



Management's Discussion and Analysis For the Three and Nine Months Ended July 31, 2011

The following management's discussion and analysis of financial position and results of operations ("MD&A") of Adriana Resources Inc. (along with its subsidiaries, "Adriana" or the "Company") was prepared as of September 22, 2011 and should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended July 31, 2011 (the "Quarterly Financials") and the audited consolidated financial statements and related notes thereto (the "Audited Financials") and MD&A for the financial year ended October 31, 2010. The Quarterly Financials have been reviewed by the Company's external auditors; however, the comparative quarter's figures for the three and nine months ended July 31, 2010 have not been so reviewed.

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*".

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") under the Company's profile at www.sedar.com and is available online on the Company's website at www.adrianaresources.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-listed junior exploration-stage company engaged in the exploration and development of mineral properties in Nunavik, 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").

On January 12, 2011, the Company entered into a binding Framework Agreement with WISCO International Resources Development & Investment Limited ("WISCO") for a total investment of \$120,000,000, of which \$28,366,000 was contributed by way of a private placement on March 23, 2011. The Framework Agreement contemplates the formation of a joint venture or partnership to hold Adriana's current interests in the Company's Lac Otelnuke and December Lake iron ore properties in Nunavik, Quebec, with WISCO contributing an additional \$91,634,000, being the balance of the original commitment. WISCO will in turn receive a 60% participating interest in the resulting joint venture or partnership. On the formation of the joint venture or partnership with WISCO, the Company will pay a fee of 10% of the additional WISCO cash contribution to an arm's length third party. The Company may, at its sole discretion, pay a portion of the fee in Common Shares.

Under the terms of the Framework Agreement, WISCO will use commercially reasonable efforts to assist the joint venture or partnership to obtain project financing for not less than 70% of the capital cost of the project as determined by a definitive feasibility study. The Framework Agreement provided that the parties had 60 days to settle and enter into a Definitive Agreement with respect to the joint venture or partnership, this being subsequently extended to June 30, 2011. Negotiations continue as to the precise structure of the joint venture or partnership.

Under the terms of the private placement, WISCO has a pre-emptive right to subscribe for, at the same or equivalent cash subscription price, any equity securities that the Company proposes to issue, up to that number of offered securities as will enable WISCO, upon completion of the issuance, to maintain its then-

current proportionate interest in the Company. This pre-emptive right will terminate if: (i) the closing of the proposed joint venture or partnership between WISCO and the Company is not completed under specified circumstances, and (ii) WISCO's ownership of common shares of the Company is reduced to less than 10% of the issued and outstanding common shares of the Company.

To date, the Company has not recorded any revenues from operations and has no source of operating cash flow. With the closing of the March 2011 private placement, the Company has financial resources sufficient to cover necessary administrative, financing and support costs, an extended exploration program for the Lac Otelnuik Property and the next stage of development of the Port Facility for approximately the next two years, based upon present plans. Further development of the Lac Otelnuik Property and/or the Port Facility will require additional financing.

Mineral Property Interests

Labrador Trough – Lac Otelnuik Iron Ore Property, Nunavik, Québec, Canada

The Lac Otelnuik Property lies within the Labrador Trough in the Nunavik region of northern Québec, approximately 165 kilometres northwest of Schefferville. The Lac Otelnuik Property consists of 1,251 contiguous mineral claims totalling approximately 600 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 Otelnuik Option") and 1,122 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 Otelnuik Option.

On November 30, 2005, the Company entered into the Lac Otelnuik Option to earn a 100% interest in certain claims comprising part of the Lac Otelnuik Property. The Company has also staked additional mineral claims directly adjacent to and surrounding the claims subject to the Lac Otelnuik Option. Pursuant to the Lac Otelnuik 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 Otelnuik Royalty") equal to (i) 2.5% from the sale of iron ore products mined from the claims subject to the Lac Otelnuik 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 Otelnuik 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 Otelnuik Royalty for \$5,500,000 at any time prior to December 31, 2015 and for \$11,000,000 thereafter.

The Company filed an application with the Quebec Superior Court for a judicial interpretation of certain provisions of the Lac Otelnuik Option agreement. The clauses for which clarification was sought relate to the timing of the exercise of the option and certain aspects of the royalty payments. On August 19, 2011, the parties entered into a conditional settlement agreement. The litigation in the Quebec Superior Court was adjourned pending the satisfaction of the settlement's conditions.

Adriana's Lac Otelnuik iron deposit is a large Lake Superior-type (Mesabi Range) taconite iron formation that has been identified over a strike length of approximately 42 km. The iron formation was first recognized and mapped in 1948. In 1970 the property was acquired by King Resources who retained MPH Limited to explore and evaluate the deposit. In 1970 and 1973, twenty-nine widely spaced diamond drill holes were completed to primarily test the uppermost of three stacked iron formation units over a strike length of approximately 13 km, referred to as the North Zone. In 1976 an additional five holes were drilled to test the extension of the deposit to the south (the South Zone). Other work on the deposit in the 1970's included bulk sampling, metallurgical testing, and technical and economic studies.

In 2005 the deposit was staked by Bedford Resources Partners and subsequently optioned by Adriana Resources. In 2007 and 2008, Adriana drilled sixty eight holes totalling 7,466 metres on a 600 metre by 500 metre grid on the South Zone of the deposit over a strike length of 9 km and a cross section width of 2.5 km. Unlike the drilling in the 1970's, the 2007 and 2008 drilling targeted all three known iron formation units. In 2009, the firm of Watts Griffis and McOuatt ("WGM") was retained to conduct a mineral resource estimate in compliance with NI 43-101 Standards and Guidelines. An additional 40 diamond drill holes totalling 5,860 metres were drilled in 2010, primarily consisting of staggered in-fill holes to test the continuity of the deposit.

In August 2011, the Company announced that WGM prepared an updated NI 43-101 mineral resource estimate using the information from the 43-hole 2010-2011 infill drilling program on the South Zone. The update noted 4.89 billion tonnes of Measured and Indicated Mineral Resources and an additional 1.56 billion tonnes of Inferred Mineral Resources based on a Davis Tube Weight Recovery ("DTWR") cut-off grade of 18%. The DTWR and Davis Tube Concentrate ("DTC") grades are shown in the table below:

Summary of Mineral Resource Estimate
(using a DTWR cut-off grade of 18%)

Resource Classification	Tonnes (in billions)	%Total Fe (Head)	% DTWR	%SiO ₂ (DTC)	%Fe (DTC)
Measured	4.40	29.1	27.4	3.4	68.4
Indicated	0.49	28.3	26.3	3.2	68.5
Total M&I	4.89	29.0	27.3	3.4	68.4
Inferred	1.56	29.6	27.1	3.6	68.0

The Lac Otelnuik deposit strikes northwest-southeast, and is flat-lying with a north-easterly dip of 5 degrees. The structure is very simple and the stratigraphy has remarkable uniformity and continuity. The three stacked units that make up the iron formation, have a vertical thickness of approximately 115 metres where not eroded. The South Zone of the deposit is open along strike in both directions and down dip to the northeast, constrained only by the increasing caprock cover overlying the eastern portion of the deposit. Up dip to the southwest, the iron formation becomes increasingly peneplained until eventually all the formations daylight to surface. Approximately 75% of the South Zone deposit is exposed on surface covered only by a thin layer of glacial drift.

Metallurgical testing is being carried out by SGS Minerals, and Golder Associates has been retained to undertake an Environmental and Social Impact Analysis of the Project. Diamond drilling recommenced in May 2011 with the intent to further expand and upgrade the mineral resource and collect large diameter (PQ) core samples for grinding tests. The 2011 drill program contemplates 115 drill holes and, as of the date of this MD&A, the Company has drilled 71 holes and 10,475 metres.

Met-Chem Canada Inc. completed a NI 43-101 Preliminary Economic Assessment ("PEA") of the Lac Otelnuik Project with an effective date of April 8, 2011, to establish the viability of the project. The technical review and annual capacities considered for the base case are approximately 182 million tonnes of ore processed to generate 49 million tonnes of concentrate to produce 50 million tonnes of pellets. The PEA is based on a large-scale open pit operation with a 34 year mine life. Given the potential of added capital and operating costs associated with transporting concentrate and the need to develop a rather significant workforce for the Lac Otelnuik site, the PEA noted it would be advantageous to establish a complete processing plant at the mine site. The complex would include the mining, crushing, concentrating and pelletizing operations. The PEA is based on pellet transportation by railway, subject to construction of 815 km of rail between the mine site and a new port facility in Sept-Îles, which has been identified as the most suitable site for the marine facility. The Sept-Îles Bay has sheltered water and the depth capable of operating year-round and accommodating the +400,000 dead weight tonnage iron ore vessels envisioned for the project.

For an annual production of 50 million tonnes of pellets, the capital cost of the project is currently estimated to be \$12.9 billion, with an accuracy of $\pm 35\%$. The major portions of the capital cost include the crusher, concentrator, railway, and pellet plant. The annual operating cost beginning in year 6 of the project is presently estimated to be \$1.6 billion, which is equivalent to \$31 per tonne of pellets produced. The economic analysis of the PEA indicates that the Lac Otehluk Project has a potential net present value ("NPV") of \$15 billion at an internal rate of return of 20%. The PEA states that the parameter that most affects the NPV of the project is the commodity price, as opposed to capital expenditures and operating costs. Due to the lack of market studies, a conservative approach was used to determine the pellet price in the economic model, and a flat price of US\$100 per tonne of pellets was used for the life of the mine. The PEA states that the economic analysis of the Lac Otehluk Project indicates a solid economic performance under the conditions analyzed.

The recommendation is to proceed with the next steps, being feasibility and environmental studies in conjunction with exploration and testwork, as early as possible to provide a more comprehensive evaluation of the Lac Otehluk Project. For additional details, the entire PEA is available on SEDAR.

The Company currently has two drill rigs operating on site. The 2011 drill program consists of several widely spaced exploration drill holes and delineation drilling north and south of the South Zone deposit. Recent drilling has extended the potential strike length of the iron formation from 25 km to 42 km. In addition, the Company planned several large diameter PQ drill holes for the collection of bulk samples for metallurgical testing at SGS Minerals in Lakefield Ontario and, as at the date of this MD&A, one PQ drill hole is complete and, at least two more PQ drill holes are planned for the remainder of the 2011 season.

Frank Condon, P. Eng, a current consultant and 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 Property contained in this MD&A.

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. Certain additional mineral claims directly adjacent to the Bedford Labrador mineral claims remained and were sold in April 2011 for cash proceeds of \$500,000 and 500,000 common shares of the purchaser, Cap-Ex Ventures Ltd. ("Cap-Ex"), with a then market value of \$720,000, resulting in a gain on disposal of \$1,185,000 being recognized in the quarter ended April 30, 2011.

Iron Ore Port Development

The Company's proposed deepwater iron ore port facility development project (the "Port Facility") is located 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 Gerais 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 Gerais area, is currently designed to have a maximum capacity of 45 million tonnes per year. Following on receipt in September 2010 of the *Instrucao Tecnica* ("IT"), an important milestone in the environmental permitting process, the Company has engaged local consultants to take the permitting process to the next stage.

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, these two companies being collectively referred to as "Brazore". 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, of which US\$31,758,000 (October 31, 2010 - US\$30,316,000) has been invested to July 31, 2011.

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) a first tranche of US\$5,000,000 by October 20, 2007 to maintain a 50% ownership interest, (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") has been used for the purchase of certain of the landholdings 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 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 July 31, 2011, the Company has advanced to Brazore Holdings an additional US\$11,566,000 (October 31, 2010 - 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.

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 permit on September 14, 2010. This permit is the first major step in the permitting and development process. The Company is currently developing a comprehensive environmental study in order to quantify the impacts of the Port Facility development, including the environmental, social and economic impacts. Upon completion, the Company will proceed to the second major step of the permitting process, which is presenting the study to the State Environmental Agency.

On January 3, 2011, Athena gave notice of its intention to sell its 40% ownership. Pursuant to the terms of the Brazore Transaction, Adriana had the right of first refusal until February 12, 2011. This right was not exercised.

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With the hiring of two local consultants in January 2011, work has commenced on taking the environmental permitting process to the next stage.

Discussion of Operating and Financial Results

Following on the entering into of the Framework Agreement with WISCO in January 2011, activities in the second quarter of 2011 focused on the successful closing of the \$28 million private placement contemplated under the Framework Agreement, resulting in WISCO holding a 19.9% interest in the Company, together with negotiations as to the form of the proposed joint venture or partnership to be formed pursuant to the agreement. Exploration activities recommenced on the Lac Otelnuuk Property, as resources were mobilized to the site in April 2011 and drilling recommencing in May. In the third quarter of 2011, the Company continued its drill program and, as of the date of this MD&A, the Company has drilled 71 holes and 10,475 metres.

Summary of Quarterly Results

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

(\$'000's except per-share amounts)	2011				2010			2009
	Jul 31	Apr 30	Jan 31	Oct 31	Jul 31	Apr 30	Jan 31	Oct 31
Revenues	-	-	-	-	-	-	-	-
Administrative expenses	2,410	2,607	1,377	1,543	1,424	1,590	1,832	2,843
Property exploration	-	-	-	-	-	3	(3)	119
Write-off of property interests	-	-	-	-	200	-	-	1,464
Loss (gain) on disposal of property interests	-	(1,185)	-	364	7	(747)	-	-
Unrealized loss on marketable securities	340	75	-	-	-	-	-	-
Loss realized on lease of former premises	-	-	-	15	352	-	-	-
Other (income) expenses	(3)	(24)	(126)	(371)	243	(258)	(214)	(656)
Future income tax (recovery)	-	-	-	(321)	-	-	-	(632)
Loss	2,747	1,473	1,251	1,230	2,226	588	1,615	3,138
Loss per share - basic and diluted	\$ (0.02)	\$ (0.01)	(\$0.01)	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.02)	(\$0.04)

The Company's expenses and losses have increased on average through 2009 and 2010 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, which office was closed in 2009 with the relocation of the head office to Toronto.

Costs in the second and third quarter of 2011 increased substantially as a result of professional fees associated with the discussions with WISCO, as the Company and WISCO continue to determine the structure of the joint venture or partnership contemplated. As well, significant legal and other professional costs were incurred in connection with the Lac Otelnuuk Option agreement litigation.

Results of Operations

For the three months ended July 31, 2011 and 2010

The Company's loss for the three months ended July 31, 2011 was \$2,747,000 compared to a loss of \$2,226,000 for the corresponding quarter of 2010, an increase of \$521,000, primarily due to legal and professional fees incurred to determine the structure of the joint venture or partnership contemplated with WISCO and in connection with the ongoing Lac Otelnuuk Option agreement litigation. Professional and consulting fees increased by \$875,000, from \$226,000 in 2010 to \$1,101,000 in 2011.

The increase was also due to the \$340,000 unrealized loss on the Cap-Ex common shares acquired from the disposal of mineral properties in the second quarter of 2011 and the increased business development

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costs of \$164,000, from \$50,000 in 2010 to \$214,000 in 2011, as a result of extensive travel costs in connection with discussions with WISCO and the hiring of a business development manager to assist with the potential transaction.

The loss on foreign exchange decreased by \$230,000, from \$415,000 in 2010 to \$185,000 in 2011, due to the foreign exchange adjustment related to the future income tax liability and the fluctuation of the Brazilian Real from 0.5865 in July 2010 to 0.6113 in July 2011. In 2010, there was a correction in the calculation of foreign exchange gains and losses.

Interest expense on the convertible debentures decreased by \$138,000, from \$402,000 in 2010 to \$264,000 in 2011 due to conversions of debentures with face values of: (a) \$1,050,000 in the latter part of the first quarter; (b) \$500,000 in the second quarter; and (c) \$2,000,000 in the third quarter of 2011.

Investor relations costs increased by \$56,000, from \$7,000 in 2010 to \$63,000 in 2011, due to additional printed marketing materials and a site visit with analysts to the Lac Otelnuik camp in July 2011.

Rent and office expenses decreased by \$50,000 from \$147,000 in 2010 to \$97,000 in 2011. The decrease is a result of the savings from the subletting of the Vancouver office space from the end of the third quarter of 2010. As well, in 2010, the Company realized a loss of \$352,000 on the former premises in Vancouver.

Salaries and benefits increased by \$56,000, from \$321,000 in 2010 to \$377,000 in 2011, principally as a result of additional staffing costs for the Port Facility and the hiring of additional Toronto-based staff members.

Stock-based compensation decreased slightly by \$18,000, from \$253,000 in 2010 to \$235,000 in 2011 as the Company granted more stock options to officers, employees and consultants during 2010 than in 2011.

Interest income increased by \$82,000, from \$1,000 in 2010 to \$83,000 in 2011, reflecting the increase in the Company's cash balance following the successful financings in October 2010 and March 2011.

In July 2010, the Company wrote off the Bedford Iron Ore Prospect in Newfoundland and Labrador in the amount of \$200,183 since the option agreement was terminated.

For the nine months ended July 31, 2011 and 2010

The Company's loss for the nine months ended July 31, 2011 was \$5,470,000 compared to a loss of \$4,429,000 for the corresponding nine months of 2010, an increase of \$1,041,000, primarily due to legal and professional costs incurred in the 2011 period in connection with the Framework Agreement and with the ongoing Lac Otelnuik Option agreement litigation.

Business development expenditures increased by \$316,000 from \$197,000 in 2010 to \$513,000 in 2011, as a result of the extensive travel costs in connection with discussions with WISCO. The Company also hired a business development manager in the second quarter of 2011 to assist with the potential transaction.

Interest expense on the convertible debentures decreased by \$206,000, from \$1,153,000 in 2010 to \$947,000 in 2011, due to conversions of debentures with face values of: (a) \$1,050,000 in the latter part of the first quarter; (b) \$500,000 in the second quarter; and (c) \$2,000,000 in the third quarter of 2011.

Investor relations costs increased by \$36,000, from \$114,000 in 2010 to \$150,000 in 2011, due to additional printed marketing materials and a site visit with analysts to the Lac Otelnuik camp in July 2011.

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Professional and consulting fees increased by \$1,817,000, from \$740,000 in 2010 to \$2,557,000 in 2011, primarily due to legal fees incurred in connection with the discussions with WISCO regarding the Framework Agreement, and the ongoing Lac Oteluk Option agreement litigation. In early 2010, the Company incurred additional legal fees as a result of a review of all corporate contracts.

Rent and office expenses decreased by \$215,000, from \$459,000 in 2010 to \$244,000 in 2011 as a result of the savings from the subletting of the Vancouver office space from the end of the third quarter of 2010. As well, in the third quarter of 2010, the Company realized a loss of \$352,000 on the former premises in Vancouver.

Salaries and benefits decreased by \$24,000, from \$1,170,000 in 2010 to \$1,146,000 in 2011. This decrease reflects the termination costs totalling \$150,000 incurred in January 2010 as part of the downsizing process initiated in the fall of 2009. The Company also hired additional support staff in late 2010. Upon completion of the office relocation from Vancouver to Toronto, the Company hired additional support staff.

Stock-based compensation expense decreased by \$234,000, from \$904,000 in 2010 to \$670,000 in 2011, due to the Company granting additional options in 2010 to directors, officers, employees and consultants.

Interest income increased by \$127,000, from \$5,000 in 2010 to \$132,000 in 2011 due to the increase in the Company's cash balance following the successful financings in October 2010 and March 2011.

Foreign exchange conversion results decreased by \$392,000, from a gain of \$137,000 in 2010 to a loss of \$255,000 in 2011 due to the foreign exchange adjustment related to the future income tax liability and the 5.2% fluctuation of the Brazilian Real. In 2010, there was a correction in the calculation of foreign exchange gains and losses.

In July 2010, the Company wrote off the Bedford Iron Ore Prospect in Newfoundland and Labrador in the amount of \$200,183 since the option agreement was terminated.

Gain on disposal of mineral property interests reflects the April 2011 sale of the Company's remaining property interests in the former Bedford Iron Ore Prospect in Newfoundland and Labrador to Cap-Ex for cash and common shares consideration of \$1,185,000. Subsequent to the closing of the sale, the price of the Cap-Ex common shares has decreased from \$1.44 to \$0.61 per share, resulting in an unrealized loss on the marketable securities of \$415,000.

The gain on disposal of mineral property interests in 2010 reflects the sale in the second quarter of the Company's interest in the Mustavaara Property for \$747,000.

Liquidity and Financial Position

The Company's cash and cash equivalents were \$27,426,000 at July 31, 2011, compared with \$1,880,000 at October 31, 2010, an increase of \$25,546,000 over the nine months as a result of the completion in November 2010, for gross proceeds of \$8,000,000, of the second and third tranches of the October 2010 private placement and the completion in March 2011, for gross proceeds of \$28,366,000, of the WISCO private placement. The Company's working capital at July 31, 2011 has increased to \$23,082,000 from a deficiency of \$4,975,000 at October 31, 2010. As of the date of this MD&A, the Company's cash resources are approximately \$22 million.

With the conversion of the remaining non-ArcelorMittal convertible debentures in May 2011, the lone outstanding ArcelorMittal convertible debenture of \$6,450,000, together with the accrued interest, is due on September 10, 2012.

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During the nine months ended July 31, 2011, the Company incurred cash outlays for costs related to the mineral properties of \$4,386,000 (\$3,156,000 in 2010) to mobilize the 2011 drill program, camp related costs, and for environmental and metallurgical testing. The Company also incurred cash outlays for costs related to the Brazil Port Facility of \$580,000 (\$315,000 in 2010) which included environmental testing and also the engagement of two consultants to move the project towards the next stage in the permitting process.

Receipts in the nine months ended July 31, 2011 included net proceeds of \$26,143,000 from the March 2011 WISCO private placement, \$7,509,000 from the November tranches of the October 2010 private placement and \$906,000 from the exercise of stock options and warrants. Receipts in the comparative period included net proceeds of \$8,177,000 from flow-through private placements in the nine months ended July 31, 2010.

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 was required to be spent by December 31, 2010, which the Company has met, and the balance by December 31, 2011. Subsequent to July 31, 2011, the Company completed the expenditures of the entire required amount of \$7,001,500 on qualified expenditures.

As at the date hereof, the Company has financial resources sufficient to cover necessary administrative, financing and support costs, an extended exploration program for the Lac Otelnu Property and the next stage of development of the Port Facility for at least the next two years, based upon present plans. Corporate administrative expenditures are projected at approximately \$4,000,000 annually with anticipated carrying costs in Brazil relating to the Port Facility totalling approximately \$200,000 per month.

The Company's annual commitments for base rental agreements are as follows:

	Office leases
2011	\$ 106,300
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 cash loss for the remaining lease term of approximately \$250,000. 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 July 31, 2011 and October 31, 2010 is the amount of approximately \$2,900,000 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 July 31, 2011 is an accrual of \$234,000, 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 July 31, 2011 and October 31, 2010, 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's Brazilian subsidiary 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 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 Otelnuik Royalty is subject to minimum advances of \$150,000 payable by November 30 of each year until commencement of commercial production, all of which have been made to date.

Transactions with Related Parties

During the nine-month period ended July 31, 2010, the Company incurred \$48,000 in geological consulting fees to a then-director of the Company. No such amounts were incurred in the current period.

Off Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

Convergence with International Financial Reporting Standards ("IFRS")

The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending January 31, 2012, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending January 31, 2012, will also include the three months ended January 31, 2011 financial statements for the comparative period, adjusted to comply with IFRS, and the Company's Transition Date of November 1, 2010.

Impact of Adopting IFRS on the Company

As part of its analysis of potential changes to significant accounting policies, the Company is in the process of completing a detailed assessment of changes required to its accounting systems, and business processes.

The Company, being a smaller organization, has all financial personnel involved with the IFRS changeover receiving training as required. The Company has engaged an external consulting firm to assist with the IFRS changeover. The Audit Committee of the Board of Directors is receiving quarterly updates on the progress of the IFRS conversion plan.

Impact of Adopting IFRS on Internal Controls over Financial Reporting

Changes to accounting policies or business processes as a result of the IFRS conversion may affect the Company's internal controls over financial reporting ("ICFR"). The Company is still in the process of setting up longer term business processes and potential changes to accounting policies, and existing controls and procedures associated with IFRS will be incorporated as these processes are implemented.

First-time Adoption of IFRS

The adoption of IFRS requires the application of *IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")*, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS that are effective at the end of its first annual IFRS reporting period; however, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

Impact of Adopting IFRS on the Company's Financial Statements

The adoption of IFRS could result in changes to accounting policies and could have an impact on the recognition, measurement and disclosure of balances and transactions in the Company's financial statements. The Company has not yet completed its final assessment of the implications of adopting IFRS on its financial statements. The areas outlined below have been identified as having the most potential for a change to significant accounting policies. The list is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to highlight the areas reviewed to date having the most potential for significant changes.

Exploration Expenditures

IFRS 6 Exploration for and Evaluation of Mineral Resources and *IAS 16 Property, Plant and Equipment* currently allow an entity to retain its existing accounting policies related to the exploration for and evaluation of mineral properties, subject to some restrictions.

Property, Plant and Equipment (Measurement and Valuation)

IAS 16 Property, Plant and Equipment requires the Company to choose, for each class of capital assets, between the cost model and the revaluation model. Under the revaluation model, an item of property, plant and equipment is carried at its re-valued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. The Company expects it will choose the cost model in accounting for its capital assets, which is consistent with pre-IFRS changeover Canadian accounting principles ("Canadian GAAP").

Convertible Debentures

Under *IAS 32, IAS 39 and IFRS 7 Financial Instruments*, the conversion feature in the Company's convertible debentures is a derivative since the debenture holder has the right to convert the debenture, in whole or in part, into fully paid and non-assessable Common Shares. This derivative is classified as a financial liability and is recorded at fair value on transition to IFRS.

Capital Stock – Flow-through Shares

In contrast to Canadian GAAP's EIC-146, which offers guidance on how and when to record the tax effect relating to the issuance of flow-through shares and the subsequent renouncing of qualifying expenditures to investors, IFRS at this time offers no specific guidance on flow-through share accounting. The Company is currently reviewing proposed accounting policies to account for flow-through transactions.

Stock-based Compensation

In certain circumstances, *IFRS 2 Share-Based Payments* requires a different measurement of stock-based compensation than current Canadian GAAP. The determination of whether a stock-based award is granted to an employee or non-employee differs under Canadian GAAP and IFRS. As a result of this, the Company has determined that certain awards granted to non-employees under Canadian GAAP are

considered to be employee awards under IFRS, resulting in a different amount and timing of recognition of stock-based compensation costs.

Foreign Currencies

IAS 21 Effects of Changes in Foreign Exchange Rates requires that the functional currency of the Company and its subsidiaries be determined separately, and the process of considering factors to determine functional currency is somewhat different from current Canadian GAAP. It is possible that a change in the functional currency of the Company and or its subsidiaries would be required on adoption of IFRS. The Company has not finalized this assessment; however, it does not expect retrospective application of this standard would have a significant effect on the financial statements. The reporting currency is Canadian dollars and is expected to remain on this basis.

Accounting for Income Taxes

While accounting for income taxes is similar under *IAS 12 Income Taxes* and Canadian GAAP, in certain circumstances there are differences in the measurement of future tax assets and future tax liabilities. The Company has identified that there are differences in relation to accounting for future income taxes in relation to the Port Facility and to the issuance of flow-through shares, and is in the process of quantifying these differences.

Internal Controls

The Company has only six full-time employees and one part-time consultant at its Toronto head office, including the Chief Executive Officer and the Chief Financial Officer. 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 unaudited interim consolidated financial statements 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 unaudited interim consolidated financial statements; and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 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 NI 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 accounting policies.

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.

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Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement a cost-effective basis DC&P and ICFR as defined in NI 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

The Company is authorized to issue an unlimited number of Common Shares. As at September 22, 2011, the Company had 149,106,709 Common Shares issued and outstanding.

As at September 22, 2011, stock options to purchase 7,612,500 Common Shares at a weighted average price of \$0.60 were outstanding. During the three months ended July 31, 2011: (a) 640,000 stock options were granted to officers, employees and consultants at a weighted average price of \$0.99; (b) 83,333 stock options were exercised at a weighted average price of \$0.76; and (c) 50,000 stock options expired unexercised with a weighted average price of \$1.10.

As at September 22, 2011, 2,382,853 warrants, each entitling the holder to acquire one Common Share at a price per share of \$0.50, remain outstanding. During the three months ended July 31, 2011, the Company issued 25,000 warrants arising from the exercise of 50,000 compensation options. As at July 31, 2011, of the 555,319 compensation options issued in May 2010, 111,064 compensation options remain outstanding. Each compensation option, exercisable at a price of \$0.40, consists of one Common Share and one-half warrant. The warrants and compensation options are exercisable until May 7, 2012.

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 and outstanding				149,106,709
Convertible Debenture	September 10, 2012	\$ 0.99	6,515,151	6,515,151
Share purchase warrants	May 7, 2012	0.50	2,382,853	2,382,853
Compensation options				
- Common Shares	May 7, 2012	0.40	111,064	111,064
- Share purchase warrants	May 7, 2012	0.50	55,532	55,532
Stock options exercisable for Common Shares, at weighted average exercise price				
expiring in the year ended:	December 31, 2012	0.69	800,000	
	December 31, 2013	1.10	275,000	
	December 31, 2014	0.35	3,900,000	
	December 31, 2015	0.42	1,050,000	
	December 31, 2016	0.18	1,587,500	
		\$ 0.60		7,612,500
Common Shares, on a fully diluted basis				165,783,809

Subsequent Event

The Company filed an application with the Quebec Superior Court for a judicial interpretation of certain provisions of the Lac Otelnuik Option agreement. The clauses for which clarification was sought relate to the timing of the exercise of the option and certain aspects of the royalty payments. On August 19, 2011, the parties entered into a conditional settlement agreement. The litigation in the Quebec Superior Court was adjourned pending the satisfaction of the settlement's conditions.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the unaudited consolidated financial statements 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 positive feasibility study and a number of factors including environmental, legal, and political risks, and the ability of the Company and its subsidiaries to obtain necessary financing to complete the development.

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 future profitability of the Company and its subsidiaries are dependent on their ability to obtain necessary financing to complete the development.

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.

Risks and Uncertainties

Investing in the Company involves risks that should be carefully considered. In addition to the risks, uncertainties and factors as discussed below in the "*Cautionary Statement Regarding Forward-Looking Information*", in conducting its business, the Company is subject to a number of other risks and uncertainties, including as detailed in the Company's MD&A of January 19, 2011 relating to the Audited Financials, 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.

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.