



**Consolidated Financial Statements**

**For the Year Ended October 31, 2010**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

Management is responsible for the preparation of the consolidated financial statements. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on estimates and judgments of management.

Management maintains accounting and internal control systems to produce reliable financial statements and provide reasonable assurance that assets are properly safeguarded. Deloitte & Touche LLP, Chartered Accountants, appointed by shareholders, conducted an audit on the Company's consolidated financial statements. Their report is included. The consolidated financial statements for 2009 were reported upon by another firm of auditors.

The board of directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting. The board of directors carries out this responsibility through its audit committee composed of three independent directors.

The audit committee meets periodically with the external auditors, with and without the presence of management, to review the consolidated financial statements and to discuss audit and internal control related matters.

On recommendation of the audit committee, the board of directors approved the Company's consolidated financial statements.

*"Allen J. Palmiere (signed)"*  
Allen J. Palmiere  
*President and Chief Executive Officer*

*"Norman L. Calder (signed)"*  
Norman L. Calder  
*Chief Financial Officer*

## AUDITORS' REPORT

To the Shareholders of Adriana Resources Inc.

We have audited the consolidated balance sheet of Adriana Resources Inc. ("Company") as at October 31, 2010 and the consolidated statements of loss and comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at October 31, 2009 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 22, 2010.

*Deloitte & Touche LLP*

**Chartered Accountants  
Licensed Public Accountants**

Toronto, Ontario  
January 6, 2011, except for note 16 which is as of January 17, 2011

**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheets**  
**As at October 31, 2010 and 2009**  
**(Expressed in Canadian dollars)**

	2010	2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 1,879,633	\$ 361,869
Other receivables	494,988	772,936
Prepaid expenses	103,201	109,968
	<u>2,477,822</u>	<u>1,244,773</u>
<b>Capital assets (Note 5)</b>	68,923,389	63,240,169
	<u>\$ 71,401,211</u>	<u>\$ 64,484,942</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,145,664	\$ 3,887,835
Due to related parties (Note 11)	-	3,570
Current portion of interest payable (Note 6)	34,117	48,716
Convertible debentures, current portion (Note 6)	3,273,373	-
	<u>7,453,154</u>	<u>3,940,121</u>
<b>Interest payable (Note 6)</b>	1,034,863	443,448
<b>Convertible debentures (Note 6)</b>	5,678,968	8,248,928
<b>Future income tax liabilities (Notes 5 a) and 13)</b>	7,236,990	6,504,919
	<u>21,403,975</u>	<u>19,137,416</u>
<b>Non-controlling interest (Note 7)</b>	11,350,566	11,262,880
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 8 b))</b>	84,309,312	75,296,033
<b>Equity portion of convertible debentures</b>	2,207,021	2,207,021
<b>Warrants (Note 8 d))</b>	530,552	-
<b>Contributed surplus (Note 9)</b>	4,667,714	3,273,206
<b>Deficit</b>	<u>(53,067,929)</u>	<u>(46,691,614)</u>
	<u>38,646,670</u>	<u>34,084,646</u>
	<u>\$ 71,401,211</u>	<u>\$ 64,484,942</u>

Going concern and nature of operations (Note 1)  
 Commitments and contingencies (Note 12)  
 Subsequent events (Note 16)

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

Approved on behalf of the Board of Directors:

Signed: "Ronald P. Gagel"  
 Director

Signed: "Donald Siemens"  
 Director

**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Loss and Comprehensive Loss and Deficit**  
**For the years ended October 31, 2010 and 2009**  
**(Expressed in Canadian dollars)**

	2010	2009
<b>Administrative expenses</b>		
Amortization	\$ 36,542	\$ 76,684
Business development	137,485	169,385
Conferences	21,805	90,774
Interest and accretion on convertible debentures	1,563,897	1,266,310
Investor relations	183,668	433,907
Professional and consulting fees	1,091,215	759,910
Rent and office expenses	525,655	865,550
Salaries and benefits	1,599,139	2,013,923
Stock-based compensation (Note 8 c))	1,136,406	956,992
Transfer agent and filing fees	47,955	32,285
Travel	45,627	187,083
<b>Loss before the following:</b>	<b>6,389,394</b>	<b>6,852,803</b>
<b>Other (income) expenses</b>		
Exploration expenditures	-	513,798
Property investigation	-	86,458
Interest income	(7,938)	(106,409)
(Gain) loss on foreign exchange	(257,451)	148,340
Loss realized on former premises	367,466	-
Loss on disposal of capital assets	-	158,394
Write-off of mineral property interests and land acquisition costs (Notes 5 a) and 5 b))	200,183	1,464,055
Non-controlling interest (Note 7)	(336,270)	(1,207,010)
(Gain) loss on disposal of mineral property interests (Note 5 b))	(375,716)	20,705
<b>Loss before income taxes</b>	<b>5,979,668</b>	<b>7,931,134</b>
Future income tax recovery (Note 13)	(321,000)	(631,989)
<b>Loss and comprehensive loss for the year</b>	<b>5,658,668</b>	<b>7,299,145</b>
<b>Deficit, beginning of the year (Note 3 m))</b>	<b>47,409,261</b>	<b>39,392,469</b>
<b>Deficit, end of the year</b>	<b>\$ 53,067,929</b>	<b>\$ 46,691,614</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.07)</b>	<b>\$ (0.10)</b>
<b>Weighted average number of shares outstanding</b>	<b>81,516,902</b>	<b>72,518,607</b>

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

**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash Flows**  
**For the years ended October 31, 2010 and 2009**  
**(Expressed in Canadian dollars)**

	<b>2010</b>	<b>2009</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the year	\$ (5,658,668)	\$ (7,299,145)
Items not involving cash:		
Amortization	36,542	76,684
Unrealized portion of foreign exchange (gains) losses	(289,253)	216,722
Accretion on convertible debentures	703,413	671,068
Stock-based compensation	1,136,406	956,992
Provision for loss on former premises	281,000	-
Loss on disposal of capital assets	-	158,394
Write-off of mineral property interests and land acquisition costs	200,183	1,464,055
Non-controlling interest	(336,270)	(1,207,010)
(Gain) loss on disposal of mineral property interests	(375,716)	70,705
Future income tax recovery	(321,000)	(631,989)
	(4,623,363)	(5,523,524)
Changes in non-cash working capital:		
Receivables and other current assets	319,728	(141,553)
Accounts payable and accrued liabilities	548,170	(1,912,943)
<b>Cash used in operating activities</b>	<b>(3,755,465)</b>	<b>(7,578,020)</b>
<b>Investing activities</b>		
Proceeds from short-term investments	-	5,900,000
Port facility expenditures	(405,302)	(1,315,903)
Mineral property expenditures	(4,794,670)	(1,356,249)
Office equipment expenditures	(25,448)	-
Proceeds from disposal of mineral property interests	375,716	-
Proceeds from government tax credits	-	2,478,679
<b>Cash (used in) provided by investing activities</b>	<b>(4,849,704)</b>	<b>5,706,527</b>
<b>Financing activities</b>		
Proceeds from share issuances, net of issue costs	10,096,642	-
Proceeds from options exercised	26,291	-
<b>Cash provided by financing activities</b>	<b>10,122,933</b>	<b>-</b>
<b>Increase (decrease) in cash</b>	<b>1,517,764</b>	<b>(1,871,493)</b>
<b>Cash, beginning of the year</b>	<b>361,869</b>	<b>2,233,362</b>
<b>Cash, end of the year</b>	<b>\$ 1,879,633</b>	<b>\$ 361,869</b>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 256,629	\$ 256,629

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

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**ADRIANA RESOURCES INC.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009**  
**(Expressed in Canadian Dollars)**

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**1. GOING CONCERN AND NATURE OF OPERATIONS**

Adriana Resources Inc. (and its subsidiaries, collectively the “Company”) was incorporated under the laws of British Columbia and continued under the Canada Business Corporations Act. The Company’s principal business activities include the acquisition, exploration and development of resource properties including its Lac Otelnuk Iron Ore Project in Nunavik, Québec (the “Lac Otelnuk Property”) and the development of an iron ore port facility in Brazil (the “Port Facility”). The Company’s Class A common shares (“Common Shares”) are listed on the TSX Venture Exchange under the symbol ADI.V.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which assume that the Company will be able to meet its obligations and continue its operations for its next financial year. Realization values may be substantially different from carrying values as shown and these consolidated 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.

The Company has no source of operating cash flows, has not yet achieved profitable operations, and has accumulated losses to October 31, 2010 of \$53,067,929 since its inception and expects to incur further losses in the development of its business, all of which cast 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 Company obtaining additional equity and/or debt financing and/or a new strategic partner, and obtaining the necessary permits in connection with the development of its Lac Otelnuk Property and the Port Facility. There is no assurance that such financing and/or strategic partnership or the necessary permits will be obtained on favourable terms or at all. Failure to obtain such financing and/or strategic partnership and the necessary permits could result in the delay or indefinite postponement of further exploration and development of the Lac Otelnuk Property and the Port Facility and may result in the Company not meeting any of its operational and capital requirements.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

The following accounting standards were issued by the Canadian Institute of Chartered Accountants (“CICA”) in 2009 and 2010. These accounting standards, other than convergence with International Financial Reporting Standards (“IFRS”), will be adopted on a prospective basis with no restatement to prior period financial statements.

*Business Combinations / Consolidated Financial Statements / Non – Controlling Interests (CICA Handbook Sections 1582, 1601 and 1602)*

In January 2009, the CICA adopted Sections 1582, “*Business Combinations*”, 1601, “*Consolidated Financial Statements*”, and 1602, “*Non-Controlling Interests*” which superseded current sections 1581, “*Business Combinations*” and 1600, “*Consolidated Financial Statements*”. These sections will be applied 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. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP to IFRS.

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*Comprehensive Revaluation of Assets and Liabilities (Section 1625) and Equity (Section 3251)*

As a result of issuing Sections 1582, 1601 and 1602, Section 1625 has been amended and is effective prospectively beginning on or after January 1, 2011. Section 3251, *Equity*, has been amended as a result of issuing Section 1602 and applies to entities that have adopted this Section. Adoption of this standard is not expected to have a material effect on the Company's financial statements.

*Financial Instruments – Recognition and Measurement (Section 3855)*

Section 3855 has been amended to clarify (i) the application of the effective interest method after a debt instrument has been impaired, and (ii) when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These amendments apply to interim and annual financial statements beginning on or after January 1, 2011. The Company does not expect any significant impact on its financial position, operating results or disclosure on adopting the amended Section 3855.

*Convergence with International Financial Reporting Standards*

In February 2008, the Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company's first mandatory filing under IFRS, which will be for the quarter ending January 31, 2012, will contain IFRS-compliant information on a comparative basis, as well as reconciliations for that quarter and as at the November 1, 2010 transition date. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. The Company has developed a plan for IFRS convergence and has started the implementation process. Detailed analysis of the differences between IFRS and the Company's accounting policies and assessment of the various alternatives for first time adoption of IFRS will shortly be in progress. Training for key employees has begun and will continue throughout the implementation. The Company is not currently in a position to fully determine the impact on the consolidated results on transition to IFRS.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Basis of Presentation and Consolidation**

These consolidated financial statements have been prepared in accordance with Canadian GAAP. They include the accounts of the following subsidiaries (wholly-owned unless otherwise indicated), Brazore Resources Inc., Brazore Holdings Ltd. (Brazore Holdings") (60%), Brazore Representação, Importação, Exportação e Consultoria Ltda. ("Brazore Ltda.") (effective interest 56.1%), Adriana Resources Mineracao Ltda., Adriana Resources (BVI) Inc. (inactive), Adriana Resources Mexico, SA de CV (inactive) and Adriana Mining Corporation. The 60%-owned subsidiary Brazore Holdings Ltd. with its 93.5%-owned subsidiary Brazore Ltda. are collectively referred to as "Brazore" in these consolidated financial statements. All significant intercompany transactions and balances have been eliminated.

#### **b) Capital Assets**

*Port Facility*

Included in the value of the land portion of the Port Facility (Note 5 a)) is an amount representing the premium paid to acquire the land and develop the Port Facility.

Port design and development costs are not amortized until the construction of the Port Facility is completed and the facility is brought into use.

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The Company reviews the carrying value of the Port Facility for impairment when facts or changes in circumstances indicate that the carrying value may not be recoverable. The amount of impairment, if any, is determined by assessing recoverability based on expected discounted future cash flows. Any impairment in the carrying value is charged to earnings in the period incurred.

*Mineral Properties*

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs related to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production or sold or management has determined that there has been an impairment of the value. These costs will be amortized on the basis of units produced in relation to the mineable reserves and resources available on the related property following commencement of production.

The amounts shown for mineral properties represent costs net of write-offs and do not necessarily reflect present or future value. Recoverability of these amounts will depend upon the existence of economically recoverable reserves, successful applications for environmental and operating permits and the ability of the Company to obtain the necessary financing and/or form a strategic partnership to complete development and future profitable production.

The Company reviews the carrying value of mineral properties when there are any events or changes in circumstances that may indicate impairment. Where estimates of future cash flows are available, an impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in carrying value of properties are recorded to the extent the net book value of the property exceeds the discounted value of future cash flows. Where estimates of future cash flows are not available and where the conditions suggest impairment, management assesses if the carrying value can be recovered and provides for impairment if so necessary.

*Office*

Office capital assets are recorded at cost less accumulated amortization which is recorded over the useful lives of the assets on the declining balance basis at the following rates:

Computer equipment	30%
Office furniture and equipment	20%
Leasehold improvements	20%
Computer software	100%

**c) Asset Retirement Obligations**

The Company recognizes a liability for an asset retirement obligation on long-lived assets when a legal or regulatory obligation exists and the amount of the liability is reasonably determinable. Asset retirement obligations are calculated on discounted future payment estimates and the liability is accreted over the expected term of the obligation. The amount of the liability will be subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost of estimates. The Company did not identify any asset retirement obligations at October 31, 2010 and 2009.

**d) Non-controlling Interest**

Non-controlling interest exists in less-than-wholly-owned subsidiaries of the Company through the principles of consolidation and represents the third party's share of the carrying values of the

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subsidiaries. The subsidiaries' earnings and losses are included in their entirety in the Company's net operations and are then adjusted to reflect the pro-rata share of the non-controlling interest.

**e) Stock-based Compensation**

The Company has a stock option plan, which is described in Note 8. Stock options are recorded at their fair value over their vesting period as compensation expense. Additionally, compensation options issued in connection with common share placements are recorded at their fair value at the date of issue as share issuance costs. An offset is made to contributed surplus. On the exercise of such options, share capital is credited for the consideration received together with the fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

**f) Share Purchase Warrants**

The Company may issue share purchase warrants in connection with common share placements. Such warrants are recorded at their fair value at the date of issue as a component of equity. On the exercise of such warrants, share capital is credited for the consideration received together with the fair value amounts previously credited to equity. The Company uses the Black-Scholes option pricing model to estimate the fair value of share purchase warrants.

**g) Flow-through Financing**

Canadian tax legislation permits the Company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the investors. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be made, a future income tax liability is recognized and share capital is reduced.

If the Company has sufficient unused tax loss carry forwards 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.

**h) Income Taxes**

The Company accounts for income taxes under the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

**i) Loss per Share**

The Company uses the treasury stock method in computing loss per share. Under this method, basic loss per share is computed by dividing losses available to common shareholders by the weighted average number of common shares outstanding during the year. For the years ended October 31, 2010 and 2009, basic and diluted losses per share are the same, as the effect of potential issuances of shares under outstanding warrants or options is anti-dilutive.

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**ADRIANA RESOURCES INC.**  
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**j) Foreign Currency Translation**

Transactions and balances in currencies other than the Canadian dollar are translated using the temporal method. Accordingly, revenues, expenses and non-monetary balances are translated at the rates of exchange prevailing at the transaction dates, and monetary balances are translated at the rate prevailing at the balance sheet date with the resulting exchange gains and losses being included in the determination of net loss.

**k) Use of Estimates and Measurement Uncertainty**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of management estimates include assessments of the recoverability and carrying value of mineral properties, determination of fair value and impairment of property and equipment and intangibles, rates for amortization of capital assets, assumptions used in determining the fair value of stock-based compensation and valuation allowances for future income tax assets. These estimates are based on management's best judgment. Actual results could differ from these estimates. Future events and risk factors inherent in the mining industry could result in changes in these estimates and assumptions.

The Company's investments in Brazil are exposed to various risks and uncertainties, as are any companies operating in a foreign jurisdiction. Such uncertainties include changes in political climate, government regulations, environmental legislation, land use and currency controls

**l) Financial Instruments**

Financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as held for trading, available-for-sale and derivative financial instruments, whether part of a hedging relationship or not, are measured at fair value on the balance sheet at each reporting date. All other financial instruments are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

- Cash is classified as a financial asset held for trading and is measured at fair value.
- Other receivables are classified as loans and receivables and are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities, including interest payable, are classified as other liabilities and are measured at amortized cost using the effective interest method.
- Convertible debentures are classified as other liabilities and are measured at amortized cost using the effective interest method.

**m) Accounting Adjustments**

In 2010, an error was discovered pertaining to the calculation of prior years' future income tax liabilities. This error is not material to the periods to which it relates; however, correcting it in the first quarter of 2010 would have materially distorted the net loss for that quarter. Accordingly, the error was corrected by increasing both the opening deficit and the future income tax liability by \$717,647 as at November 1, 2009.

**ADRIANA RESOURCES INC.**  
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**(Expressed in Canadian Dollars)**

**4. FINANCIAL INSTRUMENTS**

The fair values of other receivables, accounts payable and accrued liabilities, due to related parties and convertible debentures are considered by management of the Company to be a reasonable approximation of their carrying values due to their short term to maturity.

Instrument	Classification	Carrying Value at	
		October 31 2010	October 31 2009
Other receivables	Loans and receivables	\$ 494,988	\$ 772,936
Accounts payable and accrued liabilities	Other liabilities	4,179,781	3,936,551
Due to related parties	Other liabilities	-	3,570
Convertible debentures, current and non-current	Other liabilities	8,952,341	8,248,928

**5. CAPITAL ASSETS**

Capital assets consist of the following:

	October 31, 2010 Cost	Accumulated Amortization	Net Book Value
Port Facility	\$ 55,286,391	\$ -	\$ 55,286,391
Mineral properties	13,505,360	-	13,505,360
Office	182,088	50,450	131,638
	<b>\$ 68,973,839</b>	<b>\$ 50,450</b>	<b>\$ 68,923,389</b>

  

	October 31, 2009 Cost	Accumulated Amortization	Net Book Value
Port Facility	\$ 54,144,766	\$ -	\$ 54,144,766
Mineral properties	8,925,658	-	8,925,658
Office	185,249	15,504	169,745
	<b>\$ 63,255,673</b>	<b>\$ 15,504</b>	<b>\$ 63,240,169</b>

**a) Port Facility**

The Company currently holds an effective 56.1% indirect interest in the Port Facility through a 60% owned indirect subsidiary, Brazore Holdings, which owns a 93.5% interest in Brazore Ltda., the Company's Brazilian subsidiary which owns and is developing the Port Facility. Under the terms of a 2007 agreement between Brazore Holdings and Brazore Ltda. and the latter's minority shareholders, Brazore Holdings' interest will be increased to 96.75%, equivalent to a 58.5% indirect interest by Adriana, upon Brazore Ltda.'s expenditures on the Port Facility exceeding US\$55,000,000.

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**ADRIANA RESOURCES INC.**  
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*Acquisition of Brazore Holdings Ltd.*

Pursuant to an agreement dated August 21, 2007 with Athena Holdings LLC ("Athena") (the "Brazore Transaction"), the Company transferred a 50% interest in its subsidiary, 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 by funding Brazore Ltda.'s plan to develop the Port Facility as follows: (i) a first tranche of US\$5,000,000 by October 20, 2007 to maintain a 50% ownership interest and (ii) a second tranche of US\$17,000,000 by November 29, 2007 to earn a 60% interest. The US\$22,000,000 (the "Two Tranches") provided funding for the purchase of certain of the land for the Port Facility and for initial engineering and other environmental studies. On April 1, 2009, the Company provided notice to Athena that it would not proceed with the funding of an additional US\$33,000,000 to earn a 75% interest in Brazore. The existing agreement does not provide for any capital contributions by Athena, nor for any additional dilution of Athena's interest beyond that provided for above. As of October 31, 2010, the Company has advanced an additional US\$10,066,000 million in excess of the Two Tranches which has been used to fund the continued advancement of the Port Facility in Brazil.

Pursuant to the Brazore Transaction, the Company agreed to pay to Athena a royalty of US\$0.50 per dry tonne of iron ore transported or shipped through the Port Facility up to an aggregate maximum of \$3.0 million. The royalty was payable as an advance royalty of US\$250,000 in equal consecutive quarterly instalments to the maximum amount. To October 31, 2009, the Company had paid five advance royalty instalments totalling US\$1,250,000 which had been capitalized under the Port Facility. No further advance payments have been made since that date, pending resolution of certain financial discussions between the parties.

Further, pursuant to the Brazore Transaction, the Company paid a finder's fee to Alper Consulting Inc. of \$350,000 by issuing 47,418 Common Shares at \$1.05 in 2008 and 231,132 Common Shares at \$0.55 in 2009 and by paying the aggregate amount of \$173,088 in 2008 and 2009.

In accordance with EIC 124, the Brazore Transaction was considered to be an asset acquisition for accounting purposes since Brazore did not constitute a business. 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 is added to the cost of the asset since that forms part of the cost of acquisition. Accordingly, the Company has recorded the surplus of the asset's carrying amount as an addition to the asset, which includes the income tax effect in accordance with Brazilian income tax rates. At October 31, 2010, this addition comprises \$19,774,471 of the asset and the associated future income tax liability was \$7,236,990 (2009 - \$19,132,114, \$6,504,919, respectively).

During 2009, the amount of \$1,464,055, representing the acquisition costs of two plots of land, was written off as, under the environmental permitting application submitted in 2009, the lands were no longer required. No such write-offs occurred in 2010.

As at October 31, 2010, the primary tangible asset of Brazore was the land for the Port Facility, comprised of certain parcels on the coast of Brazil purchased in December 2007 and on the adjacent island purchased in 2008.

Costs capitalized to the Port Facility include permitting, environmental, geological, topographical, seismic surveying, travel to port site and royalty payments paid to Athena as described above.

Port Facility transactions during the 2009 financial year included the write-off of costs associated with certain components of the Port Facility's land interests in the amount of \$1,464,055; and accounting for ArcelorMittal's funding of a portion of the Company's monthly Port Facility project costs. No similar transactions occurred in 2010.

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*Port Option Agreement*

On August 20, 2008, the Company entered into an option agreement (the "Port Option") with ArcelorMittal in connection with the proposed development of the Port Facility. Pursuant to the Port Option as amended (i) ArcelorMittal had an option to acquire 80% of the Port Facility for a total consideration of approximately US\$40.5 million with the Company holding the remaining 20% and pre-emptive rights until the Port Facility reached a capacity of 20 million tonnes per annum; (ii) ArcelorMittal had the right to acquire up to 19.9% of the Common Shares and had certain additional rights associated therewith. The Port Option was subject to, among other things, applicable regulatory and corporate approvals and the negotiation and execution of a definitive agreement.

On June 1, 2009, the Company and ArcelorMittal extended the Port Option for a period of six months to be followed by further six-month extensions unless otherwise terminated by ArcelorMittal. The parties also amended the Port Option to provide for, amongst other items, the extension to September 10, 2012 of the maturity date of the \$6.45 million unsecured convertible debenture issued by the Company on September 10, 2008 to ArcelorMittal and the deferral of annual interest payments of 7% due to ArcelorMittal under this debenture to the maturity date thereof. On November 27, 2009, ArcelorMittal terminated the Port Option.

The Port Facility consists of the following land costs and port design and development expenditures:

	October 31 2009	Additions	October 31 2010
Land	\$ 39,369,347	\$ -	\$ 39,369,347
Port design and development	14,775,419	1,141,625	15,917,044
	\$ 54,144,766	\$ 1,141,625	\$ 55,286,391

**b) Mineral Properties**

*Labrador Trough, Nunavik, Québec*

The Company's Labrador Trough projects are comprised of the Lac Otelnuk Iron Ore Project and the December Lake Iron Ore Prospect and, in 2009, the Bedford Iron Ore Prospect.

**i) Lac Otelnuk Iron Ore Project, Nunavik, Québec**

On November 30, 2005, the Company entered into an option agreement (the "Lac Otelnuk Option") to earn a 100% interest in certain claims comprising part of the Lac Otelnuk Property. The Company has also staked additional mineral claims directly adjacent to and surrounding the claims subject to the Lac Otelnuk Option. Pursuant to the Lac Otelnuk Option, as amended, the optionor is entitled to a combination of cash, shares and work commitments, all of which have been fulfilled, and a royalty (the "Lac Otelnuk Royalty") equal to (i) 2.5% from the sale of iron ore products mined from the claims subject to the Lac Otelnuk Option payable commencing in 2015 or earlier on commencement of commercial production with a minimum production royalty based on a certain specified pellet price and a minimum production of 10 million metric tonnes; and (ii) 2.5% net smelter returns from the sale of any other minerals mined from such properties annually. The Lac Otelnuk Royalty is subject to minimum advances of \$150,000 payable by November 30 of each year until commencement of commercial production. The Company has made all such necessary minimum payments to date. The Company may purchase one-half of the Lac Otelnuk Royalty for \$5.5 million at any time prior to December 31, 2015 and for \$11 million thereafter.

The Company has filed an application with the Quebec Superior Court for a judicial Interpretation of certain provisions of the Lac Otelnuk Option agreement relating to a portion of the Lac Otelnuk

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Property. The clauses for which clarification is sought relate to the timing of the exercise of the option and the royalty payments.

**ii) December Lake Iron Ore Prospect, Nunavik, Québec, Canada**

The Company owns 159 mineral claims totalling approximately 74 square kilometres near December Lake which is 65 kilometres from the Lac Otelnuk Property and 230 kilometres north of Schefferville, in the Nunavik region of Northern Québec. The Company has identified over 20 kilometres of untested magnetic anomalies on this property and has access to certain historical work, not NI 43-101 compliant, completed on this property..

**iii) Bedford Iron Ore Prospect, Newfoundland and Labrador**

In June 2008, the Company entered into an option agreement to acquire a 100% interest in the Bedford Iron Ore Prospect, consisting of certain mineral claims in Labrador by, among other things, paying \$200,000 over the six-year option term, of which \$30,000 had been paid as of October 31, 2009. The agreement was terminated as of July 17, 2010 with no further payments and the Company wrote off incurred costs of \$200,183.

Mineral properties consist of the following deferred expenditures pertaining to the Labrador Trough projects:

	2010	2009
Balance, beginning of year	\$ 8,925,658	\$ 9,984,400
Acquisition and maintenance	194,652	240,381
Camp and expediting	1,851,887	49,222
Drilling and demobilization	1,463,697	-
Equipment	258,612	-
Geochemistry and metallurgical	287,375	89,308
Geological and geophysics	46,630	244,684
Environmental	134,601	70,353
Professionals and consultants	176,532	386,908
Salaries and benefits	11,905	207,314
Surveying	232,356	85,400
Travel	121,638	46,367
Incurred during the year	4,779,885	1,419,937
	13,705,543	11,404,337
Less: government tax credits	-	(2,478,679)
Less: written off on abandonment	(200,183)	-
Balance, end of year	\$ 13,505,360	\$ 8,925,658

Certain government authorities provide incentives to encourage mineral property exploration and development in their jurisdictions. Such incentives include the reimbursement of expenditures for 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.

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During the year ended October 31, 2009, the Company received from Revenue Québec and Ministry of Natural Resources of Québec the amounts of \$2,029,675 and \$449,004 respectively as reimbursement of certain exploration expenditures incurred on the Lac Otelnuk Property. No such amounts were received in the current year.

*Mustavaara Property, Finland*

In July 2006, the Company entered into an option agreement to earn a 70% interest in the Mustavaara Property located in Finland. On October 31, 2008, the Company wrote down the carrying value of its interest in the project to nil. On March 26, 2010, the Company closed the sale of its interest in the Mustavaara Property for gross proceeds of \$800,000, of which \$400,000 was paid on closing and \$400,000 was payable by September 30, 2010. With the purchaser unable to settle the outstanding amount, it has been written off in the fourth quarter with a net gain for the year of \$375,716 being recognized.

*MIE, Bear Valley and UNAD Properties, Nunavut*

On May 31, 2009, the Company disposed of its interest, other than a 1% production royalty, in the MIE, Bear Valley and UNAD properties for a loss of \$20,705.

**c) Office**

Office capital asset transactions in 2009 include the disposal of leasehold improvements, office computers, furniture and equipment on the closing of the Company's Vancouver office as of October 31, 2009. Transactions in 2010 were minor.

**d) Impairments**

Management has assessed the carrying value of its assets in Canada and Brazil. Other than the 2009 write-off of amounts associated with certain components of the Port Facility's land interests and the 2010 write-off of amounts associated with the Bedford Iron Ore Prospect, the Company does not believe the remaining assets are impaired.

**6. CONVERTIBLE DEBENTURES**

	Year ended October 31	
	2010	2009
Balance, beginning of year	\$ 8,248,928	\$ 7,577,860
Add: Accretion of liability component of debentures	703,413	671,068
Less: current portion of liability	(3,273,373)	-
<b>Balance, end of year</b>	<b>\$ 5,678,968</b>	<b>\$ 8,248,928</b>

On September 10, 2008, the Company issued \$10-million of unsecured subordinated convertible debentures. The debentures are convertible into Common Shares at a conversion price of \$0.99 per Common Share if converted prior to maturity. Debentures with an original face value of \$3,550,000 mature on September 10, 2011 (and accordingly the carrying value was reclassified to current liabilities in October 2010) and bear interest at an annual rate of 7%. In September 2010 and 2009,

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interest payments of \$256,629 were paid to debenture-holders. At October 31, 2010, interest of \$34,117 (2009 - \$48,716) was accrued as current interest payable.

As a result of the June 1, 2009 amendment to the Port Option with ArcelorMittal (see Note 5a)), the Company has deferred its annual interest payment of 7% on the convertible debenture held by ArcelorMittal, with an original face value of \$6,450,000, for three years, along with a one-year deferral of repayment of the related principal, to September 10, 2012. At October 31, 2010, interest of \$1,034,863 (2009 - \$443,448) was accrued as non-current interest payable under long-term liabilities of the Company.

The debentures are classified as other liabilities and are recorded at amortized cost.

**7. NON-CONTROLLING INTEREST**

	Year ended October 31	
	2010	2009
Balance, beginning of year	\$ 11,262,880	\$ 11,317,930
Non-controlling interest in cash contributions to Port Facility	423,956	1,151,960
Share of losses for year	(336,270)	(1,207,010)
Balance, end of year	\$ 11,350,566	\$ 11,262,880

**8. SHARE CAPITAL**

a) Authorized

The Company is authorized to issue an unlimited number of Common Shares.

b) Issued

The Company has the following Common Shares issued and outstanding:

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	Year ended October 31, 2010		Year ended October 31, 2009	
	Shares	Amount	Shares	Amount
<b>Common shares</b>				
Balance, beginning of year	72,707,945	\$ 75,296,033	72,476,813	\$ 75,800,899
Private placement of December 31, 2009 being flow-through common shares	1,350,000	1,201,500	-	-
less finders' fees and other issue costs		(110,634)		-
Private placement of February 8, 2010 less finders' fees and other issue costs	4,270,000	3,800,000	-	-
		(272,343)		-
Private placements of May 7, 2010				
(i) net of warrants valued at \$530,552	5,000,000	1,469,448	-	-
(ii) being flow-through common shares	4,255,320	2,000,000	-	-
less commission, compensation options and other issue costs		(721,881)		-
Private placement of October 29, 2010 less finders' fees and other issue costs	5,405,404	2,000,000	-	-
		(80,000)		-
Shares issued for finder's fees (Note 5 a))	-	-	231,132	127,123
Shares issued on option exercises	100,001	48,189	-	-
Future income tax benefits on expenditures renounced to shareholders		(321,000)		(631,989)
<b>Balance, end of year</b>	<b>93,088,670</b>	<b>\$ 84,309,312</b>	<b>72,707,945</b>	<b>\$ 75,296,033</b>

The private placement that closed on December 31, 2009 was for gross proceeds of \$1,201,500, less finders' fees of \$60,075 and issue costs of \$50,559.

The private placement that closed on February 8, 2010 was for gross proceeds of \$3,800,000, less finders' fees of \$246,000 and issue costs of \$26,343.

The two private placements that closed on May 7, 2010 were for gross proceeds of \$4,000,000, less investor warrants valued at \$530,552, commission of \$280,000, compensation options valued at \$280,000 and other issue costs of \$161,881. These private placements were comprised of one of 5,000,000 units (each consisting of one Common Share and one-half common share purchase warrant ("Warrant")) and the second of 4,255,320 flow-through Common Shares. Each whole Warrant issued entitles the holder thereof to acquire one Common Share at a price of \$0.50 per Common Share until May 7, 2012. The compensation options issued enable the underwriter to purchase 555,319 units (each consisting of one Common Share and one-half Warrant) at a unit price of \$0.40 per unit until May 7, 2012.

The private placement of October 2010 was for gross proceeds of \$10,000,000, the first tranche of which closed on October 29, 2010 and totalled \$2,000,000 less finders' fees of \$70,000 and issue costs of \$10,000. The final two tranches were received on November 11 and 18, 2010, subsequent to the year end.

The Company financed a portion of its resource property exploration through the issuance of flow-through Common 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 year ended October 31, 2010, as a result of the exploration expenditures renounced to investors in December 2009, the Company recorded a future income tax liability of \$321,000 (2009 - \$631,989).

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c) Options

Pursuant to the Company's stock option plan, approved by the shareholders of the Company on April 8, 2010, the maximum number of Common Shares which may be issued is 9,452,032. The Company may grant options to directors, officers, employees and consultants of the Company and its subsidiaries. The exercise price of each option cannot be lower than the market price of the Common Shares on the date of the option grant. The options vest as to one-third of the number of options granted to an option holder six months, twelve months and eighteen months after the date of the grant.

The continuity of options is as follows:

	Number of options	Weighted average exercise price
Balance, October 31, 2008	4,870,000	\$ 0.87
Granted	4,950,000	0.36
Forfeited	(1,415,000)	0.85
Balance, October 31, 2009	8,405,000	0.57
Granted	1,290,000	0.42
Exercised	(100,001)	0.26
Expired	(1,434,999)	0.63
Forfeited	(675,000)	0.72
Balance, October 31, 2010	7,485,000	\$ 0.58

During the year ended October 31, 2010, under the fair-value method, the amount of \$1,136,406 (2009 - \$1,002,691) in stock-based compensation costs was recorded for options vested to directors, officers, employees and consultants. The \$1,002,691 stock-based compensation cost for the 2009 comparative period was apportioned as follows: \$956,992 expensed to administrative expenses, and \$45,699 capitalized to mineral properties.

The fair values of options were calculated using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk free interest rate	1.6%-1.8%	2.53%
Expected dividend yield	0%	0%
Stock price volatility	119.4%-122.4%	123.2%
Expected life of options	2.86 -3.06 years	5 years
Weighted average fair value of options	\$0.30	\$0.30

As of October 31, 2010, the following options to purchase Common Shares were outstanding:

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Year of Expiry	Number of Options	Exercise Price	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable
2010	505,000	\$1.10	0.163	\$ 1.1000	505,000
2011	900,000	\$0.35-1.10	0.352	\$ 0.7346	866,667
2012	825,000	\$0.35-1.10	1.301	\$ 0.6939	825,000
2013	290,000	\$1.10	2.581	\$ 1.1000	290,000
2014	3,900,000	\$0.26-0.55	3.689	\$ 0.3541	2,600,000
2015	1,065,000	\$0.33-0.45	4.482	\$ 0.4500	241,667
	7,485,000	\$0.26-1.10	2.856	\$ 0.5843	5,328,334

d) Warrants and Compensation Options

The continuity of warrants is as follows:

	Weighted average exercise price	Number of warrants	Value
Balance, October 31, 2008 and 2009		-	\$ -
Issued to investors (Note 8 b)) expiring May 7, 2012	\$ 0.50	2,500,000	530,552
Balance, October 31, 2010	\$ 0.50	2,500,000	\$ 530,552

The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions:

	2010
Risk free interest rate	1.81%
Expected dividend yield	0%
Stock price volatility	139.00%
Expected life of warrants	2 years
Fair value of warrants	\$0.26

The continuity of compensation options is as follows:

	Number of Compensation Options	Weighted average exercise price
Balance, October 31, 2009	-	
Issued to broker (Note 8 b)) expiring May 7, 2012	555,319	\$ 0.40
Balance, October 31, 2010	555,319	\$ 0.40

The fair value of the compensation options, \$280,000, was calculated by reference to the arms length value of the underwriting services provided.

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**9. CONTRIBUTED SURPLUS**

	Year ended October 31	
	2010	2009
Balance, beginning of year	\$ 3,273,206	\$ 2,270,515
Stock-based compensation for stock options	1,136,406	1,002,691
Stock-based compensation for compensation options	280,000	-
Exercise of stock options	(21,898)	-
Balance, end of year	\$ 4,667,714	\$ 3,273,206

**10. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RELATED RISKS**

The Company's objectives in managing its capital are to ensure the Company's ability to continue as a going concern, to meet its capital expenditures for its continued exploration programs in Canada, including the Lac Otelnu Property, for the continued development of the Port Facility in Brazil and to maintain a flexible capital structure of equity and debt financing to optimize the costs of capital with minimal risks. The Company considers the items included in shareholders' equity to be capital.

The Company periodically reviews its capital structure and will modify the structure in light of economic conditions and operating environments. In adjusting its capital structure, the Company may need to issue new shares or debt instruments, bring in joint venture partners or make changes to its strategic capital assets.

To manage its capital, the Company prepares annual capital and operational budgets which are updated as necessary to account for changes in the risk factors in the mining industry and economic conditions within the jurisdiction in which the Company operates.

There were no changes in the Company's approach to capital management during the year ended October 31, 2010. Neither the Company nor its subsidiaries are subject to imposed capital requirements.

The Company is exposed to a variety of financial instrument related risks which are as follows:

*Currency risk*

The Company's financial positions and results of operations are exposed to the risk in currency fluctuations. The Company's reporting currency is Canadian dollars but a significant proportion of its expenditures are incurred in US dollars and Brazilian reais. Any significant change in the US dollar or Brazilian real exchange rates will have an impact upon the operating results of the Company, its financial positions and cash flows. A 10% strengthening in the exchange rate of the Brazilian real against the Canadian dollar would have an adverse impact of approximately \$300,000 on working capital as at October 31, 2010 (a 10% weakening would have the opposite effect). The Company does not have foreign exchange hedges in place at this time.

The Canadian dollar equivalent of the Company's financial instruments by currency of denomination as at October 31, 2010 were as follows:

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	CAD	USD	BR\$	Total
Financial assets				
Cash	\$ 1,810,353	\$ -	\$ 69,280	\$ 1,879,633
Other receivables	289,220	203,760	2,008	494,988
	2,099,573	203,760	71,288	2,374,621
Financial liabilities				
Accounts payable and accrued liabilities	452,465	36,501	3,375,698	3,864,664
Net financial assets (liabilities)	\$ 1,647,108	\$ 167,259	\$ (3,304,410)	\$ (1,490,043)

*Credit risk*

The Company's credit risk is mainly attributable to its liquid financial assets. The Company minimizes the risk by placing any short-term investments with large federally insured chartered banks.

*Liquidity risk*

The Company manages liquidity risk through a cash flow model, an annual budget and ongoing monitoring of expenses and capital expenditures to ensure it has sufficient liquidity to meet its business requirements as they come due. As set out in Note 1, the Company will have to raise equity financing to ensure there is sufficient capital to meet its long term objectives. Further disclosures relating to liquidity risk are detailed in Note 1.

*Interest rate risk*

The Company earns the majority of its interest income from short-term investments invested in term deposits and bankers acceptances. Fluctuations in interest rates will have a corresponding effect on interest income. Any increase or decrease in interest rates will not impact the Company's convertible debentures as they have a pre-determined fixed interest rate.

*Fair value estimation*

Certain financial assets are measured at fair value and are classified using a fair value hierarchy that reflects the significance of the input used in making the measurements. There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data

The following table presents the classification of the Company's financial instruments within the fair value hierarchy established under Canadian GAAP as at October 31, 2010 and 2009:

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	October 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash	\$ 1,879,633	\$ -	\$ -	\$ 1,879,633

  

	October 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash	\$ 361,869	\$ -	\$ -	\$ 361,869

**11. RELATED PARTY TRANSACTIONS**

Included in the years, at their exchange amounts, are the following items paid or accrued to certain then-directors and companies controlled by certain then-directors of the Company for services provided. Exchange amounts are the amounts agreed upon by the transacting parties on terms and conditions similar to arm's-length transactions.

	Year ended October 31	
	2010	2009
Management fees	\$ -	\$ 219,532
Financial advisory fees	-	48,200
Consulting fees	-	300,000
Geological consulting fees	48,180	61,150

Additionally, since July 1, 2008 until terminated effective November 1, 2009, the Company had retained the services of Hemmingsen Management Ltd., ("Hemmingsen"). Hemmingsen was a private company owned equally by the Company and Hawthorne Gold Corp. ("Hawthorne"), which had certain directors and officers in common with the Company. Hemmingsen provided certain services to the Company on a cost recovery basis. Such arrangements were terminated effective November 1, 2009 except for the ongoing cost of the Vancouver office lease, shared with Hawthorne, now sublet to third parties with effect from August and September 2010.

Included in current liabilities at October 31, 2009 is \$3,570 payable without interest to a then-director of the Company. There were no such amounts at October 31, 2010.

**12. COMMITMENTS AND CONTINGENCIES**

- a) The Company's annual commitments for rental agreements are as follows:

	Office leases
2011	\$ 166,300
2012	249,000
2013	258,600
2014	234,700
2015	176,100
2016	73,400

Included in the above lease commitments is the cost of the Company's 50% share of rental obligations for its former premises in Vancouver, now sublet to third parties at a future cash cost for the remaining lease term of approximately \$ 307,000. The fair value of this amount has been

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provided for at October 31, 2010. Should the former co-occupant fail to meet its share of rental obligations, the Company will be further committed under the terms of the head lease to additional net outgoings representing their proportionate share of the loss from the date of default.

- b) Pursuant to the issuance of flow-through Common Shares in December 2009 and February and May 2010, the Company is committed to spending \$7,001,500 on qualified expenditures, of which \$1,201,500 must be spent by December 31, 2010, and the balance by December 31, 2011. To October 31, 2010, the Company has expended approximately \$4,200,000, with approximately \$2,800,000 to be spent by December 31, 2011.
- c) In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, including loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, leasing agreements, land use agreements. 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.
- d) The Company is committed to certain cash payments as described in Note 5.
- e) In connection with the development of the Port Facility, the Company has made certain conditional commitments to the local municipality to pay for certain municipal improvements. As of October 31, 2010 and October 31, 2009, the value of the contingent commitments approximated \$500,000. Settlement of the commitments is conditional on receipt by the Company of all necessary permits.
- f) The Company is a defendant in certain legal actions in Brazil pursuant to which a third party is seeking the payment of approximately \$4,200,000 under a conditional agreement entered into by the Company in 2008 for the purchase of certain lands. The Company is vigorously defending itself including seeking the return of its initial payment of approximately \$11,000,000 and the annulment of the agreement on the basis of misrepresentations therein. Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management of the Company that these claims are without merit and the resolution of these matters will not have a material adverse effect on the financial position of the Company.

### **13. INCOME TAXES**

The income tax recovery differs from the amounts computed by applying the combined federal and provincial statutory rate of 31.5% (2009 – 26.7%) as follows:

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	Year ended October 31	
	2010	2009
Expected income tax benefit		
computed at statutory income tax rates	\$ (1,884,000)	\$ (2,120,000)
Non-controlling interest	(106,000)	(323,000)
Stock-based compensation		
and other non-deductible expenses	581,000	396,000
Losses not recognized	1,088,000	1,415,011
Income tax recovery	\$ (321,000)	\$ (631,989)

The net future income tax liability recognized arises in respect of the following assets:

	2010	2009
Port Facility surplus carrying amount		
– Brazil (Note 5 a))	\$ 7,236,990	\$ 6,504,919
Mineral properties – Canada	980,000	612,000
Less non-capital loss recognized - Canada	(980,000)	(612,000)
Net future income tax liability	\$ 7,236,990	\$ 6,504,919

The Company has non-capital loss carry forwards for Canadian income tax purposes of approximately \$8,934,000 (2009 – \$8,253,000), which expire between 2014 and 2030, and other deductible temporary differences of approximately \$5,066,000 (2009 – \$2,181,000), the benefits of which have not been recognized in these financial statements.

Management of the Company does not consider the utilization of future tax assets to be more likely than not. Accordingly, a full valuation allowance is reasonable and future income tax assets are appropriately valued.

The Company financed a portion of its resource property exploration through the issuance of flow-through Common 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.

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. Accordingly, during the year ended October 31, 2010, the Company recorded a future income tax recovery of \$321,000 (2009 - \$631,989) as a result of the renouncing in December 2009 (and 2008) of certain exploration expenditures to investors in flow-through Common Shares.

**14. NON-CASH TRANSACTIONS**

During the years ended October 31, 2010 and 2009, there were the following non-cash transactions:

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	2010	2009
Funding of non-controlling interest's share in the Port Facility	\$ 642,357	\$ 1,745,396
Stock-based compensation	1,136,406	1,002,691
Issued for financing (Note 8 b)):		
Compensation options	280,000	-
Investor warrants	-	-
Shares issued for finder's fee for Brazore Transaction	-	127,123

**15. SEGMENTED INFORMATION**

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

	October 31, 2010			
	Brazil	Canada	Finland	Total
Total assets	\$ 55,683,730	\$ 15,717,481	\$ -	\$ 71,401,211
Cash	93,958	1,785,675	-	1,879,633
Capital assets	55,379,118	13,544,271	-	68,923,389
Net loss (income) for the year	422,428	5,611,956	(375,716)	5,658,668
Cash expenditures on capital assets	405,302	4,820,118	-	5,225,420

  

	October 31, 2009			
	Brazil	Canada	Finland	Total
Total assets	\$ 54,612,198	\$ 9,864,072	\$ 8,672	\$ 64,484,942
Cash	99,989	253,208	8,672	361,869
Capital assets	54,260,890	8,979,279	-	63,240,169
Net loss for the year	2,019,515	4,724,285	555,345	7,299,145
Cash expenditures on capital assets	1,315,903	352,110	1,004,139	2,672,152

**16. SUBSEQUENT EVENTS**

a) Financing

The second and third tranches of the private placement of October 2010 were received on November 11 and 18, 2010, subsequent to the year end, for additional gross proceeds of \$8,000,000. These two tranches brought the total gross proceeds received pursuant to the private placement to \$10,000,000 and the total number of Common Shares issued pursuant to the private placement to 27,027,024. In connection with the private placement, the Company paid finder's fees in the aggregate amount of \$560,000, of which \$70,000 was paid in October 2010.

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b) Athena

On January 3, 2011, Athena Holdings LLC gave notice of its intention to sell its 40% ownership in Brazore Holdings Ltd. Pursuant to the terms of the Brazore Transaction, Adriana has the right of first refusal until February 12, 2011.

c) WISCO

Subsequent to the year end, the Company announced that it had entered into a binding framework agreement (the "Framework Agreement") with WISCO International Resources Development & Investment Limited "WISCO" as of January 11, 2011. The parties have agreed to cooperate on the development, construction and operation of the Lac Otelnuk Project. Pursuant to the Framework Agreement, the Company will receive \$120,000,000 from WISCO who in turn will receive a 60% participating interest in a Joint Venture Company which will hold Adriana's current interests in the Company's Lac Otelnuk and December Lake iron ore properties in Nunavik, Québec, together with that number of common shares of the Company, to be issued under a private placement, representing 19.9% of the resulting issued and outstanding shares.

The private placement will be at a price based off of a 20 day volume-weighted average price preceding the date of the Framework Agreement and is to close within 45 days of such date. Subject to regulatory approval, Adriana will issue approximately 28,680,000 common shares in connection with the private placement.

Finder's fees in the amount of \$1,700,000 will be paid on the closing of the private placement, \$9,500,000 will be paid on the closing of the definitive agreement and a 4% participating interest in the joint venture will be granted to an arm's length third party in connection with the closing of the definitive joint venture agreement.

## **17. COMPARATIVE FIGURES**

Certain comparative figures for the year ended October 31, 2009 were changed to conform to the presentation adopted for 2010.



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## Management's Discussion and Analysis

The following management's discussion and analysis of financial position and results of operations ("MD&A") of Adriana Resources Inc. (along with subsidiaries, "Adriana" or the "Company") was prepared as of January 19, 2011 and should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto (the "Audited Financials") for the financial year ended October 31, 2010.

Included in this MD&A are matters that constitute "forward-looking" information within the meaning of Canadian securities law. See "Cautionary Statement Regarding Forward-Looking Information".

The Audited Financials have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next financial year. Realization values may be substantially different from carrying values as shown and the Audited Financials 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. See "*Critical Accounting Estimates*" below.

All dollar figures included herein are expressed in Canadian dollars unless otherwise indicated. Additional information about the Company has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online on the Company's website at [www.adrianaresources.com](http://www.adrianaresources.com) and under the Company's profile at [www.sedar.com](http://www.sedar.com). The Company's Class A common shares ("Common Shares") are listed on the TSX Venture Exchange under the symbol "ADI.V".

### Overview of the Company

The Company is a Canadian publicly-traded junior exploration-stage company engaged in the exploration and development of mineral properties in Québec, Canada and the development of a port facility in Brazil. The Company's current primary focus is the further exploration and development of its Lac Otelnuke iron ore property located in the Province of Québec ("Lac Otelnuke" or the "Lac Otelnuke Property").

To date, the Company has not recorded any revenues from operations and has no source of operating cash flow. The continuation of the Company as a going concern is dependent on new funding being obtained through successful equity financings and/or the sale of assets and/or the achieving of strategic partnerships.

The Company recently announced a potential transaction with a prospective strategic partner. See *Subsequent Events* on Pages 13-14.

### Mineral Property Interests

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

The Lac Otelnuke Property lies within the Labrador Trough in the Nunavik region of northern Québec, approximately 165 kilometres northwest of Schefferville. The Lac Otelnuke Property consists of 899 contiguous mineral claims totalling approximately 433 square kilometres of which 129 mineral claims are

held by the Company under an option agreement pursuant to which the Company has the right to earn a 100% interest in such claims (the “Lac Otehluk Option”) and 770 mineral claims are owned by the Company. Of the latter, 186 claims are partly or wholly within an area of common interest pursuant to the Lac Otehluk Option.

On November 30, 2005, the Company entered into the Lac Otehluk Option to earn a 100% interest in certain claims comprising part of the Lac Otehluk Property. The Company has also staked additional mineral claims directly adjacent to and surrounding the claims subject to the Lac Otehluk Option. Pursuant to the Lac Otehluk Option, as amended, the optionor is entitled to a combination of cash, shares and work commitments, all of which have been fulfilled, and a royalty (the “Lac Otehluk Royalty”) equal to (i) 2.5% from the sale of iron ore products mined from the claims subject to the Lac Otehluk Option payable commencing in 2015 or earlier on commencement of commercial production with a minimum production royalty based on a certain specified pellet price and a minimum production of 10 million metric tonnes; and (ii) 2.5% net smelter returns from the sale of any other minerals mined from such properties annually. The Lac Otehluk Royalty is subject to minimum advances of \$150,000 payable by November 30 of each year until commencement of commercial production. The Company has made all such necessary minimum payments to date. The Company may purchase one-half of the Lac Otehluk Royalty for \$5,000,000 at any time prior to December 31, 2015 and for \$11,000,000 thereafter.

The Company has filed an application with the Quebec Superior Court for a judicial Interpretation of certain provisions of the Option Agreement relating to a portion of the Lac Otehluk Property. The clauses for which clarification is sought relate to the timing of the exercise of the option and the royalty payments.

The Lac Otehluk Property was first recognized and mapped in 1948. Limited diamond drilling, metallurgical testing and preliminary engineering studies were carried out by King Resources Inc. in the 1970s. The Lac Otehluk deposit is a banded Lake Superior type taconite iron formation similar to the taconite deposits of the Mesabi Iron Range in Northern Minnesota, where iron mining has been carried out for over 100 years. The Lac Otehluk deposit is flat-lying to gently-dipping and sub-crops on surface. The formation has been identified over a strike length of approximately 25 kilometres.

During the 2007 and 2008 field seasons, the Company drilled 68 diamond drill holes totalling 7,447 metres to test a 9 kilometre portion of the deposit referred to as the South Zone. The results from this drilling program confirmed a large, flat lying iron formation over an approximate area of 22.5 square kilometers (9 km by 2.5 km). The targeted formation remains open along strike to the northwest and southeast and down dip to the northeast. The North Zone, where drilling in the 1970s outlined the presence of a significant iron formation similar to that of the South Zone, has not yet been drill tested by the Company.

On May 7, 2009, Watts, Griffis and McOuat Limited (“WGM”), an independent mining consulting firm, issued a National Instrument 43-101 (“NI 43-101”) Mineral Resource Estimate and Technical Report (“Report”) defining the following mineral resource estimate for the South Zone of the Lac Otehluk Property (“Mineral Resource Estimate”):

*Summary of Mineral Resource Estimate for the South Zone of Lac Otehluk Property  
(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
Indicated	4.29	29.08	27.26	3.53	68.00
Inferred	1.97	29.24	26.55	3.51	68.12

A copy of the Report is available under the Company's website at [www.adrianaresources.com](http://www.adrianaresources.com) or under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com). The Report is subject to the assumptions and conditions set out therein. 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.

In 2010, the Company completed an additional 40 diamond drill holes totalling 5,860 meters on the South Zone of the Lac Otehluk deposit. Drill core assays are pending. The primary objectives of the 2010 drilling program were to upgrade all or portions of the previously defined "indicated mineral resource" to a "measured resource" category through in-fill drilling, and expand "inferred mineral resources". Geometallurgical studies and bench scale metallurgical testing initiated in 2010 are also pending. A total of 108 diamond drill holes totalling 13,306 meters have now been drilled on the South Zone of the deposit since 2007. In 2011, the Company intends to begin drilling the North Zone of the Lac Otehluk Property to increase mineral resources, drill large diameter (PQ) drill holes to collect representative samples for grindability tests and process flow sheet design, and complete claim assessment requirements on the extensive 898 mining claim block.

Frank Condon, P. Eng, a consultant to Adriana and a former director of the Company who is a Qualified Person as defined in NI 43-101, has reviewed and approved the technical disclosure relating to the Lac Otehluk Project contained in this MD&A.

In order to achieve commercial production, the Company will be required to obtain additional equity and/or debt financing and/or a strategic partner and there is no assurance that this financing and/or partnership will be obtained on favourable terms or at all. Failure to obtain such additional financing and/or strategic partnership could result in the delay or indefinite postponement of further exploration and development of the property.

#### **Labrador Trough - December Lake Iron Ore Prospect, Nunavik, Québec, Canada**

The Company owns 159 mineral claims totalling approximately 74 square kilometres near December Lake which is 65 kilometres from the Lac Otehluk Property and 230 kilometres north of Schefferville, in the Nunavik region of Northern Québec. The Company has identified over 20 kilometres of untested magnetic anomalies on this property and has access to certain historical work, not NI 43-101 compliant, completed on this property.

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

In June 2008, the Company entered into an option agreement to acquire a 100% interest in the Bedford Iron Ore Prospect, consisting of certain mineral claims in Labrador by, among other things, paying \$200,000 over the six-year option term, of which \$30,000 had been paid to October 31, 2009. The Company had also staked additional mineral claims directly adjacent to the Bedford Labrador mineral claims. The Company determined that it was not able to satisfy the terms of the option agreement and accordingly the agreement was terminated as of July 17, 2010 and the Company wrote off incurred costs of \$200,000. The Company will retain the 82 claims that it owns for further evaluation.

#### **Mustavaara Property, Finland**

The Company was previously party to an option agreement to earn an interest in the Mustavaara Property which consists of four exploration claims measuring 356 hectares that cover a former vanadium-producing mine in Finland. At October 31, 2008, the Company took a 100% write-off of the carrying value of its interest in the project. On March 30, 2010, the Company closed the sale of its interest in the Mustavaara Property for gross proceeds of \$800,000, of which \$400,000 was paid on closing and \$400,000 was payable on September 30, 2010. With the purchaser unable to settle the outstanding amount, it was written off in the fourth quarter resulting in a net gain for the year of \$376,000 being recognized.

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

In May 2009, the Company transferred ownership in the claims comprising the MIE Properties (MIE, Bear Valley, UNAD and 50/50 Nunavut) to Gordon Addie and entered into a Net Smelter Return Royalty Agreement pursuant to which the Company will earn a production royalty of 1% of net smelter returns applicable to production from the MIE Properties and a specified additional area, if applicable.

## **Iron Ore Port Development**

The Company received the Instrucao Tecnica ("IT"), an important milestone in the environmental permitting process, on September 14, 2010 for its proposed deepwater iron ore port facility development project (the "Port Facility") in Sepetiba Bay, approximately 70 kilometres west of Rio de Janeiro in the state of Rio de Janeiro, Brazil. The Port Facility, as currently proposed, would consist of railcar receiving, stockpiling, stacker-reclaimers, a conveyor tunnel under a strait and an island, and a deepwater load-out facility able to accommodate Cape-size vessels. The location of the Port Facility is on a contiguous coast land position totalling approximately 860,000 square metres with direct access to the transportation network including the railway that services the iron ore producing area of Minas Geras and on a land parcel on the adjacent island. The Port Facility, which would facilitate access to the seaborne market for a number of independent mining operations in the Minas Geras area, is currently designed to have a maximum capacity of 45 million tonnes per year.

The Company currently holds an effective 56.1% indirect interest in the Port Facility through a 60% owned indirect subsidiary, Brazore Holdings Ltd. ("Brazore Holdings"), which owns a 93.5% interest in Brazore Representação, Importação, Exportação e Consultoria Ltda. ("Brazore Ltda."), the Company's Brazilian subsidiary which owns and is developing the Port Facility. Under the terms of a 2007 agreement between Brazore Holdings and Brazore Ltda. and its minority shareholders, Brazore Holdings' interest will be increased to 96.75%, equivalent to a 58.5% indirect interest by Adriana, upon Brazore Ltda.'s expenditures on the Port Facility exceeding US\$55,000,000, of which US\$30,316,000 has been invested to October 31, 2010.

Pursuant to a 2007 agreement (the "Brazore Transaction"), the Company transferred a 50% interest in its subsidiary, Brazore Holdings, to Athena Resources LLC ("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 Facility as follows: (i) US\$5,000,000 by October 20, 2007 to maintain a 50% ownership interest, (ii) US\$17,000,000 by November 29, 2007 to earn a 60% interest. The US\$22,000,000 (the "Two Tranches") has been used for the purchase of the land for the Port Facility, and initial engineering and other environmental studies. On April 1, 2009, the Company provided notice to Athena that it would not proceed with the funding of an additional US\$33,000,000 to earn a 75% interest in Brazore Holdings. The existing agreement does not provide for any capital contributions by Athena, nor for any additional dilution of Athena's interest beyond that provided for above. As of October 31, 2010, the Company has advanced to Brazore Holdings an additional US\$10,066,000 in excess of the Two Tranches, which amounts have been used to fund the continued advancement of the Port Facility in Brazil.

In August 2008, the Company entered into an option agreement (the "Port Option") with ArcelorMittal in connection with the proposed development of the Port Facility. On June 1, 2009, the parties extended the Port Option for terms of six months unless otherwise terminated by ArcelorMittal. The parties also amended the Port Option to provide for (i) ArcelorMittal to fund both a portion of the Company's monthly costs and 80% of substantial third party consulting costs incurred in connection with the permitting process of the Port Facility; and (ii) the extension of the maturity date of the \$6.45 million unsecured convertible debenture issued by the Company on September 10, 2008 to ArcelorMittal to September 10, 2012 and the deferral of 7% annual interest payments due to ArcelorMittal under this debenture to the maturity date thereof. On November 27, 2009, ArcelorMittal terminated the Port Option.

Worldlink (Canada) Resources Ltd. (“Worldlink”) has a right of first refusal to access the full iron ore tonnage output through the Port Facility on reasonable commercial terms subject to a definitive agreement to be entered into between the parties. Worldlink is a China-based integrated trading and shipping company engaged in the import and export business of iron ore and other dry bulk commodities.

The Company is required to obtain various licences and permits from various governmental authorities in Brazil in order to develop the Port Facility. The Company received the critical IT on September 14, 2010. This permit is the first major step in the permitting and development process. The Company will now begin the detailed engineering and design phase of the project while advancing toward the construction phase. A major focus will now be the pursuit of a corporate or strategic partnership to maximize the value of its investment.

On January 3, 2011, following on discussions to provide for dilution of Athena’s interest in Brazore Holdings, Athena gave notice of its intention to sell its 40% ownership. Pursuant to the terms of the Brazore Transaction, Adriana has the right of first refusal until February 12, 2011.

## **Discussion of Operating and Financial Results**

### **2009 Reorganization**

During 2009, the directors of the Company determined that a new approach was required to take the Company to the next stage of its development. Following the appointment of Allen J. Palmiere as President and Chief Executive Officer in June 2009, a corporate reorganization was initiated in order to refocus the Company’s operations and reduce costs. The Company completed a move of its corporate offices from larger premises in Vancouver to smaller premises in Toronto effective November 1, 2009. In addition, general and administrative costs have been reduced through a series of employee terminations completed between August and December 2009 with severance payments being made in certain cases over a period of two years and through other administrative cost-cutting measures. In the third quarter, the Company and its co-tenant succeeded in subletting their offices in Vancouver for the remaining four-year term, with effect from August 1, 2010. Due to the current real estate market in Vancouver, the rate was considerably lower than the Company’s cost. However, the sub lease has reduced the Company’s cash costs by \$17,000 per month. Management and support personnel have been reduced from the equivalent of 14 full-time staff and four part-time consultants previously to a total of four full-time employees and three part-time consultants.

### **Selected Annual Information**

The following sets out certain selected annual financial information with respect to the Company for the two years ended October 31, 2010:

(\$'000s except per-share amounts)	2010	2009
Total revenue	-	-
Administrative expenses	\$ 6,389	\$ 6,853
Property exploration	-	514
Write-off of land properties	-	1,464
Write-off of mineral property interests	200	-
(Gain) loss on disposal of property interests	(376)	21
Loss realized on lease of former premises	367	-
Other (income) expenses	(600)	(921)
Future income tax (recovery)	(321)	(632)
Net loss	5,659	7,299
Net loss per share - basic and diluted	(0.07)	(0.10)
Total assets	71,401	64,485
Total long-term financial liabilities	6,714	8,692
Cash dividends declared per share	-	-

In the third quarter of 2010 the Company wrote off \$200,000 representing its interest in the Bedford Iron Ore Prospect. At the end of 2009, the Company wrote off \$1,464,000 representing the costs of two land properties no longer associated with and necessary for the Port Facility. In 2010, the Company disposed of the Mustavaara property, written off in 2008, realizing net proceeds of \$376,000.

During the fourth quarter ended October 31, 2010, the Company recorded a future income tax recovery of \$321,000 (2009 - \$632,000) related to the flow-through financings completed by the Company in December 2009 and August 2008, respectively, thereby decreasing the net loss for the respective years.

### Summary of Quarterly Results

The following sets out certain selected quarterly financial information with respect to the Company:

(\$'000's except per-share amounts)	2010				2009			
	Oct 31	Jul 31	Apr 30	Jan 31	Oct 31	Jul 31	Apr 30	Jan 31
Revenues	-	-	-	-	-	-	-	-
Administrative expenses	1,543	1,424	1,590	1,832	2,843	1,616	1,300	1,094
Property exploration	-	-	3	(3)	119	94	223	78
Write-off of property interests	-	200	-	-	1,464	-	-	-
Loss (gain) on disposal of property interests	364	7	(747)	-	-	-	(92)	112
Loss realized on lease of former premises	15	352	-	-	-	-	-	-
Other (income) expenses	(371)	243	(258)	(214)	(656)	(195)	(24)	(45)
Future income tax (recovery)	(321)	-	-	-	(632)	-	-	-
Net loss	1,230	2,226	588	1,615	3,138	1,515	1,407	1,239
Net loss per share - basic and diluted	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.02)

The Company's expenses and net loss increased on average through 2009 due to the Company's expansion, especially in Brazil, as it advanced its business plan of exploring resource properties and developing the plans for the Port Facility, and also as a result of growth in the Company's office in Vancouver, Canada during 2009. The reduction in expenses resulting from downsizing with the closure of the Vancouver office operation, the opening of a much smaller office in Toronto and the subletting of the former Vancouver office, the termination of a number of full-time employees in Vancouver and other administrative cost-cutting will not be fully realized until the first quarter of the Company's financial year

ending October 31, 2011. Administrative expenses in the fourth quarter of 2010 increased over those of the third quarter, principally because of legal costs associated with the Lac Otelnuik Option agreement.

During the fourth quarter ended October 31, 2010, the Company received its IT for the Port Facility in Brazil and otherwise focussed on obtaining additional financing to support the Company's operations,

In the previous three quarters of 2010, the Company had consolidated its operations in Toronto, carried out the bulk of its 2010 exploration program at Lac Otelnuik, sold its interest in the Mustavaara Property, wound down its operations in Vancouver and sublet its long-term lease of the Vancouver office premises.

## **Results of Operations**

The comparison of the 2010 and 2009 amounts for certain categories of expense is affected by certain inter-category expense reallocations performed in years previous to the current year. This practice was discontinued with effect from the fourth quarter of 2009 with the reversal in that quarter of such amounts previously reallocated during the 2009 financial year. The four individual quarters of 2009 have not been restated to reflect the aforesaid reversal, as there is no net effect on 2009's results for the year.

### ***For the year ended October 31, 2010 and 2009***

The Company's net loss for the year ended October 31 2010 was \$5,659,000 compared to a net loss of \$7,299,000 for 2009, a decrease of \$1,640,000, primarily because of the non-recurring 2009 exploration costs of \$514,000 and the 2009 write-off of mineral property interests of \$1,464,000, offset by the following.

Interest expense on the unsecured convertible debentures was \$1,564,000 and \$1,266,000 for 2010 and 2009, respectively, such amounts including both interest and accretion.

Investor relations costs decreased by \$250,000 from 2009, primarily as a result of the reduction in staffing levels.

Professional and consulting costs increased by \$331,000 to \$1,091,000, primarily as a result of the engagement of in-house consultants to replace certain terminated employees, and the legal fees incurred in late 2010 in connection with litigation regarding interpretation of the Lac Otelnuik Option agreement. In-house legal costs were also higher, as a result of a review of all corporate contracts and completion of financings. Audit and tax compliance costs for 2010 increased as a result of additional costs of the 2009 audit associated with the restatement of the Company's financial statements for the 2008 financial year.

Rent and office expenses were \$526,000 and \$866,000 for 2010 and 2009, respectively. The decrease of \$340,000 is a result of elimination, commencing November 2009, of Vancouver office costs other than rental and the subletting of the Vancouver office space from the end of the third quarter of 2010, partially offset by the Company's opening of a much lower-cost office in Toronto in mid-2009.

A charge of \$367,000 was recognized in 2010 in respect of the fair value of the Company's share of the future loss to be realized on the successful third quarter sub-letting of the Vancouver office, together with the Company's share of broker and architect fees incurred in respect thereof.

For the year ended October 31, 2010, salaries and benefits decreased by \$415,000 compared to the corresponding period of 2009. This is principally due to the elimination of 2009's Vancouver-based salaries, with certain positions now being filled by part-time consultants. Prospectively, future salary and benefits costs should approximate \$350,000 per quarter at current staffing levels.

For the year ended October 31, 2010, the stock-based compensation expense totalled \$1,136,000. The 2009 stock-based compensation expense was \$957,000, with a further \$46,000 (2010 – Nil) capitalized to mineral properties. The total cost for 2010 increased by \$133,000 from the total recorded cost for the

corresponding period of 2009. Stock option grants were made in the second, third and fourth quarters of 2010.

For the year ended October 31, 2009, \$514,000 was expensed on metallurgical studies and consulting fees, principally for the Mustavaara Property. The property was disposed of as of March 30, 2010 with minimal carrying costs in the intervening period and an ultimate gain of \$376,000 being recorded in 2010. Exploration expenditures in 2010 related wholly to the Labrador Trough properties, and were capitalized as such.

Foreign exchange results were a gain of \$257,000 and a loss of \$148,000 for 2010 and 2009, respectively, a change of \$405,000. The change in foreign exchange was mainly a result of 2010's 5% average weakening of the Brazilian real against the Canadian dollar.

Non-controlling interest relates to the 40% interest in Brazore held by the minority shareholder, Athena, in the net loss of Brazore, with 2010's amount of \$336,000 reflecting the year's results for Brazore. The 2009 amount included Athena's share of the \$1,464,000 write-off of certain land holdings in Brazil.

The sale of the Company's interest in the Mustavaara Property in the second quarter of 2010 realized a final net gain of \$376,000, a decrease of \$364,000 from that reported in the third quarter of 2010, the purchaser having been unable to pay the remaining balance of the settlement price due by September 30, 2010 and the Company having concluded that the account receivable outstanding was not collectible.

#### ***For the three months ended October 31, 2010 and 2009***

The Company's net loss for the three months ended October 31, 2010 was \$1,230,000 compared to a net loss of \$3,138,000 for the same period in 2009, a decrease of \$1,908,000, primarily as a result of 2009's write-offs totalling \$1,622,000, 2010's reductions in salary and other administrative costs and the reversal, as described earlier, of certain cost reallocations made in the previous three quarters of 2009.

Interest expense on the unsecured convertible debentures was \$411,000 and \$222,000 for the three months ended October 31, 2010 and 2009 respectively, such amounts including both interest and accretion.

Investor relations costs decreased by \$98,000 from 2009, primarily as a result of reductions in staffing levels.

Professional and consulting costs increased by \$137,000 with the 2010 engagement of in-house consultants to replace certain employees terminated at end-2009, and with substantial legal-related costs relating to the Lac Otelnuik Option. Audit and tax compliance costs decreased, with the accrual of 2010 annual audit costs through the financial year.

Rent and office expenses were \$67,000 and \$401,000 for the three months ended October 31, 2010 and 2009, respectively. The decrease of \$334,000 is a result of the Company's reduction of Vancouver office expenses including, by the end of the third quarter of 2010, the rent thereon, and the reversal of 2009's corporate office expense allocation to the Port Facility (an allocation of \$125,000 having been made in the first three quarters of 2009).

For the three months ended October 31, 2010, salaries and benefits were \$806,000 lower than the corresponding quarter of 2009. This is principally due to the elimination from November 2009 of Vancouver-based executive salaries, partially offset by a 2009 reversal of a quarterly cost reallocation totalling \$375,000 for salary overhead to the Port Facility, and by the 2009 hiring of Toronto-based executives.

For the three months ended October 31, 2010, stock-based compensation expense decreased by \$263,000 compared to the corresponding quarter of 2009, as a result of the lower valuations used for stock option grants to new officers of the Company during 2010.

For the three months ended October 31, 2009, \$119,000 had been expensed on studies for the Mustavaara Property. The property was disposed of as of March 30, 2010 with minimal carrying costs in the intervening period.

Foreign exchange resulted in a gain of \$120,000 for the three months ended October 31, 2010, compared to a loss of \$189,000 in the corresponding period of 2009. The change in foreign exchange was mainly a result of a \$204,000 foreign exchange adjustment to the carrying value of the Brazilian Real-denominated future income tax liabilities, despite the strengthening of the Brazilian Real in the fourth quarter of 2010, returning to a year-end level approximating that of 2009.

Non-controlling interest relates to the 40% interest in Brazore held by the minority shareholder, Athena, in the operating loss of Brazore with 2010's amount of \$249,000 reflecting the period's Canadian dollar-denominated results for Brazore.

Following on the sale of the Company's interest in the Mustavaara Property in the second quarter of 2010, the purchaser was unable to pay the remaining balance of the settlement price due by September 30, 2010, resulting in a loss of \$364,000 for the current quarter.

## **Liquidity and Financial Position**

The Company's cash resources were \$1,880,000 at October 31, 2010, compared with \$2,525,000 at July 31, 2010 and \$362,000 at October 31, 2009, an increase of \$1,518,000 over the year, as a result of the December 2009 and February, May and October 2010 private placements which raised net cash (before allocating non-cash items) of \$10,097,000, of which \$2,000,000 pertains to the fourth quarter. As a result, together with provision for repayment of a portion of the convertible debentures in September 2011, the Company's working capital deficiency of \$4,975,000 as at October 31, 2010 has increased from \$1,117,000 as at July 31, 2010 and from \$2,695,000 as at October 31, 2009. As of the date of this MD&A, the Company's cash resources are \$8,078,000 as a result of the closing of the second and third tranches of October's private placement, which realized further net cash proceeds of \$7,510,000.

During the year ended October 31, 2010, the Company expended \$405,000 of its cash on the Port Facility, primarily on engineering and socio-economic studies relating to the Company's new permitting application. This compares with \$1,316,000 spent in the 2009 comparative period, which mainly consisted of design and engineering consulting fees relating to the Port Facility. The Company expended \$4,795,000 on Lac Otelnuk during the year ended October 31, 2010 compared to \$1,356,000 in the 2009 comparative period. Cash outflows on operating activities totalled \$3,755,000 compared to \$7,578,000 in the 2009 comparative period, with the decrease being due principally to a reduction in accounts payable and increase in accounts receivable during 2009. Cash outflows on operating activities before changes in non-cash working capital items totalled \$4,623,000, \$900,000 less than in 2009.

During the three months ended October 31, 2010, the Company had outlays for regular operating expenses of \$866,000 and outlays on the 2010 exploration program at Lac Otelnuk of \$1,639,000. Receipts in the period included \$1,920,000 in net proceeds from the October 2010 private placement.

With the issuance in the current year of certain flow-through Common Shares, the Company is obligated to incur eligible expenditures totalling \$7,001,500 by December 31, 2011, of which approximately \$4,200,000 has been incurred to October 31, 2010, leaving a total of approximately \$2,800,000 to be spent by December 31, 2011.

As at the date hereof, with the closing of the second and third tranches of the October private placement, the Company has financial resources, sufficient to cover necessary administrative, financing and support

costs and limited but necessary work on the Lac Otelnuuk Property and the Port Facility through to the fall of 2011, based upon present plans. With no current source of operating revenue, the Company will have to raise additional funds to enable it to meet its operational and debt obligations and to resume its exploration and development programs beyond then. Corporate administrative expenditures are projected at approximately \$3.5 million annually with anticipated carrying costs in Brazil relating to the Port Facility totalling approximately \$100,000 per month. To finance all the above expenditures beyond the fall of 2011 plus any additional work on the Port Facility, the Company will have to raise further additional equity by way of additional financing through the issue of Common Shares.

The Company anticipates that the necessary funds will be raised through equity issuances but there can be no assurance that such financing will be available on terms acceptable to the Company in the current capital markets. See “*Risks and Uncertainties*”.

The Company’s annual commitments are as follows:

	Office Leases	Lac Otelnuuk Property Advance Royalties	Repayment of Convertible Debentures	Total
2011	\$ 166,300	\$ 150,000	\$ 3,806,629	\$ 4,122,929
2012	249,000	150,000	8,525,837	8,924,837
2013	258,600	150,000	-	408,600
2014	234,700	150,000	-	384,700
2015	176,100	150,000	-	326,100
2016	73,400	150,000	-	223,400

Included in the above lease commitments is the cost of the Company’s 50% share of rental obligations for its former premises in Vancouver, now sublet to third parties at a cash loss for the remaining lease term of approximately \$307,000. Should the former co-occupant fail to meet its share of rental obligations, the Company will be further committed under the terms of the head lease to additional net outgoings representing their proportionate share of the loss at the date of default.

Included in current liabilities at October 31, 2010 and October 31, 2009 is the amount of approximately \$2.9 million which remains outstanding relating to the purchase of certain lands for the Port Facility, the settlement of which is determinable by third parties and the timing of which is consequently uncertain. Also included in current liabilities at October 31, 2010 is an accrual of \$281,000, representing the fair value of the Company’s share of the future net loss to be realized on the sub-letting of the Vancouver office.

In connection with the development of the Port Facility, the Company has made certain conditional commitments to the local municipality to pay for certain municipal improvements. As of October 31, 2010 and October 31, 2009, the value of the contingent commitments approximated \$500,000. Settlement of the commitments is conditional on receipt by the Company of all necessary permits.

Further, the Company is a defendant in certain legal actions in Brazil pursuant to which a third party is seeking the payment of approximately \$4,200,000 under a conditional agreement entered into by the Company in 2008 for the purchase of certain lands. The Company is vigorously defending itself including seeking the return of its initial payment of approximately \$1,000,000 million and the annulment of the agreement on the basis of misrepresentations therein. Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management of the Company that these claims are without merit and the resolution of these matters will not have a material adverse effect on the financial position of the Company.

The Lac Otelnuuk Royalty is subject to minimum advances of \$150,000 payable by November 30 of each year until commencement of commercial production.

## Transactions with Related Parties

During the year ended October 31, 2010, the Company incurred \$48,000 in geological consulting fees to a then-director of the Company. During the year ended October 31, 2009, the Company incurred \$61,000 in geological consulting fees to a director of the Company, \$220,000 in management fees to a past employee of the Company, \$48,000 in financial advisory fees to a director of the Company, \$300,000 in consulting fees to a director of the Company or to companies controlled by such directors of the Company. Additionally, since July 1, 2008 until terminated effective November 1, 2009, the Company had retained the services of Hemmingsen Management Ltd., (“Hemmingsen”). Hemmingsen was a private company owned equally by the Company and Hawthorne Gold Corp. (“Hawthorne”), which had certain directors and officers in common with the Company. Hemmingsen provided certain services to the Company on a cost recovery basis. Such arrangements were terminated effective November 1, 2009 except for the ongoing cost of the Vancouver office lease, shared with Hawthorne, now sublet to third parties with effect from August and September 2010.

## Recent Accounting Pronouncements

The following accounting standards affecting future accounting periods were issued by the Canadian Institute of Chartered Accountants (“CICA”) in 2009 and 2010.

### *Business Combinations / Consolidated Financial Statements / Non – Controlling Interests (CICA Handbook Sections 1582, 1601 and 1602)*

In January 2009, the CICA adopted Sections 1582, “*Business Combinations*”, 1601, “*Consolidated Financial Statements*”, and 1602, “*Non-Controlling Interests*” which superseded current sections 1581, “*Business Combinations*” and 1600, “*Consolidated Financial Statements*”. These sections will be applied 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. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP to IFRS.

### *Comprehensive Revaluation of Assets and Liabilities (Section 1625) and Equity (Section 3251)*

As a result of issuing Sections 1582, 1601 and 1602, Section 1625, has been amended and is effective prospectively beginning on or after January 1, 2011. Section 3251, *Equity*, has been amended as a result of issuing Section 1602 and applies to entities that have adopted this Section. Adoption of this standard is not expected to have a material effect on the Company’s financial statements.

### *Financial Instruments – Recognition and Measurement (Section 3855)*

Section 3855 has been amended to clarify (i) the application of the effective interest method after a debt instrument has been impaired, and (ii) when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These amendments apply to interim and annual financial statements beginning on or after January 1, 2011. The Company does not expect any significant impact on its financial position, operating results or disclosure on adopting the amended Section 3855.

## Convergence with International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company’s first mandatory filing under IFRS, which will be for the quarter ending January 31, 2012, will contain IFRS-compliant information on a comparative basis, as well as reconciliations for that quarter and as at the November 1, 2010 transition date. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition,

measurement and disclosure. The Company has developed a plan for IFRS convergence and has started the implementation process. The initial key impact areas preliminarily identified by the Company which will impact financial statement presentation and disclosure include: impairment testing, capital assets and financial instruments. The Company is evaluating these areas as to the future impact of IFRS, and will be retaining a consultant in respect thereof, to ensure an orderly transition. Initial training sessions for staff affected are being held, and will be expanded once the “Phase 2 – Planning and Implementation” has commenced.

Due to anticipated changes in IFRS prior to transition, it is currently not possible to fully determine the impact on the consolidated results.

### **Internal Controls**

The Company has only four full-time employees, one of whom is the CEO, supported by two part-time contract staff. As such, management of the Company is not able to design a traditional control system that relies on the segregation of duties. Within that context, management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the Audited Financials do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the Audited Financials; and (ii) the Audited Financials fairly present all material respects the financial condition, results of the operations and cash flows of the Company, as of the date of and for the periods presented by the Audited Financials.

In contrast to the certificate required under Multilateral Instrument 52-109 Certification of Disclosure in Issuer’s Annual and Interim Filings (MI 52-109), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as defined in MI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

The Company’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **Disclosure of Outstanding Share Data**

As of October 31, 2010, stock options to purchase 7,485,000 Common Shares at a weighted average price of \$0.58 were outstanding. During the fourth quarter of 2010, 250,000 stock options were granted to employees, 400,000 stock options were cancelled and 534,999 stock options expired unexercised.

Additionally, the private placement of May 7, 2010 resulted in the issuance of 5,000,000 Common Shares and 2,500,000 warrants each entitling the holder to acquire one Common Share at a price per share of \$0.50. In connection with this private placement, 555,319 compensation options were issued at an exercise price of \$0.40. Each compensation option consists of one Common Share and one-half warrant. The warrants and compensation options remain outstanding as of October 31, 2010 and are exercisable until May 7, 2012.

Subsequent to October 31, 2010, 505,000 stock options expired, 15,000 stock options were forfeited and 906,667 stock options vested, all in accordance with the terms of the Company's stock option plan. Additionally, a further 718,437 common shares have been issued as a result of the exercise of 93,750 share purchase warrants and 38,830 compensation options and the conversion of \$580,000 of convertible debentures.

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

	Expiry date	Exercise price	Number of securities	Number of shares
Common Shares issued				115,428,727
Convertible debentures	September 10, 2011	\$0.99	3,000,001	
	September 10, 2012	\$0.99	<u>6,515,151</u>	9,515,152
Share purchase warrants	May 7 2012	\$0.50	<u>2,406,250</u>	2,406,250
Compensation options	May 7 2012	\$0.40	<u>516,489</u>	
- Common shares			516,489	
- Share purchase warrants		\$0.50	<u>277,660</u>	794,149
Options exercisable for common shares, at weighted average exercise price expiring in the year ended:				
	December 31, 2011	0.73	866,667	
	December 31, 2012	0.69	800,000	
	December 31, 2013	1.10	275,000	
	December 31, 2014	0.34	3,466,667	
	December 31, 2015	0.44	<u>266,667</u>	
		<u>\$ 0.49</u>		5,675,001
				<u>133,819,279</u>

## Subsequent Events

### Financing

The second and third tranches of the private placement of October 2010 were received on November 11 and 18, 2010, subsequent to the year end, for additional gross proceeds of \$8,000,000. These two tranches brought the total gross proceeds received pursuant to the private placement to \$10,000,000 and the total number of Common Shares issued pursuant to the private placement to 27,027,024. In connection with the private placement, the Company paid finder's fees in the aggregate amount of \$560,000, of which \$70,000 was paid in October 2010.

## *Athena*

On January 3, 2011, Athena Holdings LLC gave notice of its intention to sell its 40% ownership in Brazore Holdings Ltd. Pursuant to the terms of the Brazore Transaction, Adriana has the right of first refusal until February 12, 2011.

## *WISCO*

Subsequent to the year end, the Company announced that it had entered into a binding framework agreement (the "Framework Agreement") with WISCO International Resources Development & Investment Limited "WISCO" as of January 11, 2011. The parties have agreed to cooperate on the development, construction and operation of the Lac Otelnuk Project. Pursuant to the Framework Agreement, the Company will receive \$120,000,000 from WISCO who in turn will receive a 60% participating interest in a Joint Venture Company which will hold Adriana's current interests in the Company's Lac Otelnuk and December Lake iron ore properties in Nunavik, Québec, together with that number of common shares of the Company, to be issued under a private placement, representing 19.9% of the resulting issued and outstanding shares.

The private placement will be at a price based off of a 20 day volume-weighted average price preceding the date of the Framework Agreement and will close within 45 days of such date. Subject to regulatory approval, Adriana will issue approximately 28,680,000 common shares in connection with the private placement.

Finder's fees in the amount of \$1,700,000 will be paid on the closing of the private placement, \$9,500,000 will be paid on the closing of the definitive agreement and a 4% participating interest in the joint venture will be granted to an arm's length third party in connection with the closing of the definitive joint venture agreement.

## **Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the Audited Financials include the Company's estimate of the recoverable value of its capital assets as well as the value of stock-based compensation. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The Company's recoverability of the Port Facility project's carrying costs is dependent upon market conditions for iron ore, and future costs that are required to ultimately bring the Port Facility into operation. The development of the Port Facility is dependent on a number of factors including environmental, legal, and political risks, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable operation.

The Company's recoverability of the recorded value of its mineral properties and associated deferred exploration expenses is dependent upon market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations. The Company is in an industry that is dependent on a number of factors including environmental, legal, and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production.

The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's shares and financial objectives of the stock-based instrument holders.

Additionally, the accompanying Audited Financials have been prepared in accordance with Canadian GAAP applicable to a going concern, which assumes that the Company will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. While the Audited Financials have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions may cast substantial doubt upon the validity of this assumption. In the event the Company is unable to arrange appropriate financing, the carrying value of the Company's assets could be subject to material adjustment. The Company incurred a net loss of \$5,659,000 during the fiscal year ended October 31, 2010 and a net loss of \$7,299,000 during the fiscal year ended October 31, 2009. The Company had a working capital deficiency of \$4,975,000 at October 31, 2010 compared to a working capital deficiency of \$2,695,000 as at October 31, 2009. The Audited Financials do not include any adjustments to the recoverability and classification of certain recorded assets amounts and classification of certain liabilities that might be necessary if the Company was unable to continue as a going concern.

## **Risks and Uncertainties**

Investing in the Company involves risks that should be carefully considered. In addition to the risks involved should the Company be required to value its assets and liabilities other than on a going-concern basis as discussed above and below, in conducting its business, the Company is subject to a number of other risks and uncertainties, including those discussed below, that could have a material adverse effect on, among other things, the Company's business prospects or financial condition and could result in a delay or indefinite postponement in the development of the Company's properties and projects. See also "*Cautionary Statement Regarding Forward-Looking Information*".

### *Going Concern*

To date, the Company has not recorded any revenues from operations, has no source of operating cash flow and no assurance that additional funding will be available to it for further exploration and development of its projects. The continuation of the Company as a going concern is dependent on new funding being obtained through a successful equity financing and/or the sale of assets and/or the entering into of strategic partnerships or joint venture arrangements. Failure to obtain adequate financing could result in the delay or indefinite postponement of further exploration and development of the Company's properties and projects. Financial markets remain such that it is a challenge for companies such as Adriana to raise additional funds. While, subsequent to October 31, 2010, the Company completed the second and third tranches of a private placement for the issuance of Common Shares (see "*Subsequent Events*"), the Company has incurred losses since its inception and the Company expects to continue to incur losses for the foreseeable future until such time as it is in commercial production and generates sufficient revenues to fund continuing operations. The development of the Company's properties and projects will continue to require the commitment of substantial resources. There can be no assurance that the Company will continue as a going concern, generate any revenues or achieve profitability.

### *Exploration, Mining and Development Risks*

The Company is engaged in, among other things, the exploration for and development of mineral properties. These activities involve significant risks, which even a combination of careful evaluation, experience and knowledge may not mitigate. All of the Company's properties are still in the exploration and development stage. Few properties that are explored are ultimately developed into producing mines. In addition to the normal and usual risks of exploration and mining, the Company's properties in Québec are located in remote, undeveloped areas and the availability of infrastructure such as surface access, skilled labour, fuel and power at an economic cost cannot be assured. These are integral requirements for exploration, development and production facilities on mineral properties. The Company's future operations will require significant expenditures to establish additional ore reserves and to construct mining facilities and other necessary infrastructure and there can be no assurance that the Company will be successful in developing such infrastructure or in developing it on economically feasible terms.

Consequently, there can be no assurance that the Company's activities will result in a profitable commercial mining operation.

#### *Mineral Resource and Reserve Estimates May be Inaccurate*

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves. Such estimates are a subjective process and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of iron ore from such deposits may be different. Differences between management's assumptions, including economic assumptions such as metal prices, market conditions and actual events could have a material adverse effect on such estimates and on the Company's financial position and results of operations. The Otelnuik Property currently consists of mineral resources. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to indicated mineral resources, there is no assurance that mineral resources will be upgraded to proven and probable mineral reserves. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves.

#### *Legal and Title Risks*

The Company holds an interest in its properties through mineral claims held directly or indirectly through option agreements in respect of the Lac Otelnuik Property and its other exploration properties and directly through land ownership in respect of the Port Facility. Title to land including mineral properties and mining rights involves certain inherent risks including difficulties in identification of the actual location of specific properties. In addition, the transfer of title to the Company pursuant to various option agreements to which it is a party is subject to the Company continuing to fulfill certain obligations set out in such option agreements. Although the Company has exercised due diligence with respect to determining title to and interests in its land and mineral properties and the fulfillment of the conditions set out in the various option agreements, there is no guarantee that such title or interests will be transferred to the Company or will not be challenged or impugned or become the subject of title claims by other parties and title insurance is generally not available. The inability to obtain title, or challenges to the title of the properties in which the Company has an interest, if successful, could result in the loss or reduction of the Company's interests in such properties and the Company's projects thereon not proceeding, all of which could have a material adverse effect on the Company's financial condition, liquidity or results of operations.

#### *Licences, Permits, Laws and Regulations*

The Company's exploration and development activities, including the development of the Lac Otelnuik Property and the Port Facility, require permits and approvals from various government authorities and other third parties, and are subject to extensive national, provincial, state and local laws and regulations governing prospecting, development, production, construction, the environment, transportation, taxes, labour standards, occupational health and safety, mine safety and other matters. Environmental legislation is complex and is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non-compliance and environmental assessments of proposed projects are becoming more stringent. The Company is required to obtain additional licences, permits and consents from various governmental authorities and other third parties to continue and expand its exploration and development activities. There is no assurance that the Company will be able to obtain and maintain all necessary licences, permits and approvals that may be required to explore and develop its properties and projects and to commence construction or operation of facilities at the Lac Otelnuik Property and the Port Facility. Compliance with existing and possible future legislation could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted and which could have a material adverse effect on Company's financial condition, liquidity or results of operations. Furthermore, any failure to comply fully with all applicable laws and regulations could have significant adverse effects on the Corporation, including the suspension or cessation of operations.

### *Global Financial Conditions and Capitalization*

The Company relies on equity financings for its working capital requirements and to fund its exploration and development activities. In addition, it is a goal of the Company to add one or more strategic partners to assist in the development of its properties and projects. The global financial markets have been impacted by significant downturns in nearly all business sectors and by a severe contraction in access to financing. These declines are negatively affecting substantially all mineral development and exploration companies including Adriana. There is no assurance that the Company will be successful in obtaining the required equity or debt financing as and when needed on terms favourable to the Company or at all or that the Company will be able to attain strategic partnership or enter into joint venture arrangements. This may negatively impact the timeline for commencement of commercial production of the Company's properties and projects. Additionally, global economic conditions may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. The continuation of such adverse market conditions could have negative implications for the Company in terms of the ability to continue as a going concern.

### *Iron Ore Prices*

The Company's future profitability is largely dependent on movements in the price of iron ore. The prices of metals, including iron and steel, fluctuate widely and are affected by many factors outside the Company's control including global and regional supply and demand, the relative exchange rate of the US dollar with other major currencies, political and economic conditions, production levels and costs and transportation costs in major iron ore producing regions. Iron ore prices have historically been volatile. Given the historical volatility of iron ore prices and the particular effects of the current global financial crisis, there are no assurances that the iron ore price will remain at economically attractive levels.

### *Share Price Fluctuations and Dilution*

The Company's historical capital needs have been met by the issuance of Common Shares. The Company will require substantial additional funds to further explore and develop its properties and projects. In recent years securities markets have experienced extremes in price and volume volatility. The market price of securities of many companies, particularly development stage companies, have experienced wide fluctuations in price which may not necessarily be related to the operating performance, underlying asset values or prospects of such companies. The Common Shares will be subject to market trends generally and may be particularly affected by such volatility. In the event that the Company completes any equity financing at or near to current trading prices of its Common Shares, such financing could be dilutive to current shareholders who invested in the Company at higher share prices. The terms of any additional financing obtained by the Company could result in substantial dilution to the shareholders of the Company.

### *Currency Risk*

The Canadian dollar/US dollar and Canadian dollar/Brazilian Real exchange rates have varied significantly over the last several years. The Company's operating and capital costs in Brazil are incurred primarily in Brazilian Reais and US dollars, therefore the Company recognizes foreign exchange gains or losses as a result of raising capital in Canadian dollars and transferring funds to Brazil to be expended in these currencies. A 10% strengthening in the Brazilian Real exchange rate adversely impacts working capital as at October 31, 2010 by approximately \$300,000. When in production at its properties in Canada, the Company will be exposed to currency risk as the price of iron ore is priced and sold in US dollars while operating and capital costs will be incurred primarily in Canadian dollars. A decline in the US dollar would result in a decrease in the real value of the Company's future revenues and adversely impact the Company's financial performance. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

## Competition

The exploration and mining industry is intensely competitive. The Company competes with many companies that have substantially greater resources to acquire mineral claims and other interests, recruit and retain qualified employees and obtain the capital necessary to fund operations and development. The Company's inability to compete with other companies would have a material adverse effect on the Company's results of operations and business.

## Cautionary Statement Regarding Forward-Looking Information

*This MD&A may contain "forward looking statements" that reflect the Company's current expectations and projections about its future results. Forward-looking statements are often, but not always, identified by words such as "estimate", "intend", "expect", "plan", "may", "believe", "intends", "anticipate", "likely" or other similar words which, by their very nature, are not guarantees of the Company's future operational or financial performance. Forward-looking statements included in this MD&A include statements with respect to future expenditure plans and with respect to expectations regarding the ability to raise capital and/or achieve strategic partnerships, the increase and upgrade of mineral resources, the ability to achieve commercial production at the Company's mineral properties and the development of the Port Facility.*

*Forward-looking statements 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, failure to achieve strategic partnerships, failure to establish economic estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, unfavourable studies regarding the Company's projects, fluctuations in the market valuation for metal prices, interest rates, commodities prices and exchange rates, delays or failures in obtaining required approvals or permits for the development of the Company's projects, inflation 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 has no intention and does not assume any obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or such other factors which affect this information including a change in beliefs, expectations or opinions of management of the Company.*