BrazIron Limited

ARBN 133 221 084

Annual Financial Report

for the year ended 31 December 2010

Corporate Information

ARBN 133 221 084

Directors
Robert Brierley (Executive Chairman)
Walter Guidice (Non Executive Director)
Pedro Jacobi (Non Executive Director)
Neil O'Loughlin (Non- Executive Director)
Youzhi Wei (Non Executive Director)

Company Secretary and Chief Financial Officer
Samuel James Morton

Registered Office
Claredon House
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Hamilton HM11, BERMUDA

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Telephone: + 61 8 9485 0039
Facsimile: + 61 8 9485 0069

Legal Counsel

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
PERTH WA 6000

Bankers
National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005 AUSTRALIA

Share Registry

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000
Telephone: 1300 550 839 (Australia)
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Facsimile: + 61 8 9323 2033

Auditors
Stantons International
Level 1, 1 Havelock Street
WEST PERTH WA 6005

Internet Address
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Email Address
braziron@braziron.com

Stock Exchange Listing
BrazIron Limited shares are listed on Australian Securities Exchange (ASX) under the code 'BZL'.

Contents

Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group or the Company) consisting of BrazIron Limited and the entities it controlled at the end of, or during, the year ended 31 December 2010.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Robert Brierley, B.Eng (Mining), GAICD (Executive Chairman, moving to the role of non-executive chairman from 30 April 2011)

Mr Robert Brierley is a mining engineer educated at the Western Australian School of Mines in Kalgoorlie, Western Australia. He has experience across many commodity groups and has been involved in the design, operation and management of several major mining projects in Australia including the Yandi, Brockman and Koolan Island iron ore operations.

Mr Brierley has also worked in the stock broking industry as a research analyst, specializing in the resources sector, including four years in the role of Director of Research for an Australian national stock broking and financial services company.

Mr Brierley has particular experience in finance, mining project management and valuation techniques and principles. He is a Member of the Australian Institute of Company Directors.

Current Directorships of ASX listed Companies: Nil.

Past Directorships of ASX listed Companies (last 3 years): Carbine Resources Limited, Wavenet International Limited.

Walter Guidice, (Non Executive Director, Chairman of Audit and Risk Committee)

Mr Walter Guidice is a principal shareholder and CEO/Chairman of Majestic Diamonds and Metals Inc, a U.S. mineral exploration company he co-founded in April 2004. Mr Guidice has over 20 years of experience in banking, corporate finance, venture capital, asset management, mergers and executive corporate management.

Over his career he co-founded and grew a mortgage company which became the largest, independently owned mortgage company in Washington State, worked for and represented several large mortgage companies and banks in Washington State in positions including Vice-President, Director of Sales and Chairman, founded a boutique investment bank, Guidice & Associates, Inc., and founded Northstar Capital, a private investment and asset management firm.

Current Directorships of ASX listed Companies: Nil.

Past Directorships of ASX listed Companies (last 3 years): Nil.

Pedro Jacobi (Non Executive Director, Chairman of Technical Committee)

Pedro Jacobi is a principal shareholder, co-founder and CEO of Mining and Exploration for Majestic Diamonds and Metals Inc. Mr Jacobi has over 35 years of experience in mineral exploration and mining with major international companies. Mr Jacobi has worked with Terraservice, CVRD-Docegeo, Shell Metals and Van Roois Vley Mine (South Africa).

Mr Jacobi spent over 11 years with the Rio Tinto Group culminating in his appointment as the General Exploration Manager for Rio Tinto Brazil. He has been directly responsible for the discovery of many economic mineral deposits including the 1 million ounce Palito Gold Mine, the 1.5 million ounce Saõ Jorge Gold Deposit, the 500,000 ounces Ouro Roxo Deposit, copper, kaolin, iron-oxide and tin (the 30,000 tonne Pedra Branca discovery).

Mr Jacobi holds a Bachelor of Science in Geology, with Honours. He is a Brazilian citizen and speaks Portuguese, English and Spanish.

Current Directorships of ASX listed Companies: Nil.

Past Directorships of ASX listed Companies (last 3 years): Nil.

Neil O'Loughlin (Non Executive Director)

Neil O'Loughlin is a geologist with over 20 years experience in mineral exploration and mine development with exposure to a range of commodities worldwide. Mr O'Loughlin worked in a wide range of technical roles prior to joining Resource Service Group (now RSG-Global) where he was exposed to several major projects in a range of commodities in Australia and Asia.

Since 1996 Mr O'Loughlin has been involved in several corporate roles. Mr O'Loughlin was co-founder and Technical Director of Basin Minerals Ltd from 1996 until 2002 during which time he led the exploration and evaluation team that discovered the Douglas Titanium-Zircon project in Victoria, Australia. He was the technical director of the ASX and TSX listed Crescent Gold Limited between 2002 and 2006 and has held other directorships for unlisted ventures since 2004.

Current Directorships of ASX listed Companies: Nil.

Past Directorships of ASX listed Companies (last 3 years): Nil

Youzhi Wei, B. Eng (Non Executive Director, Chairman of the Remuneration, Nomination and Funding Committee)

Dr Youzhi Wei is a Mining Engineer with over 20 years of experience in mining, geotechnical engineering and mining technology development. Dr Wei has extensive experience in the evaluation of developing and operating mining projects, especially in China.

Dr Wei is the founder of China Mining Business Solutions Limited, which provides corporate advice and business strategies to mining groups, financial institutions and private investors on China-related mining projects. He is currently a resident of Hong Kong where his consultancy services business is based. Dr Wei has previously held senior mining related positions with SRK Consulting Group in Perth and China, CSIRO Exploration and Mining, and the Advanced Technical Development group of CRA, a division of Rio Tinto.

Dr Wei is a Fellow and Chartered Engineer (Mining) of the Australasian Institute of Mining and Metallurgy.

Current Directorships of ASX listed Companies: Nil.

Past Directorships of ASX listed Companies (last 3 years): Nil.

COMPANY SECRETARY

Samuel James (Jamie) Morton, CPA.

Mr Morton is a Certified Practising Accountant (CPA) with experience in the mining, mining services and industrial sectors, most recently holding the position of Financial Controller for TSX- ASX dual listed Congolese copper producer Anvil Mining.

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of BrazIron Limited were:

	Ordinary Shares	Options over Ordinary Shares
Robert Brierley	3,791,926	0
Walter Guidice *	43,308,804	0
Pedro Jacobi *	44,876,521	0
Neil O'Loughlin	10,064,464	0
Youzhi Wei	33,398,754	0

*Majestic Diamonds & Metals Inc is the legal beneficial holder of 10,032,000 shares. Mr Guidice and Mr Jacobi are taken to have a relevant interest in the shares held by it by virtue of section 608(3) of the corporations act by having voting power in Majestic Diamonds & Metals Inc of over 20%

PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements or tenements in which it has an interest, and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.

There was no significant change in the nature of the Group's activities during the year.

DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

OPERATING AND FINANCIAL REVIEW

Finance Review

The Group began the financial year with a cash reserve of US$518,263. During the year the Company raised an additional $16,908,240 by way of placements. Funds were and will continue to be used, to actively advance the Group's projects located in Brazil.

The Group has recorded an operating loss after income tax for the year ended 31 December 2010 of $2,449,424 (2009: $79,531USD).

At 31 December 2010 surplus funds available totalled $14,598,289.

Operating Results for the Year

Summarised operating results are as follows:

	2010	
	Revenues $	Results $
Geographic segments		
Australia	207,179	(1,686,245)
United States	-	(1,569)
Brazil	179	(761,610)
Consolidated entity revenues and loss from ordinary activities before income tax expense	207,358	(2,449,424)

Shareholder Returns

	2010 AUD	2009 USD
Basic loss per share (cents)	(1.09)	(0.18)

Risk Management

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee outside of the Audit & Risk Committee which is primarily focused on financial reporting and audit processes. Aside from financial reporting, the Company's main areas of risk include exploration, new project acquisitions, security of tenure, environment, government policy changes and political risk, occupational health and safety, and continuous disclosure obligations

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- The Board approves all strategies, which encompasses strategy statements designed to meet stakeholders' needs and manage business risk.
- Implementation of Board-approved operating plans and budgets and Board monitoring of progress against these budgets.
- Review of regular operating reports from Management which include safety, health and environmental aspects.

The Company's internal control system is monitored by the Board and assessed regularly to ensure effectiveness and relevance to the Company's current and future operations. Procedures have been put into place to ensure the Managing Director and the Company Secretary/CFO state to the Board that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control and that the Company's risk management and internal compliance and control system is operating efficiently and effectively. This representation is made by the Managing Director and Company Secretary/Financial Controller prior to the Director's approval of the release of the annual and half yearly accounts. This representation is made after enquiry of, and representation by, appropriate levels of management

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report, no significant changes in the state of affairs of the Group occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No matters or circumstances, besides those disclosed at note 21, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations for the next 12 months.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation with respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, as far as it is aware is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

REMUNERATION REPORT (AUDITED)

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of BrazIron Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of BrazIron Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Group is as follows:

- All executives receive a base salary (which is based on factors such as length of service and experience) which may include superannuation. The Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.
- Executives are also eligible to participate in the employee share and option arrangements.
- Some of the executives receive a superannuation guarantee contribution required by the government, which is currently 9%. The executive directors and executives do not receive any other retirement benefits.
- All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

- The Board policy is to remunerate non executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non executive directors is subject to approval by shareholders at the Annual General Meeting (currently US$300,000). Fees for non executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Performance based remuneration

The Company currently has no performance based remuneration component built into director and executive remuneration packages.

Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and directors and executives performance. Currently, this is facilitated through the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. For details of directors and executives interests in options at year end, refer to note 14 of the financial statements.

Details of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of BrazIron Limited are set out in the following table.

The key management personnel of BrazIron Limited and the Group include the directors and company secretary as per pages 4 to 5 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the Group:

Elpidio Reis	General Manager – Brazil *(appointed 1 September 2010)*

Given the size and nature of operations of BrazIron Limited and the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.

Key management personnel and other executives of BrazIron Limited and the Group

	Short-Term		**Post Employment**	**Long-term**		**Share-based Payments**	**Total**	**Remuner-atio consisting of Options**[1]
	Salary & Fees[2]	Non Monetary	Super-annuation	Long Service Leave	Termination benefits	Options		
	$	$	$	$		$	$	%
Directors								
Robert Brierley								
2010	**176,033**	**1,976**	-	-	-	-	**178,009**	-
2009	-	-	-	-	-	-	-	-
Walt Guidice								
2010	**8,667**	**1,976**	-	-	-	-	**10,643**	-
2009	-	-	-	-	-	-	-	-
Pedro Jacobi								
2010	**21,391**	**1,976**	-	-	-	-	**23,367**	-
Neil O'Loughlin								
2010	**19,727**	**1,976**	-	-	-	-	**21,703**	-
2009	-	-	-	-	-	-	-	-
Youzhi Wei								
2010								
2010	**8,667**	**1,976**	-	-	-	-	**10,643**	-
Other key management personnel								
Samuel James Morton (appointed 6 Dec 2010)								
2010	**15,482**	-	**1,275**		-	-	**16,757**	-
Elpidio Reis (appointed 1 September 2010)								
2010	**100,689**	-	-	-	-	**93,353**	**194,042**	-
Total key management personnel compensation								
2010	**350,656**	**9,880**	**1,275**	-	-	**93,353**	**455,164**	
2009	-	-	-	-	-	-	-	

(1) The percentage of the value of remuneration consisting of options, based on the value of options expensed during the year.

(2) Includes cash salary payments and annual leave entitlements.

Service agreements

The details of service agreements of the key management personnel and directors as applicable of BrazIron Limited and the Group are as follows:

Robert Brierley, Managing Director:

- Term of agreement – expiring on 30 June 2011.
- Fee of $20,000 per month. Effective from 1 July 2010
- Company may terminate the agreement with three month's written notice.

Elpidio Reis, General Manager – Brazil:

- Term of agreement – twelve months commencing 1 September 2010.
- Monthly consulting fees of Brazilian Reais $30,000. Also included is use of a four wheel drive vehicle valued at BRL$5,000 per month and health insurance allowance of up to US$1,000 per month.
- Either party may terminate the agreement with three month's written notice.

Samuel James Morton, Chief Financial Officer and Company Secretary:

- Term of agreement – unlimited commencing 6 December 2010.
- Base annual salary of $170,000 plus statutory superannuation contributions, to be reviewed annually. There are two $15,000 cash bonuses to be paid on 31 March 2011 and 30 September 2011 if the employee is still in the employ of the Company.
- Either party may terminate the agreement with three month's written notice.

Share-based compensation

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of BrazIron Limited to increase goal congruence between executives, directors and shareholders. The following options were granted to or vesting with key management personnel during the year:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	Percentage vested during the Year
	-	-	-	-	-	-	-	-
Directors								
Other Key Management Personnel								
Elpidio Reis	1/9/10	750,000	1/9/10	31/12/12	25	7.46		100
Elpidio Reis	1/9/10	750,000	1/3/11	31/12/12	25	7.46		100

Issue of share options have not formally been issued and have been approved in principle. Employee share options are yet to be approved by shareholders. Formal proposal of a employee share option plan is schedule for the 2011 AGM.

DIRECTORS' MEETINGS

During the year the Company held seven meetings of directors. The attendance of directors at meetings of the Board were:

	Directors Meetings		Audit & Risk Committee Meetings		Remuneration Nomination & Funding Committee Meetings		Technical Committee Meetings	
	A	B	A	B	A	B	A	B
Robert Brierley	7	7	*	*	*	*	*	*
Walter Guidice	6	7	0	0	0	0	*	*
Pedro Jacobi	4	5	*	*	*	*	0	0
Neil O'Loughlin	5	7	*	*	0	0	0	0
Youzhi Wei	5	5	0	0	0	0	*	*

Notes

A - Number of meetings attended.

B - Number of meetings of held during the time the director held office or was a member of the Committee during the year.

* - Not a member of the relevant Committee.

SHARES UNDER OPTION

At the date of this report there are NO unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	-
Movements of share options during the year	1,500,000
Total number of options outstanding as at 31 December 2010	1,500,000
Movements of share options after the reporting date:	-
Total number of options outstanding as at the date of this report	1,500,000

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
31/12/2012	25	
Total number of options outstanding at the date of this report		1,500,000

The above share options have not been physically issued during the year but deemed to be issued under International Financial Reporting Standards. Such share options will be physically issued following shareholders approval in 2011.

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of BrazIron Limited were issued during the year ended 31 December 2010 on the exercise of options. No further shares have been issued from the exercise of options since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
None		-
		-

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums insuring all the directors of BrazIron Limited against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

(b) a contravention of sections 182 or 183 of the *Corporations Act 2001*,

as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid is $9,882.69.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Stantons International or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Stantons International Securities received or are due to receive the following amounts for the provision of non-audit services:

	2010 AUD	2009 USD
Prospectus review	14,036	-

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

Signed in accordance with a resolution of the directors.

R J S Brierley
Chairman
Perth, 31 March 2011

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31 March 2011

The Directors
BrazIron Limited
Level 3, Richardson Street
West Perth
WA 6005

Dear Sirs

RE: BRAZIRON LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of BrazIron Limited.

As Audit Director for the audit of the financial statements of BrazIron Limited for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

STANTONS INTERNATIONAL
(An Authorised Audit Company)

John Van Dieren
Director

Corporate Governance Statement

The Board of Directors

The Company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any share holding qualification.

As and if the Company's activities increase in size, nature and scope the size of the Board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the Board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake Board's duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The Board has chartered separate committees for: Audit and Risk; Remuneration, Nomination and Funding; and, Technical. The Committees each operate according to their own charter and provide recommendations for the consideration of the full Board as required. Directors are appointed to the Committees, from time to time, as the Board considers necessary.

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Appointments to Other Boards

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

Independent Professional Advice

The Board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

Continuous Review of Corporate Governance

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

ASX Principles of Good Corporate Governance

The Board has reviewed its current practices in light of the ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

The Board has adopted the Recommendations and the following table sets out the Company's present position in relation to each of the revised Principles.

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 1:	**Lay solid foundations for management and oversight**		
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions	A	Matters reserved for the Board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	A	Performance evaluation of senior executives is the responsibility of the Remuneration, Nomination and Funding Committee. Details of the Remuneration, Nomination and Funding Committee are contained in the Corporate Governance Statement on the Company's website and as noted in the financial report.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	A	
Principle 2:	**Structure the Board to add value**		
2.1	A majority of the Board should be independent directors	NA	A majority of the directors are not currently independent. The Company intends to seek out and appoint independent directors in the future, however, due to the current limited size of the Company's operations it may not be appropriate to appoint a majority of independent directors for some time.
2.2	The chair should be an independent director	NA	The chairperson Robert Brierley is not an independent director, but only by virtue that he is employed in an executive capacity. As indicated above, the Company intends to identify and appoint independent directors (including Chairman) in due course.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	NA	The Company has appointed the Chairman as CEO until a fulltime CEO can be appointed. This is anticipated to occur in the near future. The roles of chairperson and CEO will then be separate.
2.4	The Board should establish a nomination committee	A	The Board has a nomination committee as part of a remuneration, nomination and funding committee.
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors	A	Performance evaluation of the Board, Directors and Key Executives is the responsibility of the Remuneration, Nomination and Funding Committee.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A	The skills and experience of Directors are set out in the Company's Annual Report and on the Company's website.
Principle 3:	**Promote ethical and responsible decision-making**		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	A	The Company has formulated a Code of Conduct as part of its Corporate Governance Plan, which can be viewed on the Company's website.
3.2	Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy	A	The Company has formulated a share trading policy, which can be viewed on the Company's website.

A = Adopted
NA = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	The Board should establish an audit committee	A	
4.2	The audit committee should be structured so that it	A	
	• consists only of non-executive directors	A	
	• consists of a majority of independent directors	NA	The Company currently does not have any independent directors
	• is chaired by an independent chair, who is not chair of the Board	NA	The committee is chaired by a non executive director who is not chair of the Board
	• has at least three members	A	
4.3	The audit committee should have a formal charter	A	The Company has formulated an Audit Committee Charter, which can be viewed on the Company's website
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	
Principle 5:	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	A	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	The Board receives monthly updates on the status of the Company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each Board meeting.
Principle 6:	**Respect the rights of shareholders**		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Reports, Half Yearly Reports, Quarterly Reports, the Company Website and the distribution of specific releases covering major transactions and events or other price sensitive information.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	The Company has formulated a Communication Policy as part of the Corporate Governance Plan which can be viewed on the Company's website.

A = Adopted
NA = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 7:	**Recognise and manage risk**		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	While the Company does not have formalised policies on risk management the Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors. Determined areas of risk which are regularly considered include: • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • land access and native title considerations • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations • sovereign risk • share market conditions • economic risk
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks	NA	While the Company does not have formalised policies on risk management it recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors.
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	A	
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	NA	
Principle 8:	**Remunerate fairly and responsibly**		
8.1	The Board should establish a remuneration committee	A	The Company has established a Remuneration, Nomination and Funding Committee which has a formal charter that can be viewed on the Company's website.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	Refer to the Remuneration Report in the Company's Annual Report.

A = Adopted
NA = Not adopted

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 AUD	2009 USD
REVENUE FROM CONTINUING OPERATIONS			
Other income	4	207,358	40
EXPENDITURE			
Depreciation expense		19,764	8,287
Salaries and employee benefits expense		391,057	4,222
Exploration expenditure		1,701,351	-
Corporate expenses		132,580	45,888
Occupancy expenses		41,883	-
Insurance expenses		9,883	-
Share-based payment expense		93,353	-
Travel expense		118,861	-
Other expenses		148,050	21,174
(LOSS) BEFORE INCOME TAX		**(2,449,424)**	**(79,531)**
INCOME TAX BENEFIT / (EXPENSE)	6	-	
(LOSS) AFTER INCOME TAX		**(2,449,424)**	**(79,531)**
OTHER COMPREHENSIVE (LOSS)/INCOME			
Exchange differences on translation of foreign operations		(480,257)	-
Other comprehensive (loss)/income for the year, net of tax		**(480,257)**	-
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR ATTRIBUTABLE TO BRAZIRON LIMITED		**(2,929,681)**	**(79,531)**
Basic and diluted (loss) per share for loss attributable to the ordinary equity holders of the Company (cents per share)		(1.09)	(0.18)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Financial Position
AS AT 31 DECEMBER 2010

	Notes	2010 AUD	2009 USD
Current Assets			
Cash and cash equivalents	7	14,598,289	518,263
Accrued Income		113,736	-
Total Current Assets		**14,712,025**	**518,263**
Non - Current Assets			
Capitalised Exploration and Acquisition Cost	9	22,038,473	-
Plant & Equipment	8	32,689	16,327
Total non-current assets		**22,071,162**	**16,327**
Total assets		**36,783,187**	**534,590**
Current liabilities			
Trade creditors and other Payables	10	130,027	94,489
Provisions	10	41,523	-
Total current liabilities		**171,550**	**94,489**
Non - Current Liabilities			
		-	-
Total Non-Current Liabilities		-	-
Total liabilities		**171,550**	**94,489**
Net assets		**36,611,637**	**440,101**
Equity			
Issued Capital	11	42,779,111	4,880,030
Reserves	12(a)	(363,387)	21,110
Accumulated losses/profits	12(b)	(7,419,022)	(4,461,039)
Parent Company's Interest in Equity		34,996,702	440,101
Non Controlling Interest		1,614,935	-
		36,611,637	**440,101**

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2010

Consolidated	Notes	Issued Capital $	Options Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Non-Controlling Interest $	Total $
BALANCE AT 1 JANUARY 2009		4,380,030	16,888	-	(4,381,507)	-	15,411
Loss for the year		-	-	-	(79,532)	-	(79,532)
OTHER COMPREHENSIVE INCOME							
Shares issued		500,000	-	-	-	-	500,000
Exchange differences on translation of foreign operations		-	4,222	-	-	-	4,222
TOTAL COMPREHENSIVE LOSS		4,880,030	21,110	-	(4,461,039)	-	440,101
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS							
Transaction costs		-	-	-	-	-	-
Employees and consultants share options		-	-	-	-	-	-
BALANCE AT 31 DECEMBER 2009 [USD]		4,880,030	21,110	-	(4,461,039)	-	440,101
BALANCE AT 31 DECEMBER 2009 [AUD]		**5,436,353**	**23,517**	-	**(4,969,598)**	-	**490,272**
Loss for the year		-	-	-	**(2,449,424)**	-	**(2,449,424)**
OTHER COMPREHENSIVE LOSS							
Exchange differences on translation of foreign operations		-	-	**(480,257)**	-		**(480,257)**
TOTAL COMPREHENSIVE LOSS		-	-	**(480,257)**	**(2,449,424)**	-	**(2,929,681)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS							
Shares issued during the year		**37,758,872**	-	-	-	-	**37,758,872**
Transaction costs		**(416,114)**	-	-	-	-	**(416,114)**
Employees and consultants share options		-	**93,353**	-	-	-	**93,353**
Non-Controlling Interest		-	-	-	-	**1,614,935**	**1,614,935**
BALANCE AT 31 DECEMBER 2010		**42,779,111**	**116,870**	**(480,257)**	**(7,419,022)**	**1,614,935**	**36,611,637**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Brazlron Limited

Consolidated Statement of Cash Flows

YEAR ENDED 31 DECEMBER 2010	Notes	Consolidated 2010 AUD	Consolidated 2009 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		-	-
Payments to suppliers and employees		(2,306,660)	-42
Interest received		93,622	40
Expenditure on mining interests		-	-
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	22	**(2,213,038)**	**-2**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for prospects		-	(20,000)
Payments for plant and equipment		(40,932)	-
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		**(40,932)**	**(20,000)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		16,908,240	500,000
Payment of share issue costs		(416,114)	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		**16,492,126**	**500,000**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14,238,156	479,998
Cash and cash equivalents at the beginning of the financial year		577,361	38,265
Effects of exchange rate changes on cash and cash equivalents		(217,228)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		**14,598,289**	**518,263**

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of BrazIron Limited and its subsidiaries. The financial statements are presented in the Australian currency. BrazIron Limited is a company limited by shares, domiciled in Australia and incorporated in Bermuda. The financial statements were authorised for issue by the directors on 31 March 2011. The directors have the power to amend and reissue the financial statements.

BrazIron is registered in Bermuda and is a non-resident operating in Australia. Thus Braziron does not incur a tax benefit or expense as a result of its Australian operations.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001.*

Compliance with IFRS

The consolidated financial statements of the BrazIron Limited Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Financial statement presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements.

For the purposes of these financial statements, all 2009 comparative figures are presented in USD and reclassified in Australian Dollars where required.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of BrazIron Limited ("Company" or "parent entity") as at 31 December 2010 and the results of all subsidiaries for the year then ended. BrazIron Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all of those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of BrazIron Limited.

(ii) Joint ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of joint venture activities have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in note 20.

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(iv) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures.*

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity of financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

Change in accounting policy

The Group has adopted AASB 8. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position. The Group operates only in the exploration industry, both in Australia and overseas. There has been no change in the number of reportable segments presented to comply with this standard.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is BrazIron Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(k) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(l) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets - reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Change in accounting policy

The Group has adopted the policy of reclassifying financial assets out of the held-for-trading category from 1 July 2009, following amendments made to AASB 139 *Financial Instruments: Recognition and Measurement* in October 2009. Under the Group's previous policy reclassifications of financial assets were not permitted. The Group did not reclassify any financial assets in the current reporting period. Therefore, the change in accounting policy had no impact on the Group's financial statements.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments is determined are disclosed in note 2(d).

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of comprehensive income.

Notes to the Consolidated Financial Statements continued

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the prime cost method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 5% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(n) Exploration, evaluation and feasibility costs

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

(a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

(b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(p) Employee benefits

(i) Wages and salaries, annual leave and long service leave

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 25. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(q) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(r) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact on the financial reporting of the Group.

AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 January 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable untill January 2013 but is available for early adoption. The group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 January 2011. The amendments are not expected to have a significant impact on the financial statements of the Group.

AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the entity issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 January 2010, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

(u) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 25.

Exploration, evaluation and feasibility costs

Exploration expenditure is capitalised for each separate area of interest where rights to tenure are current and:

(i) such costs are expected to be recovered through successful development and exploitation or by sale; or

(ii) where activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Ultimate recoupment of exploration expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. The carrying values of expenditures carried forward are reviewed for impairment at each reporting date when the facts, events or changes in circumstances indicate that the carrying value may be impaired. Accumulated expenditures are written off to the income statement to the extent to which they are considered to be impaired.

The key points that are considered in this review include:

(i) data review and field visits undertaken during the year

(ii) the estimated market value of assets at the review date

(iii) independent valuations of underlying assets that may be available

(iv) strategic direction of the Company's exploration activities.

Information used in the review process is rigorously tested to externally available information as appropriate

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all Board members to be involved in this process. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on risk management.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar, US dollar and Brazilian Reas,.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements.

Sensitivity analysis

Based on the financial instruments held at 31 December 2010, had the Australian dollar weakened/strengthened by 10% against the USD dollar with all other variables held constant, the Group's post tax loss for the year would have been $7.8 lower/higher and there would have been no movements to the Group's other equity for both years presented.

Based on the financial instruments held at 31 December 2010, had the Australian dollar weakened/strengthened by 10% against the Brazilian Reas with all other variables held constant, there would have been impact on the Group's post-tax losses of $7,222 lower/higher and there would have been no movements to the Group's other equity for both years presented

(ii) Price risk

Given the current level of operations the Group is not exposed to price risk.

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to 90 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group $14.6m is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 5.3%

Sensitivity analysis

At 31 December 2010, if interest rates had changed by -/+ 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been $12,000 lower/higher as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

The Group does not have any concentrations of credit risk.

As the Group does not presently have any trade debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the reporting date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

3. SEGMENT INFORMATION

(a) Description of segments

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position. The Group operates only in the exploration industry, both in Australia and overseas.

(b) Segment information provided to the Board of Directors

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2010 is as follows:

	Australia	USA	Brazil	Consolidated
	2010 $	2010 $		2010 $
Segment revenue				
Other revenue	207,179	-	179	207,358
Total segment revenue	207,179	-	179	207,358
Intersegment elimination				-
Consolidated revenue				207,358
Segment result				
Segment result	(1,686,245)	(1,569)	(761,609)	(2,449,424)
Intersegment elimination				-
Loss before income tax				(2,449,424)
Income tax expense				-
Loss for the year				(2,449,424)
Segment assets and liabilities				
Segment assets	37,100,486	23,249,720	32,534,005	92,884,211
Intersegment elimination				56,101,024
Total assets				36,783,187
Segment liabilities	920,462	1,442,880	1,421,278	3,784,620
Intersegment elimination				3,613,070
Total liabilities				171,550

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

3. SEGMENT INFORMATION (Cont'd)

2009 $USD	Segment Loss	Segment Asset	Segment Liabilities
Bermuda	(59,531)	518,263	(94,489)
Brazil	(20,000)	16,327	-
Inter-Segment Eliminations	-	-	-
Total	**(79,531)**	**534,590**	**(94,489)**

	Consolidated 2010 AUD	Consolidated 2009 USD
4. REVENUE		
From continuing operations		
Other revenue		
Interest	207,358	40
	207,358	**40**
5. EXPENSES		
Loss before income tax includes the following specific expenses:		
Defined contribution superannuation expense	1,275	-
Net foreign exchange losses	57,417	-
Minimum lease payments relating to operating leases	40,446	-
Net loss on disposal of plant and equipment	-	-
6. INCOME TAX		
(a) Income tax expense/(benefit)		
Current tax	-	-
Deferred tax	-	-
- Adjustments for current tax of prior years	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	2,449,424	(79,531)
Prima facie tax benefit at the Australian tax rate of 30% (2009: 30%)	**(734,827)**	**(23,859)**
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	93,353	-
Other	-	-
	(641,474)	**(23,859)**
Movements in unrecognised temporary differences		
Tax effect of current year tax losses for which no deferred tax asset has been recognised	641,474	23,859
Income tax expense/(benefit)	-	-

BrazIron is registered in Bermuda and is a non-resident operating in Australia and thus Braziron does not incur a tax benefit or expense as a result of its Australian operations

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

	Notes	Consolidated 2010 AUD	Consolidated 2009 USD

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

	2010 AUD	2009 USD
Cash at bank and in hand	2,598,289	518,263
Short-term deposits	12,000,000	-
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	**14,598,289**	**518,263**

Short-term deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

8. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

	2010 AUD	2009 USD
Plant and equipment		
Cost	91,029	33,150
Accumulated depreciation	(58,341)	(16,823)
Net book amount	**32,689**	**16,327**
Plant and equipment		
Opening net book amount	18,188	24,613
Exchange differences	-	-
Additions	34,265	-
Disposals	-	-
Depreciation expense	(19,764)	(8,286)
Closing net book amount	**32,689**	**16,327**

9. CAPITLILISED EXPLORATION AND ACQUISITION COST

	2010 AUD	2009 USD
Xingu Tenements	11,257,253	-
F1 Tenements	420,606	-
Bahia Tenements	10,360,614	-
	22,038,473	-

Capitalised exploration costs are deemed to be recoverable via the successful exploitation of mineral resources. BrazIron continue to explore and drill these tenements and do not feel they are in anyway impaired as at 31 December 2010.

10. CURRENT LIABILITIES

	2010 AUD	2009 USD
Trade Creditors and Accruals	130,027	94,489
Provisions	41,523	-
	171,550	**94,489**

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

11. ISSUED CAPITAL

(a) Share Capital

		Consolidated			
		2010 AUD		2009 USD	
	Notes	Number of shares	$	Number of shares	$
Ordinary shares fully paid	15(b), 15(d)	316,650,000	42,779,111	48,830,000	4,880,030
Total issued capital		**316,650,000**	**42,779,111**	**48,830,000**	**4,880,030**

(b) Movements in ordinary share capital				
Beginning of the financial year	48,830,000	5,436,353	43,830,000	4,380,030
Transactions during the year:				
– Issued as consideration of acquisition for subsidiary @ USD 10c per share	175,320,000	20,850,632	5,000,000	500,000
– Issued for cash @ AUD 20c per share	75,000,000	15,000,000	-	-
– Issued for cash @ USD 10c per share	10,000,000	1,090,422		
– Exercise of options @ USD 10c per share	7,500,000	817,817	-	-
Less: Transaction costs	-	(416,114)	-	-
End of the financial year	**316,650,000**	**42,779,111**	**48,830,000**	**4,880,030**

(c) Movements in options on issue

	Consolidated Number of options 2010
Beginning of the financial year	-
Issued during the year:	
– Exercisable at AUD25 cents, vesting 01/09/2010	750,000
– Exercisable at AUD 25 cents, vesting 01/03/2011	750,000
– Exercised during the year:	-
– Expired during the year:	-
– Cancelled during the year:	-
– End of the financial year	**1,500,000**

The 1,500,000 share options have not yet been physically issued however following International Financial Reporting Standards, the deemed date of grant was in 2010. It is expected the options will be issued post shareholders meeting in 2011.

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 31 December 2010.

Notes to the Consolidated Financial Statements continued

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	2010 AUD	2009 USD
Cash and cash equivalents	14,598,289	518,263
Trade and other receivables	113,736	-
Trade and other payables	(171,550)	(94,489)
Working capital position	**14,540,475**	**423,774**

12. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

Foreign currency translation reserve	(480,257)	-
Options reserve	116,870	21,110
	(363,387)	**21,110**

Movements:

Foreign currency translation reserve		
Balance at beginning of year	-	-
Currency translation differences arising during the year	(480,257)	-
Balance at end of year	**(480,257)**	**-**
Options reserve		
Balance at beginning of year	23,517	-
Share-based payment expense	93,353	21,110
Balance at end of year	**116,870**	**21,110**

(b) Accumulated losses

Balance at beginning of year	(4,969,598)	(4,381,507)
Net loss for the year	(2,449,424)	(79,532)
Balance at end of year	**(7,419,022)**	**(4,461,039)**

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Options reserve

The share-based payments reserve is used to recognise the fair value of options issued.

13. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

	Consolidated 2010 AUD	Consolidated 2009 USD
14. KEY MANAGEMENT PERSONNEL DISCLOSURES		
(a) Key management personnel compensation		
Short-term benefits	360,536	-
Post employment benefits	1,275	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	93,353	-
	455,164	-

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 9.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 8 to 9.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of BrazIron Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of BrazIron Limited							
NIL							
Other key management personnel of the Group							
Elpidio Reis	-	1,500,000	-	-	1,500,000	750,000	750,000

2009	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of BrazIron Limited							
NIL							
Other key management personnel of the Group							
NIL							

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

14. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of BrazIron Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2010	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of BrazIron Limited				
Ordinary shares				
Robert Brierley	505,000	-	3,286,926	3,791,926
Walter Guidice *	10,000	-	43,298,804	43,308,804
Pedro Jacobi *	-	-	44,876,521	44,876,521
Neil O'Loughlin	1,510,000	-	8,554,464	10,064,464
Youzhi Wei	-	-	33,398,754	33,398,754
Other key management personnel of the Group				
Ordinary shares				
NIL				

*Majestic Diamonds & Metals Inc is the legal beneficial holder of 10,032,000 shares. Mr Guidice and Mr Jacobi are taken to have a relevant interest in the shares held by it by virtue of section 608(3) of the corporations act by having voting power Majestic Diamonds & Metals Inc of over 20%

2009	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of BrazIron Limited				
Ordinary shares				
Robert Brierley	1,010,000	-	(505,000)	505,000
Walter Guidice	10,000	-	-	10,000
Pedro Jacobi	-	-	-	-
Neil O'Loughlin	1,510,000	-	-	1,510,000
Other key management personnel of the Group				
Ordinary shares				
NIL				

(Note that 505,000 shares held by Robert Brierley were transferred to Melanie Graye Brierley as part of a property settlement)

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

15. REMUNERATION OF AUDITORS

	Consolidated 2010 AUD	Consolidated 2009 USD
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
(a) Audit services		
Stantons International – audit and review of financial reports	20,000	7,500
Non-related audit firm for the audit or review of financial reports of any entity in the Group	16,000	-
Total remuneration for audit services	**36,000**	**7,500**
(b) Non-audit services		
Stantons International – review of prospectus	14,036	-
Total remuneration for other services	**14,036**	-

16. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group and Company at reporting date.

17. COMMITMENTS

(a) Exploration commitments
The Company does not have commitments to meet for minimum expenditure requirements on the mineral exploration assets it has an interest in.

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):		
Minimum lease payments		
within one year	51,588	-
later than one year but not later than five years	51,588	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	**103,176**	-

The Group has one non-cancellable office leases, one for premises in West Perth expiring within two years. The leases have varying terms, escalation clauses and renewal rights. The Group has a non-cancellable operating lease for an item of office equipment expiring within two years, with rent payable monthly. The item is subject to a per unit usage charge, but there are no provisions for escalation or renewal within the lease agreement.

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

18. RELATED PARTY TRANSACTIONS

(a) Parent entity
The ultimate parent entity within the Group is Brazlron Limited.

(b) Subsidiaries
Interests in subsidiaries are set out in note 19.

(c) Key management personnel
Disclosures relating to key management personnel are set out in note 14.

(d) Loans to related parties
As at 31 December 2010 BrazIron Limited has a receivable from Charter International AUD$1,442,880 and Braziron Corporate Services AUD$486,399. Charter International LLC has a receivable from Octa Prime Ltd AUD$1,377,262. All corresponding entities having liabilities of equal amount and thus eliminate upon consolidation.

19. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b)(i):

Name	Country of Incorporation	Class of Shares	Equity Holding(1) 2010 %
Charter International LLC	USA	Ordinary	100
Octa Prime Limitada	Brazil	Ordinary	99.99999
Octa Ferro S.A	Brazil	Ordinary	99.999
BR Ferro S.A	Brazil	Ordinary	51
BSADS LLC	USA	Ordinary	100
Good Hands	USA	Ordinary	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.

20. INTERESTS IN JOINT VENTURES

BR Ferro
In 2007 Vedovato and Coelho entered into an "Association and Agreements Contract" with Octa Mineracao, subsequently sold to Octa Ferro, a subsidiary of BrazIron, as a joint venture into the exploration of mineral resources in the Bahia project. Octa Ferro was eligible for a 51% ownership stake in the joint venture upon expenditure being made of $2.15m towards developing the project. Octa Ferro met this criteria during the course of 2010 and is currently registering formal ownership of its 51% shareholding. Further exploration and drilling is budgeted for 2011. Notwithstanding that the 51% interest in BR Ferro has not been registered, the company's directors consider that Octa Ferro has 51% interest in BR Ferro and has prepared consolidated accounts on the premise that BrazIron has an effective 51% interest in BR Ferro.

F1
On 3 September 2008 an Association Contract (F1 JV "Agreement") was signed between the BrazIron's subsidiary, Octa Ferro S.A and Pegran Comércio de Pedras Ltda (Pegran). This agreement covers the two tenements that make up the F1 project. Pursuant to the agreement BrazIron has acquired 75% equity in the tenements for:

Payment of US10,000 per month until completion of a feasibility study is completed;

US0.30 per tonne of inferred JORC resource estimated by the feasibility study; and

a USD$0.30 per tonne royalty on the realisation of a inferred JORC resource on the F1 tenements. Pegran will remain a 25% free carried partner until completion of a Bankable Feasibility Study.

Notes to the Consolidated Financial Statements continued

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Any area within 50km of the project that are acquired by either party during the term of the Agreement will automatically be subject to the F1 JV Agreement. Octa Ferro is the manager of the F1 project and all decisions will be made solely by Octa Ferro.

Octa Ferro has rights or first refusal over Pegran's interest in the F1 project should Pegran wish to dispose of it.

If any minerals other than iron are discovered on the project, the royalty will payable to Pegran but as justified by reference to the value of that mineral per tonne compared to the value of iron ore.

21. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No other matter or circumstance has arisen since 31 December 2010, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Notes to the Consolidated Financial Statements continued

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	Consolidated	
	2010	2009
	AUD	USD
22. STATEMENT OF CASH FLOWS		
Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	(2,449,424)	-79,531
Non-Cash Items		
Depreciation of plant and equipment	19,764	8,287
Share-based payment expense	93,353	4,222
Net exchange differences	46,208	-
Net loss on disposal of plant and equipment	-	-
Change in operating assets and liabilities	-	-
(Increase)/decrease in trade and other receivables	-	-
Increase/(decrease) in trade and other payables	35,538	10,450
Increase in employee entitlements provision	41,523	36,570
Impairment of assets	-	20,000
Net cash outflow from operating activities	**(2,213,038)**	**-2**

23. LOSS PER SHARE

(a) Reconciliation of earnings used in calculating loss per share Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	(2,449,424)	(79,531)
	Number of shares	Number of shares
(b) Weighted average number of shares used as the denominator Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	**223,227,165**	**48,830,000**

(c) Information on the classification of options
As the Group has made a loss for the year ended 31 December 2010, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

24. FINANCIAL INSTRUMENT

(a) Interest rate risk

The consolidated entity is exposed to movements in market interest rates on short-term deposits and borrowings.

Group policy is to monitor the interest rate yield curve out to 90 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

The Company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at balance date are as follows:

Notes to the Consolidated Financial Statements continued

31 DECEMBER 2010

2010		Fixed interest rate maturing in:					
Financial Instruments	Floating Interest Rate	1 six month period or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total carrying value as per the statement of financial position	Weighted average effective interest rate
	December 2010 $AUD	**December 2010 $AUD**	**December 2010 $AUD**	**December 2010 $AUD**	**December 2010 $AUD**	**December 2010 $AUD**	**December 2010 %**
(i) Financial assets							
Cash	2,598,289	12,000,000	-	-	-	14,598,289	5.30%
Trade and other receivables	-	-	-	-	113,736	113,736	
Other financial assets							
Total financial assets	2,598,289	12,000,000	-	-	113,736	14,712,025	
(ii) Financial liabilities							
Trade and other payables	-	-	-	-	171,550	171,550	
Borrowings	-	-	-	-	-	-	
Total financial liabilities	-	-	-	-	171,550	171,550	

2009		Fixed interest rate maturing in:					
Financial Instruments	Floating Interest Rate	1 six month period or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total carrying value as per the statement of financial position	Weighted average effective interest rate
	December 2009 $USD	**December 2009 $USD**	**December 2009 $USD**	**December 2009 $USD**	**December 2009 $USD**	**December 2009 $USD**	**December 2009 %**
(i) Financial assets							
Cash	518,263	-	-	-	-	518,263	1.50%
Trade and other receivables	-	-	-	-	-	-	
Other financial assets							
Total financial assets	518,263	-	-	-	-	518,263	
(ii) Financial liabilities							
Trade and other payables	-	-	-	-	94,489	94,489	
Borrowings	-	-	-	-	-	-	
Total financial liabilities	-	-	-	-	94,489	94,489	

Notes to the Consolidated Financial Statements continued

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Sensitivity Analysis

The following tables summarise the sensitivity of the Group's financial assets to interest rate risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax loss and equity would have been affected as shown. The analysis has been performed on the same basis for the year ended 31 December 2009 and the year ended 31 December 2008.

2010	Carrying Amount	**Interest Rate Risk**		**Interest Rate Risk**	
AUD		**-1%**		**1%**	
		Net Loss	**Equity**	**Net Loss**	**Equity**
	$AUD	**$AUD**	**$AUD**	**$AUD**	**$AUD**
Financial assets					
Cash and cash equivalents	14,598,289	(145,983)	(145,983)	145,983	145,983
Total	14,598,289	(145,983)	(145,983)	145,983	145,983

None of the Group's financial liabilities are interest bearing.

2009	Carrying Amount	**Interest Rate Risk**		**Interest Rate Risk**	
AUD		**-1%**		**1%**	
		Net Loss	**Equity**	**Net Loss**	**Equity**
	$USD	**$USD**	**$USD**	**$USD**	**$USD**
Financial assets					
Cash and cash equivalents	518,263	(5,183)	(5,183)	5,183	5,183
Total	518,263	(5,183)	(5,183)	5,183	5,183

None of the Group's financial liabilities are interest bearing.

Credit risk exposures

The Group has no significant concentrations of credit risk.

Foreign currency risk

The Group is exposed to fluctuations in foreign currencies arising from exploration commitments in currencies other than the group's measurement currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the Brazilian Reis and United States Dollar. The majority of current exposure is to Brazilian Reis, which generally tracks the AUD$ in relative value and is converted to AUD$ for reporting purposes. The exposure to fluctuation on current transactions based in USD is not material. Fluctuation of the AU$ relative to BRL is the primary cause of exchange gains and losses, due to the preponderance of assets held in BRL.

The Group has not formalised a foreign currency risk management policy, however it monitors its foreign currency expenditure in light of exchange rate movements, and retains the right to withdraw from the foreign exploration commitments after the minimum expenditure targets have been met.

	2010
Foreign currency cash at 31 December	
US Dollars	8,038
Foreign currency cash at 31 December	
BRL	1,210,145

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Sensitivity Analysis

The following tables summarise the sensitivity of the Group's financial assets to foreign currency exchange rate risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax profit and equity would have been affected as shown.

Foreign Currency exchange rate risk	2010 AUD
Increase/(decrease) in profit	
Decline in AUD to BRL by 10%	(72,277)
Improvement in AUD to BRL by 10%	72,277
Increase/(decrease) in Equity	
Decline in AUD to BRL by 10%	(72,277)
Improvement in AUD to BRL by 10%	72,277

Prior year comparatives are not shown in the sensitivity analysis of Foreign Currency exchange risk as the reporting currency in 2009 was USD.

25. SHARE-BASED PAYMENTS

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

	Consolidated 2010	2009
Options issued to employees and contractors as part of:		
Share-based payment expense	93,353	-
	93,353	-

The fair value of share options granted to key management personnel is estimated as at the date of grant using Black Scholes Model. The following table lists the inputs to the model used for the year ended 31 December 2010

Key Management Personnel	Elpidio Reis
Exercise Price	0.25
No. of Options	1,500,000
Grant Date	1-Sep-10
Vesting Date	1-Sep-10
Expiry Date	31-Dec-12
Share Price at Grant Date	0.20
Risk-free Interest Rate	4.80%
Volatility	70.00%
Fair Value at Grant Date	$93,353

Notes to the Consolidated Financial Statements continued

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26. PARENT ENTITY INFORMATION

The following information relates to the parent entity, BrazIron Limited, at 31 December 2010. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	13,720,614	518,263
Non-current assets	22,965,865	16,327
Total assets	**36,686,479**	**534,590**
Current liabilities	127,533	94,489
Non-current liabilities	153,265	-
Total liabilities	**280,798**	**94,489**
Net Assets	**36,405,681**	**440,101**
Issued capital	42,779,111	4,880,030
Reserves	63,551	21,110
Accumulated losses	(6,436,981)	(4,461,039)
Total equity	**36,405,681**	**440,101**
Loss for the year	(1,467,384)	(79,532)
Total comprehensive loss for the year	**(1,467,384)**	**(79,532)**
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Details of any contingent liabilities of the parent entity	-	-
Details of any contractual commitments by the parent entity for the acquisition of property plant or equipment		-

27. BUSINESS COMBINATIONS AND ACQUISITIONS

Acquisition of 100% of Charter

	AUD$	US$
Agreed purchase price – shares (175,320,000 shares at a deemed US10 cents each)	20,850,632	17,532,000
Amount payable on completion	20,850,632	17,532,000

Assets and liabilities acquired

The 6 July 2010 unaudited adjusted book values and the values assigned by management of the Company to the assets and liabilities acquired through the indirect acquisition of Octa Ferro, 51% of BR Ferro and a 75% interest in the F1 tenements are as follows:

	Book Values USD	Deemed Value USD
Exploration assets	4,734,873	17,532,000
Total assets	4,734,873	17,532,000
Total liabilities	-	-
Net book assets acquired	4,734,873	17,532,000

Notes to the Consolidated Financial Statements continued

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The US$4,734,873 is made up of book costs relating to:

Bahia Tenements	3,120,833
Xingu Tenements	1,215,761
F1 Tenements	398,279
Total value	US$ 4,734,873

Of the US$3,120,833, minority interests in BR Ferro have an effective 49% interest (US$1,529,208) and thus the BrazIron Group's 51% interest is US$1,591,625. Accordingly, the effective total interest in tenements acquired is US$3,205,655 and the deemed cost of acquisition is US$17,532,000 (175,320,000 shares at US10 cents each). Thus, on consolidation, there is an excess of cost (US$14,326,335) over the book values of the Charter Group. The difference is considered by BrazIron Board and management to relate to the Octa Ferro's interest in various mineral tenements in Brazil. The allocation was US$5,940,375 (AUD$7,064,829) to the Bahia tenements (owned by BR Ferro) and US$8,385,960 (AUD$9,973,338) to Xingu.

In the year ended 31 December 2008 and the year ended 31 December 2009, BrazIron incurred costs (by way of advances to Majestic who then paid for exploration costs on the Bahia, Xingu and F1 tenements under option and earn in agreements with Brazilian parties) of US$3,800,000 and US$20,000 respectively pertaining to BrazIron's options to acquire interests in BR Ferro and Xingu tenements. BrazIron has treated such costs as rights to acquire mineral exploration expenditure and such costs now form part of the accumulated losses of BrazIron. In addition, between 1 January 2010 and 6 July 2010, advances of US$914,873 have been made by BrazIron to Majestic (who spent the funds on the Bahia, Xingu and F1 tenements) and the advances by BrazIron to 6 July 2010 have also been treated as exploration costs written off.

Advances incurred by BrazIron after the signing of the Share Sale Agreement (to indirectly acquire Octa Ferro who has inter-alia 51% of BR Ferro) and the Tenement Sale Agreement (to acquire the Xingu tenements) have been treated as loans or quasi capital (via Charter and Octa Prime) to Octa Ferro and BR Ferro. All of the Brazilian parties relating to BR Ferro (49% minority interest) and F1 (25% joint venture interest) are free carried to completion of bankable feasibility studies.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 16 to 44 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 31 December 2010 and of their performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Robert Brierley
Managing Director
Perth, 31 March 2011

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRAZIRON LIMITED

Report on the Financial Report

We have audited the accompanying financial report of BrazIron Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial period.

Directors' responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of BrazIron Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 6 to 8 of the directors' report for the year ended 31 December 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Auditor's opinion
In our opinion the remuneration report of BrazIron Limited for the year ended 31 December 2010 complies with section 300 A of the *Corporations Act 2001*.

Inherent Uncertainty Regarding Capitalised Exploration Cost

Without qualification to the opinion expressed above, attention is drawn to the following matters:

The recoverability of the Group's carrying value of capitalised exploration and acquisition costs ($22,038,473) is dependent on the successful commercial exploitation of the assets and/or sale of the assets to generate profits at amounts in excess of the book values. In the event that the Group is not successful in commercial exploitation and/or sale of the assets, the realisable value of the consolidated entity's assets may be significantly less than their current carrying values.

STANTONS INTERNATIONAL
(An Authorised Audit Company)

Stantons International

J P Van Dieren
Director

West Perth, Western Australia
31 March 2011