

# **BRAZIRON LIMITED**

Company No. 40759

## **Financial Report**

For the period  
from the date of incorporation 27 September 2007  
to  
31 December 2008

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## **Financial report - for the period from the date of incorporation 27 September 2007 to 31 December 2008**

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This financial report covers BrazIron Limited as an individual entity and the consolidated entity consisting of BrazIron Limited and its subsidiaries. The financial report is presented in United States Dollars.

BrazIron Limited is a company limited by shares, incorporated and domiciled in Bermuda.

Its registered office is:

Clarendon House  
2 Church Street  
Hamilton, HM11  
BERMUDA

The company's principal place of business is:

Unit B2, 431 Roberts Road  
Subiaco WA 6008  
AUSTRALIA

A description of the nature of the company's operations and its principal activities is included in the Directors' report on page 2.

Your directors present their report on the company from the period of incorporation 27 September 2007 to 31 December 2008.

#### **Directors**

The following persons were directors of BrazIron Limited since incorporation and up to the date of this report.

Robert Brierley	(Appointed 27 September 2007)
Walt Guidice	(Appointed 27 September 2007)
Neil O'Loughlin	(Appointed 27 September 2007)

#### **Company Secretary**

The Company Secretary of BrazIron Limited is Evelou Mosley. Robert Hodby and Tucker Hall are appointed as Assistant Secretaries to the Company.

#### **Registered office**

Clarendon House  
2 Church Street  
Hamilton HM11 BERMUDA

#### **Principal activities**

The principle activity of the company during the period was evaluation of iron ore projects in Brazil.

#### **Review of operations**

A summary of company revenues and results is set out below:

	<b>2008</b>
	<b>US\$</b>
Loss before income tax expense	<b>4,381,507</b>
Income tax expense	<b>-</b>
Loss after income tax expense	<b><u>4,381,507</u></b>

#### **Significant changes in the state of affairs**

The Company continued its evaluation of the Brazilian Iron Ore Projects contemplated under the Bahia Option Agreement and the Xingu Option Agreement. During the year the Company renegotiated these agreements significantly reducing the purchase cost of the assets. As part of these restated agreements, the company also executed a Share Sale Agreement and a Tenement Sale Agreement. Under these sale agreement and subject to the approval by the Bermuda Monetary Authority, the company has committed to the issue of shares representing an 80% equity stake in the Company for the acquisition of the Brazilian Iron Ore Projects.

**Matters subsequent to the end of the financial year**

In November 2009 the Company raised US\$500,000 from the issue of 5,000,000 ordinary fully paid share. Other than this, there have been no significant changes in the state of affairs of the company.

Other than the above, there is, at the date of this report, no matter or circumstance which has arisen since 31 December 2008 that has significantly affected, or may significantly affect:

- (a) the company's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the company's state of affairs in future financial years.

**Likely developments and expected results of operations**

Further information on likely developments in the operations of the company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

**Environmental regulation**

The company is not subject to significant environmental regulation in respect of its present operations.

**Insurance of officers**

During the financial year, BrazIron Limited did not enter into an agreement to indemnify or insure the officers of the company.

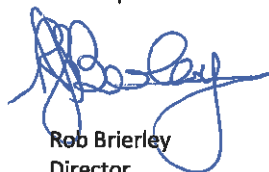
**Auditor**

Stantons International Pty Ltd have audited the account of the company in accordance with the Bye-Laws of the Company with the aim of them being appointed by the Members at the first AGM of BrazIron Limited.

In addition to the preparation of the audit, Stantons International Securities (a firm affiliated with Stanton International) were engaged to provide Non-Audit services.

A copy of the auditor's independence declaration is set out on page 4.

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



Rob Brierley  
Director

Perth  
16 March 2010

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# Stantons International

ABN 41 103 088 697

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WEST PERTH WA 6005, AUSTRALIA  
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16 March 2010

The Directors  
BrazIron Limited  
Clarendon House  
2 Church Street  
Hamilton,  
HM11 BERMUDA

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 period from the date of incorporation 27 September 2007 to 31 December 2008, 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**  
**(Authorised Audit Company)**



**John Van Dieren**  
**Director**

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**Income statement**

For the period from the date of incorporation 27 September 2007 to 31 December 2008

	Notes	Consolidated 2008 US\$	Parent 2008 US\$
<b>Continuing Operations</b>			
Interest revenue		37,429	37,429
Expenses:			
Administration		(2,262)	(2,262)
Occupancy		(16,601)	(16,601)
Employee benefits expenses		(245,888)	(245,888)
Accommodation & travel		(86,410)	(86,410)
Legal & Consultancy		(197,453)	(194,453)
Communications		(3,588)	(3,588)
Depreciation and amortisation expenses		(8,537)	(8,537)
Impairment of Assets		(3,802,234)	(3,802,234)
Other		(52,425)	(52,425)
<b>Loss before finance costs</b>		<b>(4,377,969)</b>	<b>(4,374,969)</b>
Finance		(3,538)	(3,538)
<b>Loss before income tax</b>		<b>(4,381,507)</b>	<b>(4,378,507)</b>
Income tax expense	3	-	-
<b>Loss for the year</b>		<b>(4,381,507)</b>	<b>(4,378,507)</b>
Basic loss per share cents per share		(14.96)	(14.95)
Diluted loss per share cents per share		(14.05)	(14.04)

*The above income statement should be read in conjunction with the accompanying notes.*

**Balance sheet**  
As at 31 December 2008

	Notes	Consolidated 2008 US\$	Parent 2008 US\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	38,265	38,265
<b>Total current assets</b>		<u>38,265</u>	<u>38,265</u>
<b>Non current assets</b>			
Property, plant and equipment	6	24,613	24,613
Investment in subsidiaries	15	-	3,001
Mining & exploration acquisition costs	7	-	-
<b>Total non current assets</b>		<u>24,613</u>	<u>27,614</u>
<b>Total assets</b>		<u>62,878</u>	<u>65,879</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	8	47,467	47,468
<b>Total current liabilities</b>		<u>47,467</u>	<u>47,468</u>
<b>Total liabilities</b>		<u>47,467</u>	<u>47,468</u>
<b>Net assets</b>		<u>15,411</u>	<u>18,411</u>
<b>EQUITY</b>			
Contributed equity	9	4,380,030	4,380,030
Reserves	11	16,888	16,888
Accumulated losses	10	(4,381,507)	(4,378,507)
<b>Total equity</b>		<u>15,411</u>	<u>18,411</u>

*The above balance sheet should be read in conjunction with the accompanying notes.*

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**Statement of changes in equity**

For the period from the date of incorporation 27 September 2007 to 31 December 2008

<b>Consolidated</b>	<b>Contributed Equity</b>	<b>Accumulated Losses</b>	<b>Options Reserve</b>	<b>Total Equity</b>
	US\$	US\$	US\$	US\$
<b>As at 27 September 2007</b>	-	-	-	-
Loss for the Period	-	(4,381,507)	-	(4,381,507)
Share issues	4,380,030	-	-	4,380,030
Cost of share based payments	-	-	16,888	16,888
<b>As at 31 December 2008</b>	<b>4,380,030</b>	<b>(4,381,507)</b>	<b>16,888</b>	<b>15,411</b>

<b>Parent</b>	<b>Contributed Equity</b>	<b>Accumulated Losses</b>	<b>Options Reserve</b>	<b>Total Equity</b>
	US\$	US\$	US\$	US\$
<b>As at 27 September 2007</b>	-	-	-	-
Loss for the Period	-	(4,378,507)	-	(4,378,507)
Share issues	4,380,030	-	-	4,380,030
Cost of share based payments	-	-	16,888	16,888
<b>As at 31 December 2008</b>	<b>4,380,030</b>	<b>(4,378,507)</b>	<b>16,888</b>	<b>18,411</b>

*The above statements of changes in equity should be read in conjunction with the accompanying notes.*



**Cash flow statement**  
For the 15 months ended 31 December 2008

	Notes	Consolidated 2008 US\$	Parent 2008 US\$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees	19	(543,810)	(540,810)
Interest received		37,429	37,429
<b>Net cash inflow (outflow) from operating activities</b>		<u>(506,381)</u>	<u>(503,381)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(33,150)	(33,150)
Payments for subsidiaries		-	-
Payments for mining & exploration acquisition costs		(3,802,234)	(3,802,234)
<b>Net cash inflow (outflow) from investing activities</b>		<u>(3,835,384)</u>	<u>(3,835,384)</u>
<b>Cash flows from financing activities</b>			
Receipts from issues of shares and other equity securities		4,380,030	4,380,030
Payments to subsidiaries		-	(3,000)
<b>Net cash inflow (outflow) from financing activities</b>		<u>4,380,030</u>	<u>4,377,030</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		38,265	38,265
Cash and cash equivalents at the beginning of the period		-	-
<b>Cash and cash equivalents at the end of period</b>	5	<u>38,265</u>	<u>38,265</u>

*The above cash flow statement should be read in conjunction with the accompanying notes*

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## 1 Summary of significant accounting policies

### (a) Corporate information

The consolidated financial statements of BrazIron Limited (BrazIron or the Company) for the period ended 31 December 2008 were authorised for issue in accordance with a resolution of directors on 16 March 2010. BrazIron Limited is a limited company incorporated in Bermuda. The principle activities of the Group are described in the Directors' Report.

BrazIron Limited has been registered in Australia as a Foreign Registered Company.

### (b) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issue Group Interpretations and the *Corporations Act 2001*.

The consolidated financial information is presented in United States Dollars.

#### *Compliance with IFRSs*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of BrazIron Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Disclosure and Presentation.

#### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS 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. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

#### *Historical cost convention*

The financial report is prepared in accordance with the historical cost convention.

### (c) Basis of Consolidation

The consolidated financial statements comprise the accounts of the BrazIron, the parent entity and its controlled subsidiaries, after elimination of material intercompany balances and transactions.

Subsidiaries are consolidated from the date the parent entity obtains control and continue to be consolidated until such time as control ceases. A list of subsidiaries appears in Note 15.

The accounts of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

## 1 Summary of significant accounting policies (continued)

### (d) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

#### *Impairment of capitalised exploration and evaluation expenditure.*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the group decides to exploit the related option itself or if not whether it successfully recovers the related exploration and evaluation assets through sale.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of an economically recoverable resource. The extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

### (e) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in United States dollars, which is the company'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 the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

### (f) Cash and cash equivalents

Cash comprises cash at bank and cash on hand. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant amount of risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above net of any outstanding bank overdrafts.

**1 Summary of significant accounting policies (continued)**

**(g) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

**(h) Going concern**

BrazIron Limited is engaged in the business of mineral exploration and evaluation in Brazil. To date the Company has not received any revenue from mining operations and is considered to be in the exploration stage.

These financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing or to commence profitable operations in the future.

Subsequent to the date of this report the Company has issued a further 5,000,000 share raising UD\$500,000. In addition to these funds the Company intends raising further funds via an Initial Public Offer or private placement.

**(i) Segment reporting**

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

**Notes to the financial statements**  
31 December 2008  
(continued)

**1 Summary of significant accounting policies (continued)**

**(j) Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Exploration equipment 3 to 5 years  
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated on the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

**(k) Trade and other payables**

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

**(l) Income tax**

As a Bermudan corporation, BrazIron has no tax liability under that jurisdiction with respect to income derived. As the Company has not traded in any other jurisdictions it has not been subject to any other taxes, as a result the Company has not defined a policy with regard to tax.

At such time that the Company become subject to a taxable jurisdiction it will develop a tax policy.

**(m) Exploration & Evaluation**

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.

**1 Summary of significant accounting policies (continued)**

**(m) Exploration & Evaluation (cont.)**

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.

**Notes to the financial statements**  
31 December 2008  
(continued)

	Consolidated	Parent
<b>2 Revenue from Continuing Operations:</b>	2008	2008
	US\$	US\$
<b>Revenue</b>		
Interest receivable	<u>37,429</u>	<u>37,429</u>

**3 Income Tax**

As a Bermudan corporation, BrazIron has no tax liability under that jurisdiction with respect to income derived. As the Company has not traded in any other jurisdictions it has not been subject to any other taxes.

**4 Expenses**

Profit for the period includes the following specific expenses:

*Depreciation & amortisation*

Exploration equipment	<u>8,537</u>	<u>8,537</u>
Total depreciation	<u>8,537</u>	<u>8,537</u>

*Finance costs - net*

Bank charges	<u>3,538</u>	<u>3,538</u>
Total finance costs	<u>3,538</u>	<u>3,538</u>

*Impairment of Assets*

Exploration Expenditure	<u>3,802,234</u>	<u>3,802,234</u>
Total impairment costs	<u>3,802,234</u>	<u>3,802,234</u>

**5 Current assets - Cash and cash equivalents**

Cash at bank and in hand	<u>38,265</u>	<u>38,265</u>
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The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balance as per statement of cash flows	<u>38,265</u>	<u>38,265</u>
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Cash at bank and in hand are bearing floating interest rates between 0.05% and 1.50% .

**6 Non current assets - Property, plant & equipment**

<b>Consolidated</b>	<b>Exploration Equipment US\$</b>	<b>Total US\$</b>
<b>15 Months ended 31 December 2008</b>		
Opening net book amount	-	-
Additions	33,150	33,150
Assets disposed	-	-
Depreciation charge	(8,537)	(8,537)
Closing net book amount	<u>24,613</u>	<u>24,613</u>
<b>At 31 December 2008</b>		
Cost	33,150	33,150
Accumulated depreciation	(8,537)	(8,537)
Net book amount	<u>24,613</u>	<u>24,613</u>

<b>Parent</b>	<b>Exploration Equipment US\$</b>	<b>Total US\$</b>
<b>15 Months ended 31 December 2008</b>		
Opening net book amount	-	-
Additions	33,150	33,150
Assets disposed	-	-
Depreciation charge	(8,537)	(8,537)
Closing net book amount	<u>24,613</u>	<u>24,613</u>
<b>At 31 December 2008</b>		
Cost	33,150	33,150
Accumulated depreciation	(8,537)	(8,537)
Net book amount	<u>24,613</u>	<u>24,613</u>

	<b>Consolidated</b>	<b>Parent</b>
<b>7 Non current assets - Mining &amp; exploration acquisition costs</b>	<b>2008 US\$</b>	<b>2008 US\$</b>
Opening balance	-	-
Movement in exploration expenditure	3,802,234	3,802,234
Impairment of capitalised exploration expenditure	(3,802,234)	(3,802,234)
Closing balance	<u>-</u>	<u>-</u>

\* During the year, recoverable amount was estimated for exploration evaluation. An impairment loss of US\$3,802,234 was recognised to reduce the carrying amount of certain of those assets to recoverable amount.



Notes to the financial statements  
31 December 2008  
(continued)

8 Current liabilities - Payables	Consolidated	Parent
	2008	2008
	US\$	US\$
Trade payables	8,318	8,317
Accrued expenditure	31,649	31,649
Audit fees	7,500	7,500
	<u>47,467</u>	<u>47,466</u>

9 Contributed equity	Consolidated & Parent Entity	
	2008	2008
	Shares	US\$
(a) Share capital		
Ordinary shares – fully paid	43,830,000	4,380,030
Share Issue costs	-	-
<b>Total consolidated contributed equity</b>	<b>43,830,000</b>	<b>4,380,030</b>

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	Issue price	US\$
	Opening balance		-		-
1 September 2007	Share issue		30,000	\$0.001	30
November 2007	Share issue		43,800,000	\$0.10	4,380,000
	Less: Transaction costs arising on share issue		-		-
31 December 2008	Balance		<u>43,830,000</u>		<u>4,380,030</u>

(c) Ordinary shares

At 31 December 2008 there were 43,830,000 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.

(d) Options

At 31 December 2008 there were 2,000,000 options with a strike price of US\$0.20 exercisable on or before 30 June 2009.

These options are free carried and issued to executives and consultants of the company.

**Notes to the financial statements**  
31 December 2008  
(continued)

<b>10 Accumulated losses</b>	Consolidated 2008 US\$	Parent 2008 US\$
Movements in accumulated losses were as follows:		
Balance 27 September 2007	-	-
Net loss for the period	(4,381,507)	(4,378,507)
Dividends	-	-
Balance 31 December 2008	<u>(4,381,507)</u>	<u>(4,378,507)</u>

**11 Reserves**

Movements in reserves were as follows:

Share based payment - employee benefit	<u>16,888</u>	<u>16,888</u>
Reserves at the end of the period	16,888	16,888

**12 Remuneration of auditors**

Remuneration for audit of the financial report of the company:	<u>7,500</u>	<u>7,500</u>
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Auditor of the parent entity – Stantons International

Remuneration for other services:	<u>2,129</u>	<u>2,129</u>
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Independent Accountants Report – Stantons International Securities (a firm affiliated with Stanton International)

**13 Commitments & Contingent liabilities**

Pursuant to the Bahia Option Agreement and the Xingu Option Agreement signed by the Company to acquire the Brazilian Iron Ore Projects, the company executed a Share Sale Agreement and a Tenement Sale Agreement. Under these sale agreements and subject to the approval by the Bermuda Monetary Authority, the company has committed to the issue of shares representing an 80% equity stake in the Company for the acquisition of the Brazilian Iron Ore Projects.

In addition to the issue of shares in the Company a Net Return Royalty is payable from the commencement of mining operations based on 10% Net Returns for the first 300,000 tonnes of Saleable Product, 5% for the next 700,000 tonnes and 2.5% on subsequent sales.

The Company anticipates finalising the acceptance of the option agreement and associated sale agreements subsequent to the date of this report.

#### 14 Related party transactions

##### (a) Parent entities

The Parent entity of the Group is BrazIron Limited.

##### (b) Directors & Key management personnel

Disclosures relating to key management personnel are set out in note 19.

##### (c) Subsidiaries

Interests in subsidiaries are set out in note 15.

##### (d) Transactions with related parties

The group includes the parent entity, BrazIron Limited and 4 wholly-owned and controlled entities. All intra-group transactions or loan balances have been eliminated in the consolidated account.

#### 15 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(c):

Name of entity	Country of incorporation	Class of shares	Equity holding * 2008 %	Amount US\$
<i>Parent Entity</i>				
BrazIron Limited	Bermuda			
<i>Controlled Entities</i>				
BrazIron Corporate Services Pty Ltd	Australia	Ordinary	100	1
BSADS LLC	USA	Ordinary	100	1,000
Charter International LLC	USA	Ordinary	100	1,000
Good Hands LLC	USA	Ordinary	100	1,000

\* The proportion of ownership interest is equal to the proportion of voting power held.

Notes to the financial statements  
31 December 2008  
(continued)

**16 Segment information**

**Business segments**

The consolidated entity has only one business segment, namely the evaluation and development of iron ore projects.

**Geographical segments**

Geographically the Company operates in two countries, being Bermuda and Brazil.

Geographic segments	Segment Losses	Segment	Segment
	2008	Assets	Liabilities
Geographical Location	US\$	2008	2008
	US\$	US\$	US\$
Bermuda	(579,273)	38,265	(47,467)
Brazil	(3,802,234)	24,613	-
Inter-segment eliminations	-	-	-
<b>Total</b>	<b>(4,381,507)</b>	<b>62,878</b>	<b>(47,467)</b>

**17 Events occurring after the balance sheet date**

In November 2009 the Company raised \$500,000 from the issue of 5,000,000 ordinary shares.

**18 Reconciliation of profit to net cash inflow/(outflow) from operating activities**

	Consolidated	Parent
	2008	2008
	US\$	US\$
<b>Profit for the year</b>	<b>(4,381,507)</b>	<b>(4,378,507)</b>
Depreciation and amortisation	8,537	8,537
Net (Gain) Loss on sale of non-current assets	-	-
Share options expense	16,888	16,888
<b>Change in operating assets and liabilities</b>		
Decrease (increase) in receivables	-	-
Decrease (increase) in inventories	-	-
Decrease (increase) in future income tax benefit	-	-
Decrease (increase) in other operating assets	-	-
Increase (decrease) in trade creditors	8,318	8,318
Increase (decrease) in other operating liabilities	31,649	31,649
Increase (decrease) in provision for income taxes payable	-	-
Increase (decrease) in other provisions	7,500	7,500
Impairment of Assets	3,802,234	3,802,234
<b>Net cash inflow from operating activities</b>	<b>(506,381)</b>	<b>(503,381)</b>

**Notes to the financial statements**  
31 December 2008  
(continued)

**19 Key management personnel disclosures**

**(a) Directors and key management personnel**

The following persons were directors of BrazIron during the financial year:

Robert Brierley  
Walt Guidice  
Neil O'loughlin

There are no other persons within the Company who are classified as key management personnel.

**(b) Key management personnel compensation**

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

<b>Name</b>	<b>Salary/Fees</b>	<b>Options</b>	<b>Total</b>
Directors:	US\$	US\$	US\$
Robert Brierley	55,000	8,444	63,444
Walt Guidice	59,000	-	59,000
Neil O'loughlin	56,500	-	56,500
	<u>170,500</u>	<u>8,444</u>	<u>178,944</u>

The remuneration payments to Mr O'Loughlin were made to a director-related entity, Indi Holdings Pty Ltd.

**(c) Share holdings of Key Management Personnel**

<b>31-Dec-08</b>	<b>Acquired</b>	<b>Options exercised</b>	<b>Disposals</b>	<b>Balance at end of period</b>
Robert Brierley	1,010,000	-	-	1,010,000
Walt Guidice	10,000	-	-	10,000
Neil O'Loughlin	1,510,000	-	-	1,510,000
<b>Total</b>	<u>2,530,000</u>	<u>-</u>	<u>-</u>	<u>2,530,000</u>

Notes to the financial statements  
31 December 2008  
(continued)

19 Key management personnel disclosures (cont)

(d) Option holdings of Key Management Personnel

31-Dec-08	Acquired	Options exercised	Disposals	Balance at end of period
Robert Brierley	1,000,000	-	-	1,000,000
Walt Guidice	-	-	-	-
Neil O'Loughlin	-	-	-	-
<b>Total</b>	<b>1,000,000</b>	<b>-</b>	<b>-</b>	<b>1,000,000</b>

On 9 November 2007 Mr Brierley received 1,000,000 options exercisable at \$0.20 on or before 30 June 2009 as part of his remuneration package.

20 Financial Instruments

(a) Interest Rate Risk

The Company's exposure to interest rate risk, which is risk that a financial instrument's value will fluctuate as a result of changes in market rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted average effective interest rate 2008	Floating Interest Rate 2008	Non- interest Bearing 2008	Total 2008
<b>2008</b>				
<b>Financial Assets:</b>				
Cash and Cash Equivalents	0.5%	38,265	-	38,265
<b>Total Financial Assets</b>		<b>38,265</b>	<b>-</b>	<b>38,265</b>
<b>Financial Liabilities:</b>				
Payables		-	47,467	47,467
<b>Total Financial Liabilities</b>		<b>-</b>	<b>47,467</b>	<b>47,467</b>
<b>Net Financial Assets/(Liabilities)</b>		<b>38,265</b>	<b>(47,467)</b>	<b>(9,202)</b>

(b) Credit Risk

The Company does not have any material credit risk exposure to any single debtors under financial instruments.

(c) Liquidity Risk

The Company manages liquidity risk by monitoring forecast cash flows.

**20 Financial Instruments (cont.)**

**(d) Net Fair Value of Financial Assets and Liabilities**

The net fair value of cash and non-interest bearing monetary assets and financial liabilities of the Company approximate their carrying value.

No sensitivity risk analysis is done as the Directors are of the opinion there is no material impact on these financial assets and liabilities.

**21 Share Based Payments**

The following share based payment arrangements existed as at 31 December 2008.

In November 2007 share options were granted to Directors and Consultants to take up ordinary shares at an exercise price of \$0.20. The options are exercisable on or before 30 June 2009. The fair value of the option granted during the period was calculated using the Black Scholes option pricing model applying the following inputs:

Exercise price	\$ 0.20
Life of option	1.6 days
Underlying share price	\$ 0.10
Expected share price volatility	50%
Risk Free interest rate	7.5%

Volatility has been determined by reviewing the market sector and comparing those companies operating in the same sector. Share price volatility assumed that this is indicative of future tender which may not eventuate.

**Directors' declaration**

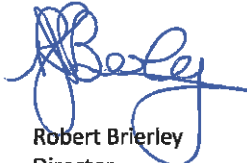
31 December 2008

In accordance with a resolution of the Board of BrazIron Limited, I state that:

In the option of the Directors:

- (a) the financial statements and notes of the consolidated entity:
  - (i) give a true and fair view of the company's financial position as at 31 December 2008 and of its performance for the period from the date of incorporation 27 September 2007 to 31 December 2008; and
  - (ii) comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (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.

On behalf of the Board



Robert Brierley  
Director

16 March 2010

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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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the period from the date of incorporation 27 September 2007 to 31 December 2008, 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 period 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.

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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 company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the period from the date of incorporation 27 September 2007 to 31 December 2008; 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).

#### *Inherent Uncertainty Regarding Going Concern*

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

As referred to in Note 1 to the financial statements, the financial statements have been prepared on the going concern basis. At 31 December 2008 the consolidated entity had working capital deficit \$9,202 and had reported loss for the period of \$4,381,507. The ability of the entity to continue as a going concern is subject to the successful recapitalisation of the Company. In the event that the Board is not successful in recapitalising the Company and in raising further funds, the entity may not be able to continue in its present form and may not be able to meet its planned commitments.

**STANTONS INTERNATIONAL**  
**(An Authorised Audit Company)**



**J P Van Dieren**  
Director

West Perth, Western Australia  
16 March 2010

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