



Colossus Minerals Inc.

(A development stage company)

MANAGEMENT'S DISCUSSION AND ANALYSIS

First Quarter Fiscal 2010 - October 31, 2009

Colossus Minerals Inc.

(A development stage company)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at October 31, 2009. Expressed in Canadian Dollars unless otherwise noted.

The following discussion and analysis of the current Interim Consolidated Financial Statements of Colossus Minerals Inc. ("Colossus" or the "Company") for the quarter ended October 31, 2009 (referred to as "Q1-2010") should be read in conjunction with the audited Consolidated Financial Statements and related Notes, and Management's Discussion and Analysis as at July 31, 2009. The comparative quarter is for the three months ended October 31, 2008 (referred to as "Q1-2009"). The Consolidated Financial Statements and related Notes (the "financial statements") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information, including the Company's Annual Information Form and press releases, has been filed electronically through the System for Electronic Document Analysis ("SEDAR") and is available online at www.sedar.com. The date of this Management's Discussion and Analysis is December 11, 2009. All figures are in Canadian dollars unless otherwise noted. R\$ refers to Reais, the currency of Brazil.

Highlights

During the first quarter ended October 31, 2009:

- On August 4, 2009, the Company announced the results of check assays for gold, platinum and palladium that yielded higher precious metal grades than the original assays on the Serra Pelada Project.
- Phase II drilling results announced on September 3, 2009, confirmed a new shallow dipping and plunging mineralized zone, called the Western Mineralized Zone, located outside of the Central Mineralized Zone at Serra Pelada.
- On September 14, 2009, Steven Poad was appointed Chief Financial Officer and on September 28, 2009, Randy Reichert was appointed President and Chief Operating Officer.
- On September 30, 2009, the Company announced the results of step-out diamond drilling on the Central Mineralized Zone of the Serra Pelada Project that returned significant high grade precious metal results.
- The Board of Directors of the Company adopted a shareholder rights plan effective October 1, 2009.
- On October 22, 2009 the Company closed a previously announced \$71.9 million bought deal financing.
- The Company provided notice on October 26, 2009 to the warrant holders of the March 10, 2009 public offering of the accelerated expiry of the warrants to November 27, 2009 from the original date of March 10, 2011. All warrants were subsequently exercised prior to the accelerated expiry date.

Subsequent to the first quarter ended October 31, 2009:

- The Company commenced metallurgical test work on the Central Mineralized Zone of the Serra Pelada Project.
- On November 8, 2009, the membership of Coomigasp approved an amendment (the third amendment) to the partnership agreement changing the terms of the premium payment to be based upon production and sales of metal.
- On November 23, 2009 the Company announced acceptance by Brazilian regulatory authorities of completion of the earn-in obligation for the full 75% interest in the Serra Pelada Project with effect on September 24, 2009, being the date when the registration application was filed.

Corporate Overview

The Company was formed in February 2006 for the purpose of acquiring, exploring and developing mineral properties in Brazil. The Company does not have any projects that generate revenue at this time. The Company's ability to carry out its business plan rests with its ability to secure equity and other

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financings. The Company's common shares were listed for trading on the Toronto Stock Exchange on February 13, 2008.

The Company has two 100% owned subsidiaries, Colossus Geologia e Participacoes Ltda. ("Colossus Brazil") and Mineracao Fazenda Monte Belo Ltda. ("MFMBL") and Colossus Brazil's 75% owned (51% owned as at July 31, 2009) subsidiary Serra Pelada Companhia de Desenvolvimento Mineral effective August 1, 2009 (formerly Serra Pelada Empresa de Desenvolvimento Mineral Ltda. up to July 31, 2009) (referred to hereafter as "SPC") which holds the title to the Serra Pelada Property. The Serra Pelada Property is located in Para State, Brazil. The principal asset of MFMBL is the Rio Cristalino property.

Property Acquisitions and Exploration Activity

Serra Pelada Project

On July 16, 2007, the Company, through its subsidiary Colossus Brazil, entered into a partnership agreement (the "Agreement") with De Mineracao dos Garimpeiros de Serra Pelada ("Coomigasp"), a private Brazilian entity, pursuant to which Colossus Brazil can earn an interest in SPC. The Company earned an initial 51% share in SPC by spending R\$6,000,000 on exploration and development. Colossus Brazil formally earned the 51% share of SPC in April 2009 with the acceptance by Coomigasp of spending to that date on the Serra Pelada Property.

On November 23, 2009, Colossus Brazil completed its remaining earn-in obligation for the full 75% interest in SPC by expending a further R\$12,000,000 pursuant to the terms of the Agreement. The 75% ownership interest in SPC was accepted by regulatory authorities in Brazil on November 17, 2009 with an effective date of September 24, 2009, being the date when the registration application was filed.

As required by the Agreement, Colossus Brazil has also funded R\$200,000 of consulting work for Coomigasp to evaluate the potential to mine the existing waste and tailings from the historical open pit mine. Coomigasp will continue to assume all liabilities for environmental cleanup related to the existing waste and tailings. SPC under the terms of the agreement with Coomigasp does not earn any interest in the existing waste and tailings from the historical open pit mine.

The Company has accounted for the acquisition of the initial 51% of SPC as at July 31, 2009 as an asset acquisition and consolidated SPC in its consolidated financial statements. A subsequent capital transaction during Q1-2010 has increased the ownership interest to 75% as at October 31, 2009. The non-controlling interest which represents Coomigasp's share of the net assets of SPC, is \$3.0 million as at October 31, 2009 (July 31, 2009 - \$2.9 million). The Company has also recorded a future income tax liability of \$12.9 million (July 31, 2009 - \$12.9 million) related to this investment which has been capitalized to mining interests.

Pursuant to the terms of the prior Agreement, Colossus Brazil was previously obligated to pay Coomigasp a series of premium payments based upon a gold reserve accepted and approved by the Departamento Nacional de Produção Mineral ("DNPM") of Brazil. Such premium payments ranged from a minimum of R\$40,800,000 (based on Colossus Brazil's 51% interest in SPC) for 20 tons of gold reserves to a maximum of R\$817,500,000 (if Colossus Brazil held a 75% interest) for 550 tons or greater of gold reserves. Advance payments were required to be made under the terms of the Agreement. As of October 31, 2009 advance payments in an amount of R\$6,200,000 have been paid to Coomigasp under the terms of the Agreement.

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On November 8, 2009, the membership of Coomigasp approved an amendment (the third amendment) to the Agreement (the "Amended Agreement"). The effective date of the Amended Agreement is September 4, 2009. Pursuant to the terms of the Amended Agreement, Colossus Brazil is now required to make a monthly payment to Coomigasp of R\$350,000 and finance Coomigasp's portion of development costs until production commences. Reimbursement of funds advanced to Coomigasp under the terms of the Agreement and the Amended Agreement or paid upon behalf of Coomigasp for development of the project by Colossus Brazil will commence in the second year of production and will be payable in equal quarterly instalments over a two year period.

An amount of R\$500,000 has been paid during October and scheduled payments in November and December of R\$691,500 and R\$400,000 respectively have been included in accrued liabilities. The October payment and scheduled payments are in lieu of the monthly R\$350,000 payments under the Amended Agreement for the balance of the calendar year 2009.

In addition to the above payments, Colossus Brazil will make a life-of-mine premium payment to Coomigasp per kilogram of precious metal sold from mine production in Brazilian Reais as follows:

| Range of production (millions of ounces of metal) | | Premium per kilogram of precious metal produced* | Premium per ounce of metal produced |
|--|-------|---|--|
| From | To | | |
| --- | 2.03 | R \$1,445 (US \$850)** | R \$41.99 (US \$26.44)** |
| 2.03 | 4.79 | R \$975 (US \$573) | R \$28.30 (US \$17.82) |
| 4.79 | 10.26 | R \$900 (US \$529) | R \$26.12 (US \$16.45) |
| 10.26 | 17.65 | R \$900 (US \$529) | R \$26.12 (US \$16.45) |
| 17.56 | --- | R \$900 (US \$529) | R \$26.12 (US \$16.45) |

* Precious metal is defined as any one of gold, platinum, palladium, rhodium, osmium, ruthenium or iridium

**R\$ 1 = US \$0.5880 (November 9, 2009)

Exploration Activity

August

Four diamond drill rigs were active on the project drilling a total of 1149 meters during the month. Four drill holes were completed (SPC-013, SPC-022, SPC-034, SPD-036) and four remained a work in progress (SPD-035, SPC-018, SPC-019, SPD-038). Drilling activity involved ongoing resource definition drilling, extensional work on the Central Main and West Zones, open-pit tailings evaluation, below open-pit evaluation, metallurgical test-work drilling and initial exploration drilling of the East Zone.

Check assays for gold, platinum and palladium as well as new full platinum group elements (PGE's) suite assays on Phase I drilled materials were announced during the month of August. Highlights included:

- The new assays indicate higher grades of gold, platinum and palladium for most drill-holes, for example: SPD-001: **77.30 metres at 7.39 g/t gold, 14.49 g/t platinum and 15.19 g/t palladium** (vs. 77.30 metres at 6.50 g/t gold, 6.93 g/t platinum, and 7.74 g/t palladium);

SPD-002: **48.25 metres at 30.57 g/t gold, 10.96 g/t platinum and 15.38 g/t palladium** (vs. 48.25 metres at 23.37 g/t gold, 8.77 g/t platinum, and 11.21 g/t palladium);

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SPD-018: **44.00 metres at 27.32 g/t gold, 1.90 g/t platinum and 3.25 g/t palladium** (vs. 44.00 metres at 19.06 g/t gold, 1.75 g/t platinum, and 2.96 g/t palladium);

- Very high grade samples generally have assayed substantially higher in gold, platinum and palladium, individual samples assaying more than 600 g/t gold, 500 g/t platinum and 400 g/t palladium; and
- High grades of rhodium (up to 5.92 g/t over 2.05m) and also iridium were encountered in high grade platinum group elements ("PGE's") samples.

September

Drilling in the month was 1532 meters which continued the work on the Central Main and West Zones for ongoing resource definition and extensional work. Five diamond drill rigs were active during the month completing four holes (SPC-019, SPD-037, SPD-038, SPD-039) and continuing work on another four holes (SPC-023, SPD-040, SPD-041, SPD-042).

Drilling results from a portion of the Phase II drilling program were announced on September 3, 2009. The results confirmed a new mineralized horizon called the Western Mineralized Zone. Highlights of the announcement included:

- Drill hole SPC-012 intersected
4.15 metres at 8.04 g/t gold, 154.5 g/t platinum and 245.8 g/t palladium,
including
2.0 metres at 14.05 g/t gold, 304.6 g/t platinum and 488.5 g/t palladium;
- Ultra high-grades of platinum and palladium are hosted mainly by iron oxide-rich breccias with associated siliceous and haematitic-argillic alteration; and
- The Phase II drilling results indicate a shallowly dipping and plunging mineralized zone (the **Western Mineralized Zone**) outside the Central Mineralized Zone, along at least 50 meters strike length, open to the northeast, southwest and laterally.

Further results were announced on September 30, 2009 from step-out diamond drilling on the Central Mineralized Zone. Highlights included:

- Drill hole SPD-034 intersected
70.70 metres @ 53.59 g/t gold, 20.77 g/t platinum and 31.30 g/t palladium (89.59 g/t gold-equivalent (calculated at US\$992/oz Au., US\$1275/oz Pt., US\$295/oz Pd*.))
including
20.44 metres at 158.82 g/t gold, 67.14 g/t platinum and 101.10 g/t palladium (275.17 g/t gold-equivalent*);
- SPD-032 intersected
39.05 metres @ 21.47 g/t gold, 6.44 g/t platinum and 9.36 g/t palladium, (32.53 g/t gold-equivalent*)
including
4.80 metres at 161.87 g/t gold, 49.85 g/t platinum and 73.13 g/t palladium, (247.69 g/t gold-equivalent*);
- SPD-028 intersected

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8.80 metres at 60.05 g/t gold, 0.07 g/t platinum and 0.18 g/t palladium

including

5.20 metres at 99.21 g/t gold, 0.10 g/t platinum and 0.25 g/t palladium,

approximate true thicknesses of mineralization; and

- These and other step-out drill-holes have contributed materially to the definition of gold-platinum-palladium mineralization, including ultra high grade subzones in the Central Mineralized Zone.

October

Work continued on definition drilling and extensional work to the Central Main and West Zone. In addition, drilling tested the open-pit montoeira material and below the old open pit. A total of 1343 meters of drilling was completed in the month. Seven diamond drill holes were completed in the month (SPC-023, SPD-040, SPD-042, SPD-043, SPD-044, SPD-045) and drilling continued on three holes (SPD-042a, SPD-046, SPD-047).

Subsequent to October

On November 3, 2009, the Company announced that metallurgical test work has been initiated on the Central Mineralized Zone drill core samples. Highlights of the test work include the following:

- Two representative drill-core samples are undergoing initial metallurgical testing:
SPD-020A: 22.70 metres @ 22.52 g/t gold, 8.98 g/t platinum and 15.75 g/t palladium,
(52.79 kilogram sample mass) and
SPD-033: 26.0 metres @ 21.32 g/t gold, 3.98 g/t platinum and 5.70 g/t palladium,
(70.43 kilogram sample mass);
- Material characterization studies of similar gold-platinum-palladium mineralization from the Central Mineralized Zone have shown that the sulphide-poor mineralization contains gold and PGE's mainly in the form of metals and metal alloys which may be amenable to hydro-gravity concentration; and
- Initial test-work by hrITesting Ltd. (Brisbane), with assaying by Genalysis Ltd., is focusing on gravity concentration with options for flotation and hydrometallurgical follow-up on head samples and gravity tails.

Future Objectives

The following are some of the major tasks for the Company to complete in 2010 on the Serra Pelada Project:

- Complete the phase II drilling program;
- Develop a decline to access the Central Mineralized Zone and take a bulk sample of up to 10,000 tonnes;
- Start definition drilling underground from the decline;
- Complete metallurgical testing to guide the development of a process flow sheet; and
- Commence engineering and design of a mill facility.

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Rio Cristalino Project

The principal asset of MFMBL is the Rio Cristalino low-grade molybdenum property. There have been no expenditures on this property during the first quarter of fiscal 2010.

Natividade Project

The Company recently terminated its option agreement relating to the Natividade Property due to the suspension of exploration works on the property. Exploration works were suspended due to a force majeure situation whereby environmental and archaeological authorities in Brazil applied penalties and embargoes in respect of the work being carried out on the property. The Company has argued against the jurisdiction of such authorities to levy penalties and embargoes (the amount of which, in the aggregate is not considered by the Company to be material). All costs associated with this property were written off in the year ended July 31, 2009.

Sumidouro Project

The Company announced on January 6, 2009 that it was not proceeding with further exploration activities under the terms of the Sumidouro Option Agreement. Costs of \$1.7 million for this property were written off in the quarter ended January 31, 2009.

Cash expenditures on mining interests during Q1-2010 amounted to \$3.6 million all of which was on the Serra Pelada Project as compared to the Q1-2009 total expenditure of \$5.1 million of which \$4.6 million was on Serra Pelada and the balance on Rio Cristalino, Natividade and Sumidouro. Natividade and Sumidouro were abandoned in fiscal year 2009 and written off.

Results of operations for the quarter

The net loss and comprehensive loss for Q1-2010 is \$1.4 million (\$0.02 per share) as compared to \$808,522 (\$0.02 per share) for Q1-2009.

General and administrative costs of \$603,555 in Q1-2010 (Q1-2009 - \$260,754) increased significantly due to increased activity in Brazil which accounted for \$360,300 of expense in the current quarter as compared to \$146,310 in Q1-2009. Higher corporate travel costs of \$110,576 compared to \$36,609 in Q1-2009 also contributed to the increase.

Wages and salaries of \$146,060 in Q1-2010 (Q1-2009 - \$87,336) primarily reflect the increase in staff levels in the Toronto office.

Non-cash stock-based compensation cost of \$769,936 was expensed in Q1-2010 (Q1-2009 - \$339,591). The Company capitalized \$60,269 of stock-based compensation costs to the Serra Pelada Property in Q1-2010 to be consistent with the capitalization of related compensation costs (Q1-2009 - \$nil).

Interest income in Q1-2010 was \$203,454 compared to \$59,722 in Q1-2009. The increase in interest income reflects a higher average cash balance in Q1-2010 compared to the prior year. In addition, the Company realized a better return on cash held in Brazil where the banks pay a higher rate of interest.

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Shares issued and outstanding

The issued and outstanding common shares of the Company totaled 72,746,063 as at October 31, 2009 (July 31, 2009 – 57,722,288). The total amount of common shares which would be outstanding if all options, warrants, and broker units on issue at October 31, 2009 were exercised amounts to 97,865,533 shares (July 31, 2009 – 84,826,768 fully diluted shares).

On March 10, 2009 the Company closed a bought deal private placement of 11.5 million units at an offering price of \$2.15 per unit, for total gross proceeds of \$24.7 million. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitled the holder thereof to acquire one common share in the capital of the Company at an exercise price of \$2.70 expiring twenty-four months following issuance. The Company had the right to force conversion of the warrants in the event the daily closing share price exceeded \$3.75 for twenty consecutive trading days. On October 26, 2009 the Company provided notice to all registered holders of the warrants of the decision to accelerate the expiry date of the warrants from 4pm Toronto time on March 10, 2011 to 4pm Toronto time on November 27, 2009 in accordance with the terms of the warrants. All of the warrants were subsequently exercised by the accelerated expiry date.

On September 30, 2009 the Company announced a financing with a syndicate of underwriters. The underwriters agreed to purchase, on a bought deal basis, 11,000,000 common shares of the Company at a price of \$5.75 per common share with an over-allotment option to purchase up to an additional 1,500,000 common shares at \$5.75 per common share. The transaction closed on October 22, 2009. The Company issued an aggregate of 12,500,000 common shares for gross proceeds of \$71.9 million. A commission of 5.5% of the gross proceeds, in the amount of \$4.0 million, was paid to the underwriters. The underwriters also received, as additional compensation, 312,500 non-transferable broker warrants to purchase further common shares of the Company. Each broker warrant is exercisable for one common share at a price of \$5.89 for a period of 24 months from the closing date.

The Company's management has determined that the warrants have an estimated fair value of \$713,750 using the Black-Scholes option pricing model based on the following assumptions: dividend yield – 0%; expected volatility – 85%; risk-free interest rate – 1.15%; and expected life – 2.0 years. This amount has been charged to share issue costs as additional compensation to the underwriters.

The Company had 21,792,400 warrants issued and outstanding at July 31, 2009. During Q1-2010 a total of 2,391,525 warrants were exercised for cash proceeds of \$3.2 million and a further 321,125 were issued. As of October 31, 2009 there are 19,722,000 warrants outstanding at a weighted average exercise price of \$1.90 per warrant.

As at December 11, 2009, the share capital consisted of:

- 79,701,338 common shares issued and outstanding
- 4,207,500 common share purchase options outstanding at an average exercise price of \$1.74 maturing at various dates until September 29, 2014.
- 13,958,350 warrants outstanding at an average exercise price of \$1.71 maturing at various dates until December 6, 2011.

Shareholders Rights Plan

On October 1, 2009, the Board of Directors adopted a shareholder rights plan ("Rights Plan") effective October 1, 2009. The Rights Plan is designed to provide adequate time for shareholders of the Company and the Board of Directors to consider and evaluate any unsolicited take-over bid for the Company; to provide the Board adequate time to identify, develop and negotiate alternatives for maximizing

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shareholder value; to provide shareholders with an equal opportunity to participate in any take-over bid; to encourage the fair treatment of shareholders in the event of any bids for the Company; and, to ensure that any proposed transaction is in the best interest of the Company's shareholders. The Company is not aware of any pending or threatened take-over bid for the Company.

The Rights Plan is effective immediately subject to ratification by the Company's shareholders, which will be sought at the Annual and Special Meeting of Shareholders (the "Meeting") to be held in January 27, 2010.

Under the terms of the Rights Plan, one right (a "Right") will be issued by the Company in respect of each outstanding common share of the Company at the close of business on October 1, 2009 and in respect of each common share of the Company issued hereafter (subject to the terms of the Rights Plan). The Rights issued under the Rights Plan become exercisable only if a person acquires or announces its intention to acquire 20% or more of the common shares of the Company without complying with the "permitted bid" provisions of the Rights Plan or without the approval of the Board of Directors of the Company.

Should such an acquisition occur, Rights holders (other than the acquiring person or related persons) can purchase common shares of the Company at a substantial discount to the prevailing market price (as defined in the Rights Plan) at the time the Rights become exercisable.

"Permitted bids" under the Rights Plan must be made by take-over bid circular to all holders of common shares of the Company and no common shares shall be taken up or paid for for a minimum of 60 days following the date of the bid. If, at the end of 60 days, at least 50% of the outstanding common shares, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the bidder may take-up and pay for the shares but must extend the bid for a further 10 days to allow other shareholders to tender to the bid.

Although effective October 1, 2009, the Rights Plan is subject to ratification by the Company's shareholders at the Meeting and, if ratified, the Rights Plan must be confirmed at every third annual meeting thereafter. If not ratified at the Meeting, the Rights Plan and all of the Rights outstanding at that time will terminate.

Financial condition

The Company's total assets at October 31, 2009 increased to \$137.2 million from \$67.0 million at July 31, 2009. The most significant reason for the increase was the \$71.9 million of cash raised through the bought deal financing in October 2009. During Q1-2010, cash expenditures on mining interests and other investing activities of \$3.9 million includes approximately \$1.5 million for drilling activities. All of the expenditures on mining interests related to the Serra Pelada Property.

Cash and cash equivalents of \$90.5 million include \$82.7 million of cash invested in bank guaranteed, short-term maturity instruments and Government of Canada treasury bills that stress reduced risk and liquidity over return.

The Company's current liabilities are \$1.5 million at October 31, 2009 compared to \$2.0 million at July 31, 2009. The decrease primarily reflects a reduction in the accrual of \$1.5 million payable to Coomigasp at July 31, 2009 downward to \$671,382 at October 31, 2009. This amount reflects the scheduled payments for November and December 2009.

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The Company has no long-term financial liabilities, off balance sheet financing arrangements or material contingent liabilities or contractual obligations other than minimum payments due to Coomigasp under the terms of the Amended Agreement and a future income tax liability primarily associated with the Serra Pelada Property in an amount of \$13.8 million.

Liquidity and capital resources

From the date of its incorporation to October 31, 2009, the Company has raised total net proceeds of \$124.8 million through equity financings and warrant and stock option exercises.

At October 31, 2009 the Company had working capital of \$89.4 million compared to \$22.8 million as at July 31, 2009.

The ability of the Company to successfully acquire additional mineral projects or to fund exploration and development of current projects, is conditional on its ability to secure financing when required. The Company proposes to meet additional financing requirements through equity financing. In light of the continually changing financial markets, there is no assurance that new funding will be available when required by the Company.

The Company will continue to be reliant on equity financings as it is still in the development stage without any revenue from operations. The Company's ability to raise additional funds and its future performance is largely tied to the financial markets related to mineral exploration companies. Current financial markets are likely to be volatile in Canada for the remainder of the calendar year and potentially into 2010, reflecting ongoing concerns about the stability of the global economy and weakening global growth prospects. As well, concern about global growth has led to sustained drops in the commodity markets, although the outlook for gold and to a lesser extent, platinum group metals remains relatively positive. Unprecedented uncertainty in the credit markets has also led to increased difficulties in raising funds.

Junior exploration companies world-wide have been hit particularly hard by these trends. As a result, the Company may have difficulties raising equity financing for the purposes of mineral exploration and development, particularly without the risk of excessive dilution to the present shareholders of the Company.

The Company's strategy is to spend its funds in a prudent manner while focusing and expanding its exploration efforts at the Serra Pelada Property. The Company currently has adequate funds to pursue all of its planned exploration activities.

Related party transactions

The Company entered into the following transactions with related parties during the period:

- (i) The Company paid consulting fees in the amount of \$37,500 (2008 - \$37,500) to a company whose owner is an Officer of the Company. As at October 31, 2009, a balance of \$7,101 (July 31, 2009 - \$32,830) is due to this company and included in accounts payable and accrued liabilities.
- (ii) The Company paid consulting fees in the amount of \$45,000 (2008 - \$45,000) to a company owned by an Officer and Director of the Company.

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(iii) The Company paid consulting fees in the amount of \$15,000 (2008 - \$15,000) to the former Chief Financial Officer.

These transactions are in the normal course of operations and are measured at the exchange value being the amount established and agreed to by the related parties, which approximates the arm's length equivalent value. Amounts due are unsecured and non-interest bearing.

Summary of Quarterly Results

| <u>Year ended July 31, 2010</u> (all amounts expressed in \$) | <u>Q1</u> | | | | <u>Total</u> |
|--|-----------|--|--|--|--------------|
| Total revenues | - | | | | - |
| Net loss and comprehensive loss for the period | 1,398,895 | | | | 1,398,895 |
| Basic and diluted net loss per share | 0.02 | | | | 0.02 |

| <u>Year ended July 31, 2009</u> (all amounts expressed in \$) | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Total</u> |
|--|-----------|-----------|-----------|-----------|--------------|
| Total revenues | - | - | - | - | - |
| Net loss and comprehensive loss for the period | 808,522 | 2,616,307 | 1,023,556 | 972,653 | 5,421,038 |
| Basic and diluted net loss per share | 0.02 | 0.06 | 0.02 | 0.01 | 0.11 |

| <u>Year ended July 31, 2008</u> (all amounts expressed in \$) | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>Total</u> |
|--|-----------|-----------|-----------|-----------|--------------|
| Total revenues | - | - | - | - | - |
| Net loss and comprehensive loss for the period | 299,977 | 440,955 | 602,189 | 975,384 | 2,318,505 |
| Basic and diluted net loss per share | - | 0.02 | 0.02 | 0.03 | 0.07 |

Trends

The Serra Pelada Property is the Company's most significant asset and this property will continue to be the focus of most of the exploration work undertaken in fiscal 2010. The net loss has been increasing over the last eight quarters, reflecting exploration write downs and greater administration costs to support expanding exploration activities and public company expenses since February 2008. In the second fiscal quarter of 2009 the loss for the period reflected a \$1.7 million write-off for the abandonment of the Sumidouro Property. In the fourth fiscal quarter of 2009, the loss for the period reflected a \$753,569 charge against the Natividade Property. Other corporate activities and expenditures relating to the support of Serra Pelada and requirements of becoming a public company will continue in 2010.

Disclosure Controls and Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be

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effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has completed an evaluation of the design and operating effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that as at the end of the period covered by this management's discussion and analysis, the Company's internal controls over financial reporting were operating effectively.

Management has also evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as part of the fiscal year end procedures for 2009. Based on this evaluation and review of procedures conducted during Q1-2010, management has concluded that the Company's disclosure controls and procedures continue to be effective in ensuring that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

There have been no changes in the Company's internal control over financial reporting during Q1-2010 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Future Accounting Changes

Business Combinations - Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011 with concurrent early adoption permitted. Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IAS-27, "Consolidated and Separate Financial Statements". The Company is in the process of evaluating the requirements of the new standards.

International Financial Reporting Standards ("IFRS") Implementation Plan

The AcSB has confirmed that IFRS will replace current Canadian GAAP for publicly accountable enterprises, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements (with comparatives) in accordance with IFRS beginning with the first quarter ended October 31, 2011 for the fiscal year ending July 31, 2012.

The Company has commenced the development of an IFRS implementation plan to prepare for this transition, and is in the process of analyzing the key areas where changes to current accounting policies may be required. While an analysis will be required for all accounting policies, the initial key areas of assessment will include:

- Exploration and development expenditures;
- Stock-based compensation;

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- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures on information technology; internal controls; contractual arrangements; and employee training. The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

| | |
|--|-----------------------------------|
| Initial analysis of key areas for which changes to accounting policies may be required | Completed during fiscal 2010-Q2 |
| Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives | Throughout fiscal 2010 |
| Assessment of first-time adoption (IFRS 1) requirements and alternatives | Throughout fiscal 2010 |
| Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives | May 31 – July 31 2010 |
| Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements | May 31 – October 31 2010 |
| Management and employee education and training | Throughout the transition process |
| Quantification of the Financial Statement impact of changes in accounting policies | Throughout fiscal 2010 |

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value on its mineral properties, future taxes and the value of stock-based compensation. Both 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 recorded value of its mineral properties is based on historical costs that it expects to be recovered in the future. The Company operates in an industry that is exposed to a number of risks and uncertainties, including exploration risk, development risk, commodity price risk, operating risk, ownership, funding, and currency risk, as well as environmental risk. All of these factors are potentially subject to significant change that is out of the Company's control, however such changes are not determinable. Failure to conduct additional work on its exploration properties could result the loss of exploration rights. Accordingly, there is always the potential for a material adjustment to the value assigned to mineral properties.

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The factors affecting stock-based compensation and valuation of stock-based securities include the use of a Black-Scholes option pricing model which has its limitations. Estimates for input factors such as stock option life or share price volatility could have a significant impact on the determination of stock-based compensation expense. Stock-based compensation expense however is a non-cash item which has no impact on the cash resources of the Company.

Capital management

The Company considers its capital structure to consist of share capital, warrants, contributed surplus and accumulated deficit. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of properties for valuable minerals. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. As at October 31, 2009, total shareholders' equity (managed capital) was \$119.0 million (July 31, 2009 - \$48.6 million).

The properties in which the Company currently has an interest are in the exploration stage and as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management as at October 31, 2009. The Company is not subject to externally imposed capital requirements.

Risks factors affecting financial instruments

The risk factors and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with the inability of a counterparty to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand, either with banks or in short term dated Government of Canada treasury bills or bank guaranteed investment certificates. Financial instruments included in accounts receivable consist of sales tax receivables from government authorities in Canada and deposits held with suppliers. Management believes that credit risk with respect to financial instruments included in cash and accounts receivable is low.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of October 31, 2009, the Company has a cash balance of \$90.5 million (July 31, 2009 - \$24.6 million) available to settle current liabilities of \$1.5 million (July 31, 2009 - \$2.0 million). Most of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

Interest rate risk

The Company has cash balances and does not have any interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by banks and Government of Canada treasury bills. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its investments.

Foreign currency risk

The Company's functional currency is the Canadian dollar and the majority of the Company's cash is held in Canadian dollars. The majority of the Company's transactions in Brazil are denominated in Brazilian Reals and US dollars. The Company converts Canadian dollars to foreign currencies as needed at market rates.

Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to valuable minerals to determine the appropriate course of action to be taken by the Company. The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of gold, platinum, palladium and certain other metals.

Fair value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying values for accounts receivable and prepaid expenses and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

The Company has designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Sensitivity analysis

The Company has, for accounting purposes, designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are

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classified as other financial liabilities which are measured at amortized cost. As at October 31, 2009, the carrying and fair value amounts of the Company's financial instruments are not materially different.

Sensitivity of period earnings to a 10% increase or decrease in interest or foreign exchange rates on cash holdings is as follows:

- (i) The Company holds most of its cash in low risk, secure Canadian dollar investments at Canadian banks including Government of Canada treasury bills. The Company also holds cash in Brazil, in interest bearing bank accounts.

Interest Rates

| <u>Currency of Cash Holding</u> | <u>October 31, 2009 Cash</u> | <u>Quarter Average Interest Rate Oct. 31, 2009</u> | <u>Effect of 10% Change in Interest Rate</u> |
|---------------------------------|------------------------------|--|--|
| Canadian dollar | \$ 85,989,595 | 0.05% per annum | +/- \$1,075 |
| Brazilian real | 4,498,845 | 5.00% per annum | +/- \$5,624 |
| Cash on Balance Sheet | <u>\$ 90,488,440</u> | | |

Exchange Rates

| <u>Foreign Currency of Holding</u> | <u>October 31, 2009 Amount</u> | <u>Foreign Currency per Canadian Dollar Exchange Rate Oct. 31, 2009</u> | <u>Effect of 10% Change in Exchange Rate</u> |
|------------------------------------|--------------------------------|---|--|
| Brazilian real | \$4,498,845 | 1.6257 | +/- \$408,856 |

- (ii) The Company has a foreign currency denominated future income tax liability. A 10% movement in the foreign exchange rate could impact the financial statements by approximately \$1.4 million.
- (iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of valuable minerals may be produced in the future, a profitable market will exist for them.

As of October 31, 2009, the Company is not a producer of valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

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Risks and Uncertainties

Limited Operating History

The Company has a limited history of operations, is in the early stage of development and could be considered a start-up. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations.

No History of Earnings

The Company has limited financial resources, has earned nominal revenue since commencing operations (revenues); has no source of operating cash flow and there is no assurance that additional funding will be available to it for exploration and development of its mineral properties or for required future property payments. Furthermore, additional financing may be required to continue the development of the Company's properties even if the Company's exploration program is successful. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the Company's properties with the possible loss of such properties.

Competitive Conditions

The mineral exploration and mining business is competitive in all phases of exploration, development and production. The Company competes with a number of other entities in the search for and the acquisition of productive mineral properties. As a result of this competition, the majority of which is with companies with greater financial resources than the Company, the Company may be unable to acquire attractive properties in the future on terms it considers acceptable. The Company also competes for financing with other resource companies, many of whom have greater financial resources and/or more advanced properties. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

The ability of the Company to acquire properties depends on its success in exploring and developing its present properties and on its ability to select, acquire and bring to production suitable properties or prospects for mineral exploration and development. Factors beyond the control of the Company may affect the marketability of gold mined or discovered by the Company.

General Economic Conditions

The recent unprecedented events in global financial markets have had a profound impact on the global economy. Many industries, including the mining sector, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A continued or worsened slowdown in the financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company.

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Exploration, Development and Operating Risks

The exploration for, discovery and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of gold and other minerals may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes, and to construct mining and processing facilities at a particular site.

It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as quantity and quality of the minerals and proximity to infrastructure; mineral prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection. The exact effect of these factors cannot be accurately predicted but could have a material adverse effect upon the Company's operations and financial results.

Mining operations generally involve a high degree of risk. The operations of the Company are subject to all the hazards and risks normally encountered in the exploration, development and production of precious metals and other minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

There is no certainty that the expenditures made by the Company towards the search and evaluation of gold and other minerals will result in discoveries of mineral reserves and resources (as defined by applicable securities laws), or any other mineral occurrences.

Title Risks

Although the nature and extent of the interests of the Company in the properties in which it holds an interest has been reviewed by or on behalf of the Company, and title opinions have been obtained by the Company with regard to certain of such properties, there may still be undetected title defects affecting such properties. Title insurance generally is not available in Brazil, and the ability of the Company to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. Furthermore, the Company has not conducted surveys of the claims in which it holds direct or indirect interests and, therefore, the precise area and location of such claims may be in doubt.

Accordingly, the properties in which the Company holds an interest may be subject to prior unregistered liens, agreements, transfers or claims, and title may be affected by, among other things, undetected defects which could have a material adverse impact on the Company's operations. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

The Company is not the registered holder of any of the exploration licences and applications which comprise the Serra Pelada Property or the Rio Cristalino Property. The exploration licence in respect of

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the Serra Pelada Property is held by a joint venture company controlled by Colossus Brazil. The Company's interest in its properties, title to which is currently held by third parties, is derived pursuant to option agreements and joint venture agreements relating to the respective properties. Any non-compliance with the terms of these agreements by the Company or Colossus Brazil could affect the ability of the Company and/or Colossus Brazil to earn their interests in the properties. Such terms include the satisfaction of the option payments due to property owners under such agreements, and the requirements to undertake minimum exploration expenditures during certain periods. Failure to meet these requirements could result in a loss by the Company and/or Colossus Brazil of its interest in the options, which could in turn have an adverse impact on the Company.

No assurances can be given that title defects to the properties in which the Company has an interest do not exist. The properties may be subject to prior unregistered agreements, interests or native land claims and title may be affected by undetected defects. If title defects do exist, it is possible that the Company may lose all or a portion of its right, title, estate and interest in and to the properties to which the title defect relates. There is no guarantee that title to the properties will not be challenged or impugned.

There is no guarantee that the applications for exploration licences currently pending will be granted by the DNPM. The DNPM may refuse any of the applications. Persons may object to the grant of exploration licences and the DNPM will take objections into consideration when making the decision on whether or not to grant the licence.

If exploration licences are granted, they will be subject to various standard conditions including, but not limited to prescribed licence conditions. Any failure to comply with the expenditure conditions or with the other conditions on which the licences are held, can result in licence forfeiture. Generally, the licences are granted for a term of three years and further renewal of an exploration licence is at the discretion of the DNPM and on such conditions as the DNPM may in its discretion impose. Renewal conditions may include increased expenditures and work commitments or compulsory relinquishment of areas of the licences comprising the Serra Pelada Property and the Company's other non-material property. The imposition of new conditions or the inability to meet those conditions may adversely affect the operations, financial position and/or performance of the Company.

An ongoing lawsuit has been brought by an individual in Brazil seeking the annulment of the general meeting at which the members of the board of directors and officers of Coomigasp were elected. If this individual is successful with this lawsuit a new election may be required and further actions may be brought to nullify any prior activities or agreements entered into by the directors and officers, which may include the Serra Pelada Agreement. The Company does not believe that this result is likely due to numerous factors including the merits of the current lawsuit and the fact that the Serra Pelada Agreement was approved not only by management of Coomigasp but also the members (shareholders) of Coomigasp at a general meeting. Furthermore, in January 2009, Coomigasp held another annual general meeting of its members to elect its board of directors. This meeting was overseen by an independent court appointed monitor. At this meeting, a new board of directors was elected who have since re-affirmed the Serra Pelada Agreement. However, if the Serra Pelada Agreement is nullified this would have a material adverse affect on the Company. The Company is not a party to the lawsuit and does not have any information with respect to the developments of the suit, except those that are publicly available.

Uncertainty of Acquiring Necessary Permits

Although the Company currently holds all consents which it requires in order to carry out its current drilling program on the Serra Pelada Property and the Rio Cristalino Property, the Company cannot be certain that it will receive the necessary permits on acceptable terms to conduct further exploration and to

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develop its properties. The failure to obtain such permits, or delays in obtaining such permits, could increase the Company's costs and delay its activities, and could adversely affect the operations of the Company.

Government Regulation Risks

The mining, processing, development and mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people, and other matters. Although the exploration and development activities of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration, development, mining and milling or more stringent implementation thereof could have a substantial adverse impact on the Company.

Risks Associated with Foreign Operations

The Company's mineral interests are located in the Federative Republic of Brazil, which may be affected by varying degrees of political change and labour unrest, fluctuations in currency exchange rates, high rates of inflation, terrorism or expropriation. The Company's exploration and development activities may be affected by changes in government or judiciary, political instability and the nature of various government regulations relating to the mining industry. A change in government positions on foreign investment, mining concessions, land tenure, environmental regulation, or taxation could adversely affect the Company's business and/or its holdings, assets and operations in Brazil. Any changes in regulations or shifts in political conditions are beyond the control of the Company. The Company's operations in Brazil will entail governmental, economic, social, medical and other risk factors common to all countries in the region.

Results of Prior Exploration Work

In preparing the Serra Pelada Technical Report, the authors of such report relied on data generated by exploration work previously carried out by geologists employed by others. There is no guarantee that data generated by prior exploration work is 100% reliable and discrepancies in such data not discovered by the Company may exist. Such errors and/or discrepancies, if they exist, could impact on the accuracy of the Serra Pelada Technical Report.

Additional Capital

The development and exploration of the properties in which the Company currently holds an interest will require substantial additional financing. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production on any or all such properties, or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. In addition, any future financing may be dilutive to existing security holders of the Company.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena,

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sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the operations, financial condition and results of operations of the Company.

Political Stability Risks

The principal operations of the Company are currently conducted in Brazil and, as such, the operations of the Company are exposed to various levels of political, economic and other risks and uncertainties. These risks include, but are not limited to: terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the operations or profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

Government Royalties

In Brazil, a royalty must be paid to the landowner if the surface rights do not belong to the mining titleholder. This royalty amounts to 50% of the financial compensation for the federal royalty levied by the Brazilian government, and which is currently at 1% of the net sales of gold and 0.2% of the net sales of other precious metals. This level and the level of any other royalties, payable to the Brazilian government in respect of the production of minerals may be varied at any time as a result of changing legislation which could materially adversely affect the Company's results of operations.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

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Environmental hazards may exist on the properties on which the Company holds an option, which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. Previous mining by garimpeiros has occurred at the Serra Pelada Property and continues today on a more limited basis.

Government approvals, approval of indigenous people and permits are currently and may in the future be required in connection with the operations of the Company. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from continuing its mining operations or from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs, or reduction in levels of production at producing properties, or require abandonment or delays in development of new mining properties.

Environmental Licenses

In order to be granted a mining concession on any property, the Company will be required to obtain environmental licenses with respect to such properties. The Company has not yet obtained any such environmental licenses in connection with any of its properties. In the event that the Company is unable to obtain such environmental licenses, it may not be able to commence mining activities on its properties, which could have a material adverse effect upon the results of operations and financial condition of the Company.

Costs of Land Reclamation

It is difficult to determine the exact amounts which will be required to complete all land reclamation activities in connection with the properties in which the Company holds an option.

Reclamation bonds and other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation activities over the life of a mine. Accordingly, it may be necessary to revise planned expenditures and operating plans in order to fund reclamation activities. Such costs may have a material adverse impact upon the financial condition and results of operations of the Company.

Reliance on Limited Number of Properties

At this time, the Company holds an interest in a joint venture company that holds the exploration licences in respect of the Serra Pelada Property as well as an interest in the Rio Cristalino Property. As a result, unless the Company acquires additional property interests, any adverse developments affecting these properties could have a material adverse effect upon the Company and would materially and adversely

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affect the potential mineral resource production, profitability, financial performance and results of operations of the Company.

No History of Mineral Production

The Company has never had an interest in a mineral producing property. There is no assurance that commercial quantities of minerals will be discovered at any of the properties of the Company or any future properties, nor is there any assurance that the exploration programs of the Company thereon will yield any positive results. Even if commercial quantities of minerals are discovered, there can be no assurance that any property of the Company will ever be brought to a stage where mineral resources (as defined in NI 43-101) can profitably be produced thereon. Factors which may limit the ability of the Company to produce mineral resources from its properties include, but are not limited to, the price of the mineral resources which are currently being explored for, availability of additional capital and financing and the nature of any mineral deposits.

Insurance and Uninsured Risks

The business of the Company is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to properties of the Company or others, delays in mining, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which it may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Hedging

The Company does not have a hedging policy and has no current intention of adopting such a policy. Accordingly, the Company has no protection from a decline in mineral prices which could have a material adverse affect on the financial condition of the Company.

Fluctuations in Metal Prices

The consolidated financial results and exploration, development and mining activities of the Company may in the future be significantly and adversely affected by declines in the price of gold or other minerals. The price of gold or other minerals fluctuates widely and is affected by numerous factors beyond the control of the Company such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, the political and

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economic conditions and production costs of major mineral producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges.

Future significant price declines in the market value of gold or other minerals could cause continued development of the properties in which the Company has an option to be impracticable. Depending on the price of gold and other minerals, cash flow from mining operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's mining properties is dependent upon the prices of gold and other minerals being adequate to make these properties economic.

In addition to adversely affecting the reserve estimates of the Company and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Gold and other minerals are generally sold in US dollars. Costs of the Company are incurred in US and Canadian dollars and Brazilian Reals. The appreciation of the US dollar or the Brazilian Real against the Canadian dollar can increase the cost of exploration and production in Canadian dollar terms, which could materially and adversely affect the Company's profitability, results of operations and financial condition.

Key Executives

The Company is dependent upon the services of key executives, including the directors of the Company and a small number of highly skilled and experienced executives and personnel. Due to the relatively small size of the Company, the loss of these persons or the inability of the Company to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

Conflicts of Interest

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and, consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company should be made in accordance with their fiduciary duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders.

In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the *Business Corporations Act* (Ontario) and other applicable laws. The Company has also adopted a formal code of ethics to govern the activities of its directors, officers and employees.

Enforcement of Legal Rights

In the event of a dispute arising from the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Company's assets are located outside of

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Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of applicable securities laws in Canada. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

Two of the directors of the Company and certain experts retained by the Company reside outside of Canada. Substantially all of the assets of these persons are located outside of Canada. It may not be possible for investors to effect service of process within Canada upon such directors or experts. It may also not be possible to enforce against the Company, certain of its directors and officers, and certain experts named herein, judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

Litigation

From time to time, the Company may be involved in lawsuits. The outcomes of any such legal actions may have a material adverse affect on the financial results of the Company on an individual or aggregate basis.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings.

Tax Issues

The Company's estimates regarding the exploration costs at the Serra Pelada Property have assumed current Brazilian tax rates, which may be increased in the future. Accordingly, the cost estimates may not represent an accurate statement of the Company's future tax costs.

Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on its Common Shares in the foreseeable future.

Repatriation of Earnings

Currently, Brazil has no limitation on profit or capital remittances to foreign shareholders provided that all applicable Brazilian taxes have been paid. However, there can be no assurance that restrictions on the repatriation of earnings in Brazil will not be imposed in the future.

Special note regarding forward-looking statements

This Report contains "forward-looking statements" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company and its projects, the future price of gold or other metal prices, the estimation of mineral resources, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs

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and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of current exploration and development activities; risks relating to title to properties; risks associated with obtaining necessary permits; risks associated with foreign operations, including government regulation and political stability risks; fluctuations in the value of the Canadian dollar relative to the U.S. dollar or Brazilian real; changes in project parameters as plans continue to be refined; future prices of gold; possible variations of mineral grade or recovery rates; accidents, labour disputes and other risks of the mining industry, including but not limited to environmental hazards, cave-ins, pit-wall failures, flooding, rock bursts and other acts of God or unfavourable operating conditions and losses, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, and the factors discussed in the section entitled "Risk and Uncertainties" in this Management's Discussion and Analysis.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this Management's Discussion and Analysis and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.