

**COLOSSUS MINERALS INC.**  
**(A development stage company)**  
**Management's Discussion and Analysis**  
**July 31, 2009**

October 14, 2009

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**Management's Discussion and Analysis**  
**For the year ended July 31, 2009**

The following discussion of the financial condition and results of the operations of Colossus Minerals Inc. ("Colossus" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the 3-month and 12-month periods, ended July 31, 2009, and the comparable periods of last year. This Management's Discussion and Analysis dated October 14, 2009 should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended July 31, 2009 and July 31, 2008, (the "financial statements"), which have all been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts in this document are stated in Canadian dollars unless otherwise noted. R\$ refers to Reais, the currency of Brazil. Public documents can be requested from the Company and are available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Corporate Highlights**

During the fourth quarter ended July 31, 2009:

- On June 4, 2009, the Company announced the results from the first three diamond drill holes (total 916 metres) of the Phase II diamond drill program at the Serra Pelada Property. The highlight of the program to date was hole SPD-020A, which intersected 21.15 metres of 46.36 g/t gold, 25.82 g/t platinum and 32.64 g/t palladium, the highest grades of platinum and palladium so far encountered by Colossus drilling of the Serra Pelada Property.

During the first three quarters of the year ended July 31, 2009:

- On April 9, 2009, the Company announced that it had earned a 51% interest in the Serra Pelada joint venture company.
- Colossus purchased the Phoenix minerals net profits interest in the Serra Pelada Property for US\$4.2 million.
- The Company completed a \$24.7 million bought deal financing (net cash of \$22.9 million), including proceeds from an over-allotment option.
- Kevin Rosengren and Associates and GeoTek Solutions were appointed to undertake a geotechnical study of the Serra Pelada Property to assess open pit and/or underground options for mining the deposit.
- Mr. Patrick Anderson was appointed to the Board of Directors.

Subsequent to July 31, 2009:

- On August 4, 2009 the Company announced the results of check assays for gold, platinum and palladium as well as for new platinum group elements (PGE's) suite assays of Phase I drilled materials from the Serra Pelada Property. The new assays indicated higher grades for gold, platinum and palladium in most drill holes.
- On September 4, 2009, Colossus announced confirmation of a new mineralized horizon called the Western Mineralized Zone (WMZ) resulting from the Phase II drilling program on the Serra Pelada Property.

- On September 30, 2009 the Company announced the drill results from step-out diamond drilling on the Central Mineralized Zone at the Serra Pelada Property. The highlight of the drilling was an intersection of 70.70 metres grading 53.59 g/t gold, 20.77 g/t platinum and 31.30 g/t palladium.
- On September 30, 2009 the Company announced a bought deal financing of 10 million common shares, later increased to 11 million common shares, for gross proceeds of \$63.3 million. The financing included an over allotment option for a further 1.5 million shares, which would increase gross proceeds to \$71.9 million.
- On October 1, 2009 the Company announced it had adopted a Shareholder Rights Plan to provide additional time for the Board of Directors to consider and evaluate an unsolicited bid for the securities of the Company.

## **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 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”), Mineracao Fazenda Monte Belo Ltda. (“MFMBL”) and a 51% owned subsidiary Serra Pelada Empresa de Desenvolvimento Mineral Ltda. (“SPE”) which holds title to the Serra Pelada Property (Departamento Nacional de Produção Mineral (“DNPM”) Process number 850.425/1990). 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**

On July 16, 2007, the Company, through its subsidiary Colossus Brazil, entered into an agreement (the “Serra Pelada Agreement”) with De Mineracao Dos Garimpeiros De Serra Pelada (“Coomigasp”), a private Brazilian entity, pursuant to which Colossus Brazil can earn an interest in SPE. The Company earned an initial 51% share in SPE by spending R\$6,000,000 on exploration and development. Colossus Brazil formally earned a 51% share of SPE in April 2009 with the acceptance by Coomigasp of spending to date on the Property. Colossus Brazil can increase its ownership share in SPE to 75% by spending a further R\$12,000,000. 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. SPE 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 51% of SPE as an asset acquisition and consolidated SPE in its consolidated financial statements, including Coomigasp’s share of the net assets of SPE, as a \$2,915,023 non-controlling interest. The Company has also recorded a future income tax liability of \$12,869,896 related to this investment which has been capitalized to mining interests.

Colossus Brazil will pay Coomigasp a series of premium payments based upon the mineable gold reserve accepted and approved by the DNPM of Brazil. Such premium payment ranges from a minimum of R\$40,800,000 (based on Colossus Brazil's 51% interest in the Serra Pelada Property) for 20 tons of mineable gold reserves to a maximum of R\$817,500,000 (if Colossus Brazil holds a 75% interest in the Serra Pelada Property) for 550 tons or greater of mineable gold reserves. Advance payments completed and future payments to be made in accordance with the agreement are as follows:

- (i) R\$100,000 due on execution of the Serra Pelada Agreement (paid);
- (ii) R\$300,000 due within 10 days of certain conditions being fulfilled (paid);
- (iii) R\$1,600,000 due within four months of conditions in (ii) being fulfilled (paid);
- (iv) R\$1,600,000 due within four months of payment date for the instalment listed in (iii) being paid (paid);
- (v) R\$3,600,000 due within eight months of payment date for the instalment listed in (iv) which was scheduled for May 2009 but has been partially deferred by mutual consent and the balance owing in the amount of \$1,441,880 is included in accrued liabilities;
- (vi) R\$4,000,000 due within 12 months of payment date for the instalment listed in (v) being paid;
- (vii) R\$13,000,000 due within 60 days after the approval granted by the Brazilian Departamento Nacional de Produção Mineral (“DNPM”) of the Economic Benefit plan regarding the Serra Pelada Property being granted; and
- (viii) the balance resulting from the difference between the premiums calculated in accordance with tonnage calculations listed above and advance payments of the premium outlined in (i) through (vii) shall be paid in three annual instalments, the first of which is due one year after payment of the instalment listed in (vii) above.

The Company has initiated discussions with the executive group of Coomigasp pertaining to a mutually beneficial amendment of the Serra Pelada Agreement. Any amendment to the Serra Pelada Agreement is subject to the approval of the board of directors of the Company and approval by both the executive and membership of Coomigasp.

On June 28, 2007, the Company and Phoenix Gems Do Brasil Ltda. (“Phoenix”) entered into an agreement with respect to the Company’s interest in the Serra Pelada Property where Phoenix can earn up to a 15% net profit interest (“NPI”) in the Company's potential future earnings from Serra Pelada. The Company had to fund the first US\$1,000,000 of work on the Serra Pelada Property. Thereafter, the companies each had to fund their share of work or suffer dilution of their ownership share in Serra Pelada. The Company has fulfilled its spending obligation. On August 11, 2008, the Company purchased from Phoenix this outstanding 15% net profit interest for US \$4.2 million of which US\$ 2.0 million was paid at that time. The Company paid the remaining obligation on April 29, 2009.

On November 5, 2007 the Company purchased a 100% interest in MFMBL in exchange for 125,000 shares of the Company. The principal asset of MFMBL is the Rio Cristalino low-grade molybdenum property.

In November 2006, the Company, Colossus Brazil and Terra Goyana Mineradora Ltda. (“TGM”), a Brazilian company, entered into the Natividade Option Agreement in respect of the Natividade Property (DNPM Process number 861.274/1986 and exploration licence number 7337/2005) in Natividade, State of Tocantins, Brazil. Colossus Brazil entered into the Natividade Option Agreement with TGM to form a joint venture company in which Colossus Brazil could earn a 70% interest in the joint venture company by paying an aggregate amount of US\$1,500,000 over a period of three years and by expending US\$2,000,000 within three years, subject to minimum expenditures of US\$150,000 in the first year (expended), minimum expenditures of US\$500,000 in the second year and the remainder expended in the third year. The Company has made option payments of \$192,675 and spent \$560,894 in exploration expenditures.

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.

After earning its 51% interest in the Sumidouro Property, 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.

Near the end of the quarter, the Company expanded its Phase II drilling program at Serra Pelada by increasing equipment on site to three diamond drill rigs for resource delineation and development drilling. Four diamond drill-holes were completed and a further three were in progress during the reporting period (1,350 metres of drilling). Completed holes were sampled and prepared at Intertek’s facility located in Parauapebas, Brazil followed by pulps being sent to Genalysis in Australia for assaying.

In addition, a Reverse-Circulation (“RC”) drill rig was contracted to complete a minimum of 2,000 metres of drilling in order to fast-track diamond drilling. The RC rig was used to pre-collar holes up to 100 metres in depth with the aim of continuing those holes with a diamond drill to target depth. Also the RC drill rig was used to initiate evaluation of tailings and waste pile located north of the historical open pit.

A total of 593 samples from historical core were submitted to Genalysis in Australia for validation assaying of historical results. Additionally, another 364 samples from Colossus’ Phase I drilling were submitted to Genalysis for full platinum group metal analysis.

Lastly, hydrology studies commenced consisting of both a bathometric survey of the old open pit and the monitoring of water flow into drill holes.

The Company intends to complete its Phase II work program during fiscal 2010.

Almost all of the \$3,718,041 exploration spending in the fourth quarter of fiscal 2009 was on the Serra Pelada Property (fourth quarter of fiscal 2008 - \$3,725,040). The Company spent \$28,062 on the Rio Cristalino property in the quarter.

During fiscal 2009, the Company capitalized cash expenditures of \$15.4 million, issued shares for \$0.5 million and charged stock compensation expenses of \$0.3 million, to mining assets (fiscal 2008 - \$8.4 million cash and \$0.1 million shares). Serra Pelada became the focus of exploration, attracting \$15.2 million of the cash and \$0.8 million of non-cash expenditures in fiscal 2009.

### **Results of operations for the year**

The net loss and comprehensive loss for the year ending July 31, 2009 was \$5,421,038 (\$0.11 per share) as compared to \$2,318,505 (\$0.07 per share) for the prior year.

Exploration write-offs in the fiscal year ending July 31, 2009 were \$2,491,737 (fiscal 2008 - \$nil), related to write-downs of the Sumidouro and Natividade properties.

General and administrative costs of \$1,424,837 in the fiscal 2009 year (fiscal 2008 - \$813,104) increased significantly. The most significant components of the Toronto Head Office cost increases were travel (\$211,416), rent (\$123,800, primarily due to a lease cancellation penalty), and advertising (\$31,498). General and administrative costs in Brazil increased \$172,786 during the comparable fiscal year as activities on the Serra Pelada Property have increased.

Wages and salaries of \$317,005 in the fiscal 2009 year (fiscal 2008 - \$181,255) reflected increased administration support required for a public Company. Professional and consulting fees of \$370,997 in fiscal 2009 (fiscal 2008 - \$469,302) decreased as a larger amount of consulting fees in fiscal 2009 were capitalized to the Serra Pelada Property.

Higher amortization expense of \$88,382 in fiscal 2009 (fiscal 2008 - \$9,874) reflects the acquisition of vehicles and computer equipment, mostly in Brazil. Director fees were initiated at the end of the 2008 year and costs of \$104,000 were expensed in fiscal 2009. Foreign exchange in fiscal 2009 was a loss of \$359,477 compared to a loss of \$44,973 in fiscal 2008. The foreign exchange loss in fiscal 2009 mostly occurred in the fourth quarter. The loss primarily resulted from the impact of an increase in strength of the Brazilian Real against the Canadian dollar on Reais denominated future income tax liabilities.

Non-cash stock-based compensation cost of \$841,673 was expensed in fiscal 2009 (fiscal 2008 - \$1,033,924). The Company capitalized \$274,766 of stock-based compensation costs to the Serra Pelada Property in fiscal 2009 consistent with the capitalization of related compensation costs (fiscal 2008 - \$nil).

Interest income of \$401,700 in fiscal 2009 (fiscal 2008 - \$296,285) increased as more cash was held in Brazil, where banks pay higher interest rates.

### **Shares issued and outstanding**

As at July 31, 2009, the issued and outstanding common shares of the Company totaled 57,722,288 (July 31, 2008 – 42,395,188 shares issued and outstanding). The total amount of shares which would be on issue if all options, warrants, and broker units outstanding at July 31, 2009 were exercised amounted to 84,826,768 shares (July 31, 2008 – 65,082,356 fully diluted shares).

On March 10, 2009, the Company completed a bought deal equity financing with a syndicate of underwriters. The financing included 11,500,000 units, priced at \$2.15 per unit, for gross proceeds of \$24,725,000. Each unit comprised one common share and one-half of one common share purchase warrant. Each full warrant entitled the holder to acquire one common share at a price of \$2.70 for a period of two years following closing. As of the close of business on October 13, 2009, the Company had 5,123,200 warrants outstanding that are exercisable at \$2.70 per common share. Pursuant to the terms of the warrants, if the daily closing share price exceeds \$3.75 for twenty consecutive trading days, the Company has the option to accelerate the expiry date to be 30 days following the date of notice to the warrant holders. As of the close of business on October 13, 2009 the trading price condition has been met but no notice has been provided to the warrant holders.

The underwriters received a cash commission of 6% of the gross proceeds and 690,000 broker units. Each broker unit is comprised of one common share option and one half of one broker warrant. Broker units are exercisable into one share and one half of one share broker warrant at a price of \$2.15, for a period of two years after the closing date. Each broker warrant is exercisable into one additional share at a price of \$2.70 per share until March 10, 2011 subject to the same early expiry provisions described above.

Net cash proceeds from the offering were \$22,888,809. The net proceeds are intended to be used to fund expenditures on the Serra Pelada Property and other exploration activities and for general working capital and corporate purposes. Net proceeds were allocated as \$20,163,322 to shares and \$2,725,487 to warrants.

On July 7, 2007, the Company closed a private placement of 6,238,000 units of the Company at a price of \$0.40 per unit for aggregate gross proceeds of \$2,495,200. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.55 for a period of two years from the date the Company became a public company, which was February 13, 2008. Of the 6,238,000 units to be issued, 500,000 units had not yet been issued as at July 31, 2007 pending receipt of payment. During the first quarter of 2008, the payment was received and the shares were issued.

On November 5, 2007, Maple Minerals Development and Exploration Inc. (“Maple”) was issued 125,000 shares in exchange for 100% of MFMBL. The principal asset acquired was the Rio Cristalino property, a low grade copper molybdenum target.

On November 7, 2008, the Company closed a private placement for 1,645,000 units at a price of \$1.00 for total gross proceeds of \$1,645,000. Each unit comprised one share and one half of one common share purchase warrant, with each whole warrant exercisable for one common share at a price of \$1.50 for two years following the Company's going public date.

On February 13, 2008, the Company completed its initial public offering. A total of 17.2 million units were offered at a price of \$1.25 per unit. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitled the holder to acquire one common share at a price of \$2.00 for a period of 36 months from the date of the offering. On February 25, 2008, the Company closed the underwriter over-allotment option of 2,580,000 units. The gross proceeds raised from the offering and over-allotment exercise was \$24.7 million.

At July 31, 2009, the Company had 3,565,000 stock options issued and outstanding. During the year, 1,375,000 options were issued, 55,000 options were exercised and 445,000 options were cancelled.

The Company had 1,164,720 broker unit options issued and outstanding at July 31, 2009. The Company issued 790,875 broker units during 2009. During fiscal 2009, 1,235,005 broker units were exercised. The outstanding broker units have exercise prices between \$1.25 per share and \$2.15 per share, with expiries between 2010 and 2011.

The Company had 21,792,400 warrants issued and outstanding at July 31, 2009. The Company issued 5,750,000 warrants in fiscal 2009 related to the share financing. A further 617,502 warrants were issued on exercise of the broker units. During fiscal 2009, 2,158,995 warrants were exercised. The outstanding warrants have exercise prices between \$0.55 per share and \$2.70 per share, with expiries between 2010 and 2011.

As at October 13, 2009 the issued and outstanding common shares of the Company totaled 59,322,463 shares. The total number of shares which would be outstanding if all options, warrants and broker units were exercised amount to 85,953,017 shares.

### **Financial condition**

The Company's total assets at July 31, 2009 increased to \$66,970,404 from \$27,294,312 at July 31, 2008. The most significant reasons for the increase were the \$22.9 million of net cash raised through the bought deal financing in March 2009 and an increase in the carrying value of the Serra Pelada Property related to a future tax adjustment of \$12.9 million. During fiscal 2009, cash spent on exploration and other investing activities of \$16.1 million include in part \$4.6 million to purchase the remaining NPI interest on the Serra Pelada Property, administration costs of \$2.1 million and fixed asset purchases of \$0.4 million. Assets at July 31, 2009 include cash and cash equivalents of \$24.6 million (July 31, 2008 - \$16.7 million). Cash not on account at a bank has been 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 liabilities include trade payables and accrued liabilities of \$2.0 million at July 31, 2009, significantly higher than \$0.7 million at July 31, 2008. The increase reflects the accrual of \$1.4 million remaining to be paid for the May 2009 Coomigasp payment deferred by mutual consent. The Company has no long-term financial liabilities, off balance sheet financing arrangements or material contingent liabilities or contractual obligations other than payments for mineable gold related to the Serra Pelada Property and a future income tax liability associated with the Serra Pelada Property in an amount of \$12.9 million.

### **Liquidity and capital resources**

From the date of its incorporation to July 31, 2009, the Company has raised total net proceeds of \$54.0 million through equity financings and stock option exercises. In both the third quarter of 2009 and 2008 gross proceeds of \$24.7 million was raised from share issuances.

The \$24.7 million in the third quarter of 2009 included \$22.9 million of cash raised related to payments for units sold in the February 2009 bought deal financing. This net cash raised was allocated between shares (\$20.2 million, including \$0.6 million for broker units) and warrants (\$2.7 million).

The \$24.7 million in the third quarter of 2008 included \$22.8 million of cash raised related to payments for units sold in the February 2008 initial public offering financing. This net cash raised was distributed between shares (\$19.1 million) and warrants (\$3.7 million).

At July 31, 2009 the Company had working capital of \$22.8 million compared to \$16.6 million as at July 31, 2008.

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. However, the Company completed a substantial financing on March 10, 2009 and is currently in the process of concluding a further financing which will raise

approximately gross proceeds of \$63.3 million. This financing is scheduled to close on or about October 22, 2009.

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 believes this strategy will enable it to meet these near-term challenges.

### **Related party transactions**

During the year ended July 31, 2009, the Company paid an amount of \$180,000 (2008 - \$103,000) to the Chief Executive Officer and who is also a director of the Company. Consulting fees of \$180,000 (2008 - \$254,269) were accrued or paid to a company owned by an Officer and who is also a Director of the Company. At July 31, 2009, a balance of \$nil (July 31, 2008 - \$49,039) was due to this company. Consulting fees of \$150,000 (2008 - \$108,700) were paid to a company whose owner is the Vice President of Exploration of the Company. At July 31, 2009, a balance of \$32,830 (July 31, 2008 - \$18,673) was due to this company. An amount of \$45,000 (2008 - \$23,000) was paid in consulting fees to the Chief Financial Officer of the Company.

The Company paid consulting fees in the amount of \$nil (2008 - \$31,646) to a company owned by the manager of the Brazilian subsidiary. The manager of the Brazilian subsidiary resigned on January 31, 2008. The Company paid consulting fees in the amount of \$Nil (2008 -\$6,375) to a company whose owner was appointed Vice-President and director of the Company on December 15, 2006 and who subsequently resigned on December 6, 2007.

All balances are in the normal course of operations and were classified as related party transactions because the individuals are not direct employees of the Company. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Balances paid approximate arm's length values for work of equal value in startup operations. All balances due were non-interest bearing and unsecured.

### **Summary of Quarterly Results**

<b><u>Year ended July 31, 2009</u></b> (all amounts expressed in \$)	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>	<b><u>Total</u></b>
Total revenues	-	-	-	-	-
Net loss and comprehensive loss for the period	808,522	2,616,307	1,023,556	972,653	5,421,038
Net loss per share (1)	0.02	0.06	0.02	0.01	0.11
<b><u>Year ended July 31, 2008</u></b> (all amounts expressed in \$)	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>	<b><u>Total</u></b>
Total revenues	-	-	-	-	-
Net loss and comprehensive loss for the period	299,977	440,955	602,189	975,384	2,318,505
Net loss per share (1)	-	0.02	0.02	0.03	0.07

(1) Net loss per share remains the same on a comprehensive income and fully diluted basis.

## **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 \$0.8 million 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 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 July 31, 2009, 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 of July 31, 2009. Based on this evaluation, management has concluded that the Company's disclosure controls and procedures are 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.

## **Changes in Internal Control over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during period ended July 31, 2009, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## **Accounting changes**

### **Amendments To Section 1400 – General Standards of Financial Statement Presentation**

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1,

2008. The adoption of this standard had no impact on the Company's operating results or financial position.

#### Mining exploration costs

On March 27, 2009, Emerging Issues Committee Abstract 174 ("EIC-174") was approved which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. The adoption of this Abstract had no impact on the Company's presentation of its financial position or results of operations during fiscal 2009.

#### Goodwill and Intangible Assets

In November 2007, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company has adopted this Handbook Section effective July 1, 2008.

Under previous Canadian standards, a greater number of items were recognized as assets than are recognized under International Financial Reporting Standards ("IFRS"). The provisions relating to the definition and initial recognition of intangible assets reduce the differences with IFRS in the accounting for intangible assets. The objectives of CICA 3064 are: 1) to reinforce the principle-based approach to the recognition of assets; 2) to establish the criteria for asset recognition; and 3) to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets items that do not meet the recognition criteria is eliminated. The standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The portions in the standard relating to goodwill remain unchanged.

#### **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;
- 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 as well as 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 may result in their loss. Accordingly, there is always the potential for a material adjustment to the value assigned to mineral properties.

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 July 31, 2009, total shareholders' equity (managed capital) was \$48,644,945 (July 31, 2008 - \$26,608,915).

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. In some circumstances, the Company may enter into joint venture agreements whereby, a third party earns an interest in a specific property by incurring an agreed amount of exploration expenditures. The Company will continue

to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological or economic potential and if it has adequate financial resources to do so.

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 July 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. 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 July 31, 2009, the Company has a cash balance of \$24,565,503 (July 31, 2008 - \$16,702,933) available to settle current liabilities of \$2,023,666 (July 31, 2008 - \$685,397). Most of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms except for the balance due on the Coomigasp advance payment of \$1.4 million deferred by mutual consent.

#### *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 are denominated in

Brazilian Reais 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*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

(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.

<u>Currency of Cash Holding</u>	<u>July 31, 2009</u> <u>Cash</u>	<u>Exchange Rate</u> <u>July 31, 2009</u>	<u>Exchange Rate</u> <u>July 31, 2008</u>	<u>% Change</u> <u>Exchange Rate</u>	<u>Effect of 1% Change</u> <u>In Exchange Rate</u>
Canadian dollar	\$ 20,405,693	1.00	1.00	-	\$ -
Brazilian Real	4,159,810	1.73	1.53	13%	+/- \$ 42,000
US dollar	-	0.81	0.84	4%	
Australian dollar	-	1.27	1.14	(11)%	
Cash on Balance Sheet	<u>\$ 24,565,503</u>				

(ii) 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 July 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.

(iii) 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 \$1.3 million.

## **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.

#### *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 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 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, 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.

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

Future serious 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 and the costs of the Company are incurred principally in Brazilian Reais. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration and production in US 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 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 continual 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. The value of the securities distributed hereunder may be affected by such volatility. The Offering Price of the Offered Shares has been determined by negotiations between the Company and representatives of the Underwriters and this price may not necessarily reflect the prevailing market price of the Common Shares following the Offering. If an active public market for the Common Shares is not maintained, the liquidity of a shareholder's investment may be limited and the share price may decline below the Offering Price.

#### *Tax Issues*

Income tax consequences in relation to the Offered Shares will vary according to the circumstances of each investor. Prospective investors should seek independent advice from their own tax and legal advisors prior to subscribing for the Offered Shares.

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 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.