009	9,001,208	-	-	-	9,001,208

Certain government authorities provide incentives to encourage mineral property exploration and development in their jurisdictions. Such incentives include the reimbursement of expenditures to the Company's qualifying activities. Reimbursements are subject to review and approval by government authorities on a specific expenditure basis and are recorded as a reduction of the related mineral expenditure or as a recovery of the related expense when the Company is advised that such reimbursement will be made to the Company.

During the period ended July 31, 2009, the Company received payments from Revenue Quebec and Ministry of Natural Resources in Quebec in the amounts of \$2,029,675 and \$130,792 respectively for reimbursement of certain exploration expenditures on the property.

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**Labrador Trough – Lac Otehluk Iron Ore Project, Nunavik, Quebec**

In November 2005 and amended on July 31, 2006 and November 23, 2006, the Company entered into an Option Agreement to earn a 100% interest in the Lac Otehluk iron deposit located in north-eastern Quebec. Consideration for the option agreement includes a 2.5% net smelter royalty from the sale of any minerals mined, subject to minimum royalty advances of \$150,000 by November 30 of each year to the commencement of production, and a combination of cash, shares and work commitments as follows:

	Option payments \$	Minimum work commitments \$	Common shares
On execution of the MOU (paid)	10,000	-	-
On exchange approval (paid and issued)	30,000	-	650,000
November 30, 2006 (issued)	-	-	650,000
December 31, 2006 (incurred)	-	500,000	-
November 30, 2007 (issued)	-	-	700,000
December 31, 2007 (incurred)	-	750,000	-
December 31, 2009 (incurred)	-	750,000	-
December 31, 2010 (incurred)	-	1,000,000	-
December 31, 2011 (incurred)	-	1,000,000	-
	40,000	4,000,000	2,000,000

The Company owns additional claims in and around Otehluk Lake and mineral claims in December Lake.

**Labrador Trough – Bedford Iron Ore Project, Newfoundland and Labrador**

In June 2008, the Company signed an agreement to acquire a 100% interest in the Bedford Iron Prospect, consisting of mineral claims in Labrador, by paying \$200,000 over the six-year option term. The Company also staked additional mineral claims directly adjacent to the Bedford Iron Prospect claims.

**MIE and UNAD Properties, Nunavut**

On May 31, 2009, the Company reached a settlement agreement with Gordon Addie and 072340B.C. Ltd. (“AddieCo”) on the transfer of all right, title and interests of MIE Metals Corporation, 5050 Nunavut Limited and UNAD Property to AddieCo through the sale of MIE shares. As of May 31, 2009, the Company will have no future cost obligations. Also effective May 31, 2009, the Company entered into a Net Smelter Return Royalty Agreement pursuant which the Company will earn from AddieCo a production royalty of 1% of net smelter returns applicable from production on the MIE Property.

**Mustavaara Property, Finland**

In July 2006, the Company entered into in an option agreement to earn a 70% interest in the Mustavaara property located in Finland. The agreement requires the Company to issue 80,200 common shares (issued), expend €250,000 (Euros) on the claims by June 30, 2007 (expended) and make further cash payments of €150,000 by June 30, 2007 (paid by issuance of 202,900 common shares), €200,000 by June 30, 2008 (paid by issuance of 354,750 common shares) and €400,000 upon completion of a bankable feasibility study by June 30, 2011. In view of recent market conditions, the Company may not be able to raise the funding to complete the feasibility study which will result in the loss of its entire interest in the project. At October 31, 2008, the Company wrote off the total amount of the carrying value of the project (\$2,304,039).

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**6. CONVERTIBLE DEBENTURE**

	Nine months ended July 31, 2009	Year ended October 31, 2008
Balance, beginning of period	7,577,860	\$ 4,408,877
Face value of Convertible Debenture issued during the period	-	10,000,000
Less: Shareholder's equity component	-	(2,207,021)
Less: Transaction costs, equity portion	-	(215,119)
Liability component of Subordinated Debenture	7,577,860	11,986,737
Add: Accretion of liability component of debenture	589,286	76,009
Less: Conversion of convertible debenture	-	(4,484,886)
Balance, end of period	8,167,146	7,577,860

On September 10, 2008, the Company issued a \$10-million unsecured subordinated convertible debenture. The debenture is convertible at a conversion price of \$0.90 per share if exercised on or prior to September 10, 2010, and at a price of \$0.99 per share if exercised on or before September 10, 2011. The debenture has a three-year term and bears interest at an annual rate of 7%. At July 31, 2009, interest of \$218,923 was accrued in interest payable in the current liabilities.

As part of the amended Port Agreement with ArcelorMittal on June 1, 2009, the Company has deferred its annual interest payment on the convertible debenture held by ArcelorMittal in the principal amount of \$6,450,000 for three years to September 10, 2012. At July 31, 2009, interest of \$397,762 was accrued in interest payable in the long-term liabilities.

**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
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**7. SHARE CAPITAL**

- a) Authorized  
 Unlimited Class A common shares, without par value
- b) Issued

	Nine months ended July 31, 2009		Year ended October 31, 2008	
	Shares #	Amount \$	Shares #	Amount \$
Common shares				
Balance, beginning of period	72,476,813	75,800,899	35,713,349	38,583,734
Private placements	-	-	29,625,626	31,999,964
Shares issued for mineral properties	-	-	1,054,750	1,075,275
Shares issued for finder's fees	-	-	1,138,326	1,249,789
Shares issued on option exercises	-	-	100,000	119,671
Shares issued on conversion of debenture	-	-	4,844,732	5,085,343
Less:				
- Finders' fees		-		(2,035,832)
- Share issue costs		-		(277,045)
- Disposal of MIE Metals Corporation (Note 5)		(112,500)		-
- Future income tax benefits on expenditures renounced to shareholders		(631,989)		-
Balance, end of period	72,476,813	75,056,410	72,476,783	75,800,899

The Company financed a portion of its resource property exploration through issuance of flow-through shares whereby the Company transfers the tax deductions arising from the related resource expenditures to the investors. On the date the Company renounces the tax credits associated with the resource expenditures and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced. During the nine months ended July 31, 2009, the Company recorded a future income tax liability of \$631,989 as a result of the exploration expenditures being renounced to investors in December 2008.

If the Company has sufficient unused tax loss carry forward to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carry forwards, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

- c) Warrants

The continuity of warrants is as follows:

	Number of warrants	Weighted average exercise price
Balance, October 31, 2007	1,276,134	\$ 1.65
Expired	(1,276,134)	(1.65)
Issued	94,116	1.00
Balance, October 31, 2008 and July 31, 2009	94,116	\$ 1.00

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d) Options

The continuity of options is as follows:

	Number of options	Weighted average exercise price
Balance, October 31, 2007	3,205,000	\$ 0.74
Granted	2,372,000	1.10
Expired	(607,000)	(1.13)
Exercised	(100,000)	(0.70)
Balance, October 31, 2008	4,870,000	0.87
Granted	3,100,000	0.29
Cancelled	(1,165,000)	0.92
Balance, July 31, 2009	6,805,000	\$ 0.85

As at July 31, 2009, the following options were outstanding:

Number of Options	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable
800,000	\$ 0.35	1.03	\$ 0.35	800,000
50,000	\$ 0.41	1.23	\$ 0.41	50,000
200,000	\$ 0.70	2.19	\$ 0.70	200,000
450,000	\$ 0.90	2.44	\$ 0.90	450,000
50,000	\$ 1.15	2.52	\$ 1.15	50,000
100,000	\$ 1.12	2.59	\$ 1.12	100,000
60,000	\$ 1.36	2.64	\$ 1.36	60,000
250,000	\$ 1.10	3.13	\$ 1.10	250,000
50,000	\$ 1.10	3.59	\$ 1.10	33,333
100,000	\$ 1.10	3.79	\$ 1.10	66,667
15,000	\$ 1.10	3.84	\$ 1.10	10,000
1,580,000	\$ 1.10	3.88	\$ 1.10	1,053,337
1,100,000	\$ 0.26	4.80	\$ 0.26	-
2,000,000	\$ 0.30	4.87	\$ 0.30	-
6,805,000		3.75	\$ 0.61	3,123,337

During the nine months ended July, 2009, under the fair-value method, \$660,519 (2008 - \$437,807) in stock-based compensation expense was recorded for options vested to directors, officers, employees and consultants. Of the stock-based compensation expense, \$408,819 (2008 - \$259,816) was included in salaries and benefits and \$52,808 (2008 - \$32,613) was included in investor relations in the statement of operations and \$31,852 (2008 - \$145,378) was capitalized in mineral properties and \$167,040 (2008 - \$nil) capitalized under port design and development.

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The fair value of share options used has been estimated using the Black-Scholes option pricing model with the following assumptions:

Nine months ended July 31,	2009	2008
Risk free interest rate	2.89%	2.90%
Expected dividend yield	-%	-%
Stock price volatility	113.6%	103%
Expected life of options	5 year	5 year
Fair value of options	\$0.48	\$0.38

**8. CONTRIBUTED SURPLUS**

	Nine months ended July 31, 2009	Year ended October 31, 2008
	\$	\$
Balance, beginning of period	2,270,515	1,393,081
Stock-based compensation for stock options	660,519	911,271
Stock-based compensation for broker warrants	-	15,834
Exercise of stock options	-	(49,671)
Balance, end of period	2,931,034	2,270,515

**9. RELATED PARTY TRANSACTIONS**

- a) Included in the period at their exchange amounts are the following items paid or accrued to directors and companies controlled by directors for services provided. Exchange amounts are the amounts agreed upon by the transacting parties on terms and conditions similar to arms-length transactions:

Nine months ended July 31,	2009	2008
	\$	\$
Management fees	225,463	112,815
Financial advisory fees	46,900	-
Consulting fees	300,000	-
Geological consulting fees	64,739	85,716

- b) Included in current liabilities at July 31, 2009, was \$319,305 (October 31, 2008 - \$102,760) payable to directors without interest.

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**10. COMMITMENTS**

a) The Company's commitments to equipment rentals and office lease are as follows:

	Equipment rentals \$	Office lease * \$
2009	4,368	41,544
2010	17,472	167,962
2011	16,859	173,323
2012	16,655	178,683
2013	7,634	184,044
2014	-	125,078

\* The Company is also committed to paying for actual operating costs and property taxes of the office premise. Future year commitments have been calculated based upon current period actual costs.

- b) In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, leasing agreements, land use agreements, etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.
- c) The Company is committed to certain cash payments, share issuances and exploration expenditures as described in Notes 3 and 5.

**11. SHORT-TERM INVESTMENTS**

Short-term investments consisted of guaranteed investment certificates held with a Canadian brokerage firm bearing interests from 0.8% to 3.0% per annum. At July 31, 2009, both the carrying value and fair market value were \$1,750,000 (2008 - \$3,800,000) plus accrued interests.

**12. NON-CASH TRANSACTIONS**

During the nine months ended July 31, 2009 and 2008, the following non-cash transactions occurred:

Nine months ended July 31,	2009 \$	2008 \$
Mineral properties included in accounts payable	106,897	722,190
Property and equipment included in accounts payable	491,897	-
Shares and warrants issued for financing	-	1,199,999
Shares issued for finder's fee of Brazore Holdings	-	49,789
Shares issued for mineral properties	-	1,187,275

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**13. SEGMENTED INFORMATION**

The Company has two reportable business segments: the exploration and development of mineral resource properties, and the development of an iron ore port facility in Brazil. The Company operates in three geographic segments. Geographic distribution of operating results in the geographic segments is as follows:

	Port Facility Development Brazil	Mineral Exploration Canada	Mineral Exploration Finland	Total
July 31, 2009	\$	\$	\$	\$
Total assets	54,007,848	11,998,415	31,778	66,038,041
Cash	250,672	773,622	31,778	1,056,072
Short-term investments	-	1,773,000	-	1,773,000
Property and equipment	34,827,869	167,480	-	34,995,349
Mineral properties	-	9,001,208	-	9,001,208
Intangible asset	18,884,276	-	-	18,884,276
Net loss	790,042	2,935,684	435,512	4,161,238

	Port Facility Development Brazil	Mineral Exploration Canada	Mineral Exploration Finland	Total
October 31, 2008	\$	\$	\$	\$
Total assets	49,814,325	18,661,998	31,085	68,507,408
Cash	298,952	1,903,325	31,085	2,233,362
Short-term investments	-	5,900,000	-	5,900,000
Property and equipment	32,018,752	192,825	-	32,211,577
Mineral properties	-	9,984,400	-	9,984,400
Intangible asset	17,386,718	-	-	17,386,718
Net (income) loss	(303,339)	11,622,577	72,055	11,391,293

**14. SUBSEQUENT EVENTS**

On August 18, 2009, the Company granted employees and consultants of the Company incentive stock options to purchase up to 600,000 common shares at an option price of \$0.55 per share. The options vest over an 18-month period and expire in 5 years. On June 16, 2009, the Company cancelled 250,000 incentive stock options granted to a director on June 20, 2008.



THE NEW PLAYER IN IRON ORE

**ADRIANA**  
RESOURCES INC.

**Management's Discussion and Analysis  
of the nine months ended July 31, 2009**

**dated September 15, 2009**



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## Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") of financial position and results of operations of Adriana Resources Inc. ("Adriana" or the "Company") was prepared as of September 15, 2009 and should be read in conjunction with the Company's unaudited consolidated financial statements for the nine months ended July 31, 2009 as well as the audited consolidated financial statements for the year ended October 31, 2008. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts included therein and in the following MD&A are expressed in Canadian dollars unless otherwise indicated. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Overview

The Company is engaged in the exploration and development of mineral properties in Canada and in the acquisition of iron ore resource properties and development of a port facility in Brazil. The Company is currently listed on the TSX Venture Exchange under the symbol "ADI".

### Iron Ore Port Development

The Company is developing an iron ore port facility in Brazil to facilitate the shipment of iron ore to the world's steel mills. The goal of the Company in Brazil is to become an integrated iron ore producer through owning iron ore resources and export facilities. The Company is currently undergoing the permitting process for the port construction.

On August 20, 2008, the Company reached an agreement (the "Port Agreement") with ArcelorMittal (subsequently amended on September 11, 2008, January 6, 2009, April 22, 2009 and June 1, 2009), the world's leading steel company, on the principal terms for the development of an iron ore port facility in the State of Rio de Janeiro, Brazil (the "Port"). The parties have until November 30, 2009 (with a further extension of an additional 6 months if required) to complete a definitive agreement.

Highlights of the Agreement with ArcelorMittal include the following material elements:

- Through a series of transactions, ArcelorMittal has an option to acquire 80% of the Port for total consideration of approximately \$40.5 million USD with Adriana holding the remaining 20% and pre-emptive rights until the Port reaches a capacity of 20 million tonnes per annum ("Mtpa"). ArcelorMittal will also have drag-along rights in respect of Adriana's shareholding in the port, subject to Adriana's right of first refusal;
- ArcelorMittal has the right to acquire up to 19.9% of the Company's common shares which represents up to \$25 million CDN (or up to approximately 24,900,000 common shares) in two private placements, including the \$6.45 million CDN convertible debenture acquired in September 2008;
- The parties will each fund their pro rata portion of the Port development costs estimated to total approximately \$250 million USD for the 10Mtpa port;
- Adriana anticipates that ArcelorMittal will assist Adriana in sourcing funding for Adriana's portion of the Port development costs ("Port Debt"). ArcelorMittal will use reasonable endeavours to assist Adriana in obtaining its portion of the Port Debt. Each party undertakes that it will be responsible for servicing and repaying its respective share of the Port Debt, consistent with its percentage ownership.

- The parties will share in the capacity of the Port in proportion to their ownership and Adriana expects to have a minimum of 2 Mtpa iron ore throughput with the planned development of the Port to 10Mtpa;
- ArcelorMittal and Adriana have agreed to investigate future strategic and mutually beneficial world-wide opportunities, subject to execution of a definitive agreement in relation to the Port by both parties; and
- Pursuant to the terms of the Port Agreement, the Company has agreed to acquire all of the third party owned interests in Brazore Holdings Ltd. ("Brazore Barbados"), of which the Company currently beneficially owns 60% of the outstanding issued share capital. The acquisition cost for the minority interest, held by Athena Resources L.L.C. ("Athena"), will be \$19.6 million USD. The Company and Athena have agreed that up to \$19.6 million USD of the purchase price will be paid in shares of the Company at a deemed price of \$1.10 CDN. In 2006, Athena brought the Port opportunity to Adriana based on Adriana management's previous successful track record within Brazil and ability to advance projects on a global scale.
- ArcelorMittal will fund a significant portion of Adriana's monthly costs and substantial third party consultant costs incurred in connection with the Port;

In connection with its unsecured convertible debenture in the amount of \$6.45 million, dated September 10, 2008 (see the Company's press release dated August 20, 2008), ArcelorMittal has agreed to a deferral of the annual 7% interest due and to a one-year extension of the expiry date of the convertible debenture. The revised expiry date of the convertible debenture is September 10, 2012.

In addition to the consolidation of the minority interest in Brazore Barbados, the Company has agreed to acquire the minority interests of its Brazilian subsidiary for consideration of approximately \$3.5 million USD. The Company and the minority interest holders have agreed that up to \$1 million USD of the purchase price may be paid in shares of the Company at a deemed price of \$1.10 CDN.

The Company's agreement with the Worldlink (Canada) Resources Ltd. ("Worldlink") in respect of port utilisation has been amended to match the Company's Port off-take capacity of 20%. The Port Agreement is subject to applicable regulatory and corporate approvals and the negotiation and execution of a definitive agreement by the parties.

The Company has also established a team of mining, port engineering, shipping and iron ore trading professionals to assist in advancing the Brazilian iron ore strategy. It is planned that Worldlink will assist the Company in the shipment of iron ore to China and in the development of off-take contracts with end users in Asia and Europe.

The Company intends to continue the advancement of the Port through the legally mandated comprehensive licensing process, which necessarily will include the submission, review and discussion of extensive and detailed environmental impact reports prepared by reputable specialists and the holding of public hearings. The Company remains of the view that its Port Proposal, as contemplated, will meet the environmental and technical requirements to be assessed by the mandated authorities and that studies being currently completed, will demonstrate that its project will have a significant positive impact on the economic growth of the local municipality, the state and the country.

## **Mineral Property Interests**

### **Labrador Trough – Lac Otelnuik Iron Ore Project, Nunavik, Québec, Canada**

The Lac Otelnuik Iron Project lies within the Labrador Trough in Northern Québec (Nunavik). The deposit is a Lake Superior-type iron formation or taconite that has been identified over a strike length of approximately 25 kilometres, based on exploration drilling and mapping in the 1970s. The gently dipping

iron formation that outcrops at surface is similar to the taconite deposits of the Mesabi Iron Range in Northern Minnesota, where iron mining has been carried out for over 100 years.

During the 2007 and 2008 field seasons, the Company drilled 67 diamond drill holes totalling 7,447 metres to test the 9 kilometre strike length of the South Zone of the deposit. The results from the 2007/2008 drilling program at Lac Otelnuik confirm a large, flat lying iron formation over an approximate area of 22.5 square kilometres. The targeted formation remains open along strike to the northwest and southeast. The North Zone, where drilling in the 1970s outlined the presence of a significant iron formation similar to that of the South Zone, has yet to be drill tested. The Lac Otelnuik iron ("Fe") formation is composed of individual stratigraphic units stacked one on top of each other, identified as Units 2 (upper), 3 (middle) and 4 (lower). For mapping and core logging purpose these Units have been subdivided into 8 Sub-units identified as Sub-units 2A, 2B, 2C, 3A, 3B, 3C, 4A and 4B, on the basis of lithology and iron content. The highest concentration of magnetite occurs in the Upper Iron Formation (Unit 2) followed by the Middle Iron Formation (Unit 3) and the Lower Formation (Unit 4).

Watts, Griffis and McOuat Limited ("WGM"), a Toronto based firm of independent consulting Geologists and Engineers, was retained to complete a National Instrument 43-101 Compliant Mineral Resource Estimate and Technical Report ("Report") of the South Zone ("Mineral Resource Estimate"). WGM modeled the upper five geological sub-units (2A, 2B, 2C, 3A and 3B) of the Lac Otelnuik iron formation for the Mineral Resource Estimate.

On March 23, 2009, the following Mineral Resource Estimate was completed by WGM and was filed on [www.sedar.com](http://www.sedar.com) on May 7, 2009:

Summary of Mineral Resource Estimate  
(using a Davis Tube Weight Recovery ("DTWR") cut-off grade of 18%)

Resource Classification	Tonnes (in Billions)	%Fe Head	DTWR %	% SiO <sub>2</sub>	%Fe DTC
<b>Indicated</b>	<b>4.29</b>	<b>29.08</b>	<b>27.26</b>	<b>3.53</b>	<b>68.00</b>
Inferred	1.97	29.24	26.55	3.51	68.12

Due to the uncertainty of Inferred Mineral Resources it cannot be assumed that all, or any part of this resource will be upgraded to an Indicated or Measured Resource as a result of continued exploration. To justify upgrading of the Mineral Resource to a Mineral Reserve, demonstrated economic viability is required. Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues. The project has been put on Care and Maintenance for the field season as the Company completes further engineering work, advances metallurgical studies and updates a previous scoping study completed in 2006.

Near term plans for the project include geo-metallurgical sampling and testing and an updated scoping study. During the quarter, the Company held successful meetings with the Québec Government in order to better familiarize the Government with the project and its potential.

Frank Condon, P. Eng, a director of the Company and a Qualified Person as defined by National Instrument 43-101 has reviewed and approved the technical disclosure of Lac Otelnuik project contained in this MD&A.

### Labrador Trough - Bedford Iron Prospect, Newfoundland and Labrador, Canada

In June 2008, the Company signed an agreement to acquire a 100% interest in the Bedford Iron Prospect, consisting of 94 mineral claims covering 2,350 hectares, located within the Labrador Trough of north-eastern Labrador, 25 kilometres northwest of Schefferville on the east side of Howells River. The Company also staked an additional 82 mineral claims totalling 2,050 hectares, directly adjacent to the Bedford Iron Prospect claims, bringing the land package of claims to 4,400 hectares. In June 2008, MPX

Geophysics Ltd. conducted a 670 line kilometre aero-magnetic helicopter survey of the property. The results of the survey identified a number of linear magnetic anomalies, several of which are coincident with magnetite iron formation identified in the field.

Follow up mapping, sampling and exploration drilling is planned for 2009.

### **Mustavaara Vanadium, Titanium, Iron Project, Finland**

The Mustavaara Project consists of 4 exploration claims measuring 356 hectares that cover the former vanadium producing mine and the adjacent mineralized horizon for a total strike length of five kilometres. The 1,800-metre-long open pit and extensions contain an open pit table, measured resource. (See the National Instrument 43-101 Technical report titled, "A Technical Review of the Mustavaara Vanadium Ore Deposit, Taivalkoski Commune, Finland", by Velasquez Spring and G. Ross MacFarlane of Watts, Griffis and McOuat Limited, and dated October 4, 2006, which is filed at [www.sedar.com](http://www.sedar.com)). The deposit remains open at depth and along strike.

The Company is continuing metallurgical studies to evaluate both hydrometallurgical and pyrometallurgical process routes in more detail prior to advancing the project through a pre-feasibility study. The Environmental Impact Assessment (EIA) program is ongoing. At the year ended October 31, 2008, the Company took a 100% write-off of the carrying value of the project.

The Company continues to evaluate alternative scenarios that will assist in advancing the Mustavaara project.

### **MIE, Bear Valley and Unad Projects, Nunavut, Canada**

In May 2009, the Company transferred ownership in the claims comprising the MIE Property to Gordon Addie and entered into a Net Smelter Return Royalty Agreement pursuant to which the Company will earn from Mr. Addie a production royalty of 1% of net smelter returns applicable from production on the MIE Property.

### **Changes to Directors and Officers**

In June 2009, the Company appointed Allen J. Palmiere as the Company's new President and Chief Executive Officer. Mr. Palmiere was appointed to the Board of Directors in July 2009.

Also in July 2009, Mr. Wilfried Struck, a founding director, stepped down from the Board of Directors and now holds a position on the Company's Advisory Committee.

In June 2009, Michael Beley stepped down from the position of President and Chief Executive Officer, and took on the new position of Chairman of the Board.

In April 2009, the Company appointed Mr. Colin Blyth, Mr. Julio Carvalho, Mr. Robert Power, and Mr. Donald Siemens to its Board of Directors. The Company also announced that Mr. Paul Fong and Dr. Joe Griebel stepped down from the Board.

### **Results of Operations**

#### ***For the three months ended July 31, 2009 and 2008***

The Company recorded a net loss of \$1,514,934 for the three months ended July 31, 2009, compared to a net loss of \$816,906 in the prior year's quarter. The increase of \$698,028 was primarily due to increases in bank charges and financing interest associated with the \$10 million convertible debenture, exploration expenditures in Finland's Mustavaara properties, professional fees and salaries and benefits which were partially offset by decreased expenses in conferences, investor relations, office and travel.

Bank charges and financing interest increased by \$357,381 during current year's three month period comparing to prior fiscal year's period due to interest charges on the debt financing from convertible debentures issued in September 2008.

Exploration expenditures increased by \$94,224 primarily due to metallurgical and environmental studies in Mustavaara project whereas expenditures of prior year's period were capitalized in mineral properties which were subsequently written off at the fiscal year end of 2008.

Professional fees increased by \$86,566 during the current three month period as compared to prior year's quarter due to the hiring of consultants reviewing iron ore projects and financial advisory services; and increase legal costs in Brazil overseeing various legal contracts and obligations.

Salaries and benefits increased by \$17,115 which was primarily due to the addition of personnel in Brazil as compared to the prior fiscal period.

### ***For the nine months ended July 31, 2009 and 2008***

Net loss for the nine month period ended July 31, 2009 was \$4,161,238, compared to a net loss of \$2,206,629 in 2008 for a total increase of \$1,954,609. The increase of loss was mainly from interest expenses in connection with financings, exploration expenditures, salaries and benefits, non-controlling interest and loss in foreign exchange.

### ***Expenses***

Bank charges and financial interest expenses increased by \$882,795 for the nine months ended July 31, 2009 compared to the same period ended in 2008 as a result of interests accrued on the \$10 million convertible debentures issued in September 2008.

Investor relations expenses decreased by \$89,942 for the current period ended July 31, 2009 as compared to the same period of the prior fiscal year as the Company continues to manage its conference spending.

Exploration expenditures increased by \$394,681 due to \$340,815 incurred from metallurgical studies and consulting fees for the Mustavaara project and \$22,207 expended in demobilizing the MIE project. The capitalized costs of both projects had been written off at the year ended October 31, 2008 and continue to be expensed as incurred.

Rent and office expenses decreased by \$17,389 during the nine months ended July 31, 2009 compared to the same period in 2008 due to allocating \$112,500 in applicable expenses to Brazil's port development project.

Salaries and benefits for the nine months period ended July 31, 2009, increased by \$132,205 as compared to 2008 due to the additions of personnel in Brazil and Toronto Canada, a severance payment and increased stock-based compensation charges in the current period as compared to the prior period. The increase was partially offset by an allocation of \$337,500 to Brazil's port development project.

### ***Other income and expenses***

Interest income decreased by \$101,998 for the current nine month period in 2009 compared to 2008 due to the decreased overall cash balances during the period and declining interest rates in 2009 from 2008.

Foreign exchange gain was reduced by \$114,297 for the nine months ended July 31, 2009 compared to the same period of prior fiscal year. The decrease was a result of the strengthening US dollar against the Brazilian Real and the Canadian dollar.

Non-controlling interest decreased by \$293,832 during the nine month period in 2009 compared to the same period in 2008 due to the recording of an unrealized foreign exchange gain at October 31, 2008.

## Summary of Quarterly Results

	2009			2008			2007	
	Jul 31	Apr 30	Jan 31	Oct 31	Jul 31	Apr 30	Jan 31	Oct 31
Revenues	-	-	-	-	-	-	-	-
Net income (loss)	(1,514,934)	(1,406,702)	(1,239,602)	(9,184,664)	(816,906)	(853,803)	(535,920)	(700,220)
Net income (loss) per share								
- basic and diluted	(0.02)	(0.02)	(0.02)	(0.14)	(0.01)	(0.01)	(0.01)	(0.02)

The Company's expenses and net loss have increased on average over the last eight quarters due to the Company's expansion as it advances its business plan of exploring and developing its mineral and port projects. The Company recorded a write-down of mineral property interests of \$9,108,999 during the fourth quarter ended October 31, 2008 due to the impairment of the MIE and Mustavaara mineral projects.

### Liquidity

The Company's cash decreased to \$1,056,072 at July 31, 2009 from \$2,233,362 at October 31, 2008. The Company held \$1,773,000 in short term investments as at July 31, 2009 compared to \$5,900,000 at October 31, 2008. The Company's working capital was \$1,742,047 as at July 31, 2009, compared to working capital of \$6,257,545 as at October 31, 2008.

Economic and industry factors are substantially unchanged since the end of the previous fiscal year.

The Company has no current source of operating revenue and expects to fund its future operations by way of equity or debt financings, or a combination of both.

During the nine months ended July 31, 2009, the Company used \$2,174,467 of its cash on property and equipment acquisitions, which primarily consisted of a royalty payment of \$303,850, consulting and engineering of the port lands in Brazil. This compares with \$21,808,581 spent in property and equipment purchases in the comparative period which mainly consisted of the purchase of port land in Brazil. The Company used \$1,038,529 of its cash on the Lac Otelnuk mineral property during the nine months period ended July 31, 2009 as compared to \$2,865,176 in the prior year on the Lac Otelnuk, Mustavaara and MIE properties.

### Capital Resources

As at the date of this MD&A, the Company has no other arrangement for sources of financing.

To keep the Company's projects in good standing, the Company is required to make cash payments and fulfill work program expenditures. The Company has no long term debt other than the convertible debentures but does have office lease and office equipment obligations as disclosed in its consolidated financial statements.

### Transactions with Related Parties

During the nine months ended July 31, 2009, the Company paid or accrued \$64,739 (2008 - \$85,716) in geological consulting fees, \$225,463 (2008 - \$112,815) in management fees to a past employee of the Company, \$46,900 (2008 - nil) in financial advisory fees to a director of the Company, \$300,000 (2008 - nil) in consulting fees to a director of the Company; and to companies controlled by directors of the Company. As of July 1, 2008, the Company retained the services of Hemmingsen Management Ltd., ("Hemmingsen"). Hemmingsen is a private company owned equally by the Company and Hawthorne Gold Corp., which have certain directors and officers in common with the Company. Hemmingsen provides geological, technical, corporate development, administrative and management services to the Company on a cost recovery basis.

## Disclosure of Outstanding Share Data

The following details the share capital structure as of the date of this MD&A.

	Expire date	Exercise price \$	Number of securities	Number of shares
Common share				72,707,945
Convertible debentures	September 10, 2011	0.90/0.99	3,944,444	
	September 10, 2012	0.90/0.99	<u>7,166,665</u>	11,111,109
Share purchase options	August 11, 2010	0.35	800,000	
	October 24, 2010	0.41	50,000	
	October 11, 2011	0.70	200,000	
	January 10, 2012	0.90	450,000	
	February 8, 2012	1.15	50,000	
	March 4, 2012	1.12	100,000	
	March 20, 2012	1.36	60,000	
	September 16, 2012	1.10	250,000	
	March 5, 2013	1.10	50,000	
	May 15, 2013	1.10	100,000	
	June 1, 2013	1.10	15,000	
	June 19, 2013	1.10	1,330,000	
	May 21, 2014	0.26	1,100,000	
	June 14, 2014	0.30	2,000,000	
	August 17, 2014	0.55	<u>600,000</u>	<u>7,155,000</u>
				<u>90,974,054</u>

## Risks and Uncertainties

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance in all material respects with regulations applicable to its exploration and development activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted.

Before production and construction can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company has incurred losses since its inception and will not achieve profitability until such time as one of its projects, assuming a favourable feasibility study, can be developed into a profitable operation.

## Cautionary Statement

This MD&A may contain “forward looking statements” that reflect the Company’s current expectations and projections about its future results. When used in this MD&A, words such as “estimate”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company’s future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and factors may include, but are not limited to: unavailability of financing, unfavourable studies regarding the Company’s Projects, fluctuations in the

market valuation for metal prices, difficulties in obtaining required approvals or permits for the development of a mine or port and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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