



(An exploration stage company)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTH PERIODS ENDED MAY 31, 2011 and 2010**

(Unaudited, expressed in Canadian Dollars unless otherwise stated)

**BRAZIL RESOURCES INC.**  
(An exploration stage company)

**Notice to Reader**

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements.

**Brazil Resources Inc.**  
(An exploration stage company)  
Condensed Consolidated Interim Statements of Financial Position  
(Unaudited, expressed in Canadian dollars unless otherwise stated)



	Note(s)	As at May 31, 2011 (\$)	As at November 30, 2010 (\$)
<b>Assets</b>			
Current assets			
Cash and cash equivalents		7,781,859	6,162,062
Other receivables		19,688	122,337
Prepaid expenses and deposits		144,823	10,000
		7,946,370	6,294,399
Non-current assets			
Exploration and evaluation assets	4	25,000	25,000
		7,971,370	6,319,399
<b>Liabilities</b>			
Current liabilities			
Account payables and accrued liabilities		167,090	134,047
		167,090	134,047
<b>Equity</b>			
Issued capital	5 & 9	9,110,665	6,885,702
Broker warrants	5	54,087	-
Deficit		(1,360,472)	(700,350)
		7,804,280	6,185,352
		7,971,370	6,319,399

**Commitments** (Note 11)

**Subsequent events** (Note 12)

Approved and authorized for issue by the Board of Directors on July 26, 2011

/s/ "Steve Swatton"

**Steve Swatton**

Chief Executive Officer, President & Director

/s/ "Pat Obara"

**Pat Obara**

Chief Financial Officer & Director

*The accompanying notes are an integral part of these Consolidated Financial Statements*

**Brazil Resources Inc.**

(An exploration stage company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited, expressed in Canadian dollars unless otherwise stated)



	For the three months ended May 31,		For the six months ended May 31,	
	2011 (\$)	2010 (\$)	2011 (\$)	2010 (\$)
<b>Expenses</b>				
Consulting fees	65,927	27,505	128,702	44,935
Exploration expenses	122,930	1,389	142,492	92,013
General and administrative	112,191	31,419	208,332	46,809
Professional fees	78,463	13,589	139,886	14,117
Project evaluation	34,030	2,121	40,710	18,317
<b>Operating loss</b>	<b>413,541</b>	<b>76,023</b>	<b>660,122</b>	<b>216,191</b>
Income tax expense	-	-	-	-
<b>Net loss for the period</b>	<b>(413,541)</b>	<b>(76,023)</b>	<b>(660,122)</b>	<b>(216,191)</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the period</b>	<b>(413,541)</b>	<b>(76,023)</b>	<b>(660,122)</b>	<b>(216,191)</b>
<b>Net loss per share, basic and diluted</b>	<b>(0.01)</b>	<b>(76,023)</b>	<b>(0.02)</b>	<b>(216,191)</b>
<b>Weighted average number of shares outstanding, basic and diluted</b>	<b>31,965,557</b>	<b>1</b>	<b>31,569,622</b>	<b>1</b>

*The accompanying notes are an integral part of these Consolidated Financial Statements*

**Brazil Resources Inc.**

(An exploration stage company)

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited, expressed in Canadian dollars unless otherwise stated)



	Note	Issued Capital (\$)	Broker Warrants (\$)	Deficit (\$)	Total (\$)
<b>Balance at November 30, 2009</b>		-	-	(25,571)	(25,571)
Total comprehensive loss for the period		-	-	(140,168)	(140,168)
<b>Balance at February 28, 2010</b>		-	-	(165,739)	(165,739)
Total comprehensive loss for the period		-	-	(76,023)	(76,023)
<b>Balance at May 31, 2010</b>		-	-	(241,762)	(241,762)
Issued capital containing:					
Cash and cash equivalents		6,773,552	-	-	6,773,552
Subscription receivable		117,150	-	-	117,150
Direct subscription agreement costs		(5,000)	-	-	(5,000)
Total comprehensive loss for the period		-	-	(458,588)	(458,588)
<b>Balance at November 30, 2010</b>		6,885,702	-	(700,350)	6,185,352
Total comprehensive loss for the period		-	-	(246,581)	(246,581)
<b>Balance at February 28, 2011</b>		6,885,702	-	(946,931)	5,938,771
Initial public offering containing:					
Cash and cash equivalents		2,470,000	-	-	2,470,000
Issue costs – cash and equity	5	(245,037)	-	-	(245,037)
Issue of broker warrants	5	-	54,087	-	54,087
Total comprehensive loss for the period		-	-	(413,541)	(413,541)
<b>Balance at May 31, 2011</b>		9,110,665	54,087	(1,360,472)	(7,804,280)

*The accompanying notes are an integral part of these Consolidated Financial Statements*

**Brazil Resources Inc.**  
(An exploration stage company)  
Condensed consolidated interim statement of cash flows  
(Unaudited, expressed in Canadian dollars unless otherwise stated)



	Note	For the three months ended May 31,		For the six months ended May 31,	
		2011 (\$)	2010 (\$)	2011 (\$)	2010 (\$)
<b>Operating activities</b>					
Net loss for the period		(413,541)	(76,023)	(660,122)	(216,191)
Net changes in non-cash working capital items					
Other receivables		(4,330)	(613)	102,649	(613)
Prepaid expenses and deposits		(127,221)	-	(134,823)	-
Accounts payable and accrued liabilities		35,982	12,606	33,043	80,656
<b>Net cash used in operating activities</b>		<b>(509,110)</b>	<b>(64,030)</b>	<b>(659,253)</b>	<b>(136,148)</b>
<b>Investing activities</b>					
<b>Net cash used in investing activities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financing activities</b>					
Deposit received for share issuance	9	-	30,000	-	40,000
Initial public offering, net of issue costs	5	2,279,050	-	2,279,050	-
<b>Net cash generated from financing activities</b>		<b>2,279,050</b>	<b>30,000</b>	<b>2,279,050</b>	<b>40,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,769,940</b>	<b>(34,030)</b>	<b>1,619,797</b>	<b>(96,148)</b>
<b>Cash and cash equivalents</b>					
<b>Beginning of period</b>		<b>6,011,919</b>	<b>53,812</b>	<b>6,162,062</b>	<b>115,930</b>
<b>End of period</b>		<b>7,781,859</b>	<b>19,782</b>	<b>7,781,859</b>	<b>19,782</b>

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## **1. Corporate Information**

Brazil Resources Inc. was incorporated in the Province of British Columbia, Canada, on September 9, 2009, and, together with its subsidiary (collectively, the "Company"), is principally engaged in the acquisition, exploration and development of mineral properties in Brazil.

Brazil Resources Inc.'s common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "BRI". The head office and principal address of the Company is located at Suite 320, 1111 West Hastings Street, Vancouver, British Columbia, V6E 2J3, Canada.

## **2. Basis of Preparation**

### **2.1 Statement of compliance**

The Company's unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended November 30, 2010, which have been prepared in accordance with IFRS.

### **2.2 Basis of presentation**

The Company's unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis. The Company's unaudited condensed consolidated interim financial statements and those of its controlled subsidiary are presented in Canadian dollars and all values are rounded to the nearest dollar except where otherwise indicated.

These audited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company commenced operations on September 9, 2009 and has not realized any significant revenues since inception. As at May 31, 2011, the Company had a working capital of \$7,779,280 and a deficit of \$1,360,472. Although existing cash resources are currently expected to provide sufficient funds through the upcoming year, the capital expenditures required to achieve planned principal operations may be substantial. The Company is in the exploration stage of its mineral property development and to date, has not yet established any reserves or resources on its existing properties.

## **3. Significant Accounting Policies**

### **3.1 Basis of consolidation**

The unaudited condensed consolidated interim financial statements for the three and six months ended May 31, 2011, include the financial statements of Brazil Resources Inc. and its controlled subsidiary. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the condensed consolidated interim statement of comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-company transactions, balances, income and expenses are eliminated through the consolidation process.

### **3.2 Interest income**

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **3.3 Foreign currencies**

The reporting currency and the functional currency of the Company and its subsidiary is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates. Transactions performed in a different currency are translated into Canadian dollars using period end exchange rates as to monetary assets and liabilities and average exchange rates as to revenues and expenses. Non-monetary assets are translated at their historical exchange rates. Net gains and losses resulting from foreign currency exchange gains and losses on transactions occurring in a currency other than the Company's functional currency are included in the determination of net loss in the period.

### **3.4 Mineral exploration, evaluation and development expenditures**

All direct costs related to the acquisition of the exploration rights are capitalized on a property-by-property basis. The Company assesses the carrying costs for impairment when indicators of impairment exist. Exploration and evaluation expenditures, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration and evaluation costs and the costs incurred to develop a property are capitalized into mineral properties. On the commencement of commercial production, depletion of each mineral property will be provided on a unit-of-production basis using estimated reserves as the depletion base.

### **3.5 Mineral property option agreements**

When the Company acts as the farmee in a farm-in mineral property option agreement, the direct costs to enter into the agreement are capitalized to exploration and evaluation assets. All exploration and evaluation expenditure incurred by the Company in fulfilling the terms of the agreement is expensed as incurred, until such time as the option is exercised or lapses.

When the Company acts as the farmor in an agreement, it does not record any expenditure made by the farmee. It does not recognize any gain or loss on its exploration and evaluation farm out mineral property option agreements, and instead records any proceeds received as a credit to the amounts previously capitalized as mineral property acquisition costs. Any amounts received in excess of amounts capitalized are taken as a gain to the statement of comprehensive loss.

### **3.6 Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.



#### Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settle or recovered.

### **3.7 Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

**Brazil Resources Inc.**

(An exploration stage company)

Notes to Condensed Consolidated Financial Statements

(Unaudited, expressed in Canadian dollars unless otherwise stated)

For the three and six month periods ended May 31, 2011 and 2010



Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. The Company has classified other receivables as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

The Company has not designated any financial assets, upon initial recognition, as at fair value through profit or loss.

**3.8 Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company has classified accounts payables and accrued liabilities as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive loss.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

The Company has not designated any financial liabilities, upon initial recognition, as at fair value through profit or loss.

**3.9 Impairment of financial assets**

The Company assesses at the end of each reporting period whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

### ***3.10 Derecognition of financial assets and financial liabilities***

Financial assets are derecognized when the rights to receive cash flows from the assets expired or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

### ***3.11 Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### ***3.12 Fair value of financial instruments***

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

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For the three and six month periods ended May 31, 2011 and 2010



An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 7.

**3.13 Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount, net of depreciation, that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

**3.14 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development / construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognized immediately in profit or loss.

As at May 31, 2011 and 2010, no obligations exist to the Company, and therefore, the Company does not have any provisions recorded on its consolidated statement of financial position.

### **3.15 Cash and cash equivalents**

Cash and cash equivalents are comprised of cash at banks, on hand and any short-term investments maturing within ninety days.

### **3.16 Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### **3.17 Net loss per share**

Basic net loss per share includes no potential dilution and is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period.

The basic and diluted net loss per share are the same as there are no instruments that have a dilutive effect on earnings.

### **3.18 Significant accounting judgments and estimates**

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant estimates relate to valuation of recoverability of other receivables, valuation of deferred income tax amounts, impairment testing and mine rehabilitation provisions.

The most significant judgments relate to the recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

### **3.19 Standards issued but not yet effective**

At the date of approval of the unaudited condensed consolidated financial statements for the three and six months ended May 31, 2011, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective. The standards, amendments and interpretations issued, which the Company reasonably expects to be applicable at a future date, are listed below. The Company intends to adopt those standards, amendments and interpretations when they become effective. The Company expects no material impact from the adoption of these standards, amendments and interpretations on its financial position or performance.

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(Unaudited, expressed in Canadian dollars unless otherwise stated)

For the three and six month periods ended May 31, 2011 and 2010



***Amendments to IFRS 7 Financial Instruments: Disclosures***

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011.

***New Standard IFRS 9 Financial Instruments: Classification and Measurement***

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of the first phase of IFRS 9 will have no impact on the classification and measurement of the Company's financial assets.

**4. Exploration and Evaluation Assets**

On September 30, 2010, the Company entered into the Option and Joint Venture Agreement with Apoio Engenharia e Mineração (the "Agreement"). Pursuant to the Agreement, the Company has the option to acquire an initial undivided 51% interest in the Montes Áureos Project over a three year period, from September 30, 2010 to September 30, 2013. The initial option commitments are as follows:

- (1) a cash payment of US \$25,000 within seven calendar days of September 30, 2010 (paid);
- (2) share issuances of 325,000 fully paid and non-assessable common shares in the capital of the Company in the following manner:
  - (a) 125,000 common shares on or before September 30, 2011;
  - (b) 100,000 additional common shares on or before September 30, 2012; and
  - (c) 100,000 additional common shares on or before September 30, 2013;
- (3) incur exploration expenditures totalling US \$1,750,000 in the following manner:
  - (a) US \$250,000 of the expenditures on or before September 30, 2011;
  - (b) US \$500,000 of additional expenditures on or before September 30, 2012; and
  - (c) US \$1,000,000 of additional expenditures on or before September 30, 2013; and
- (4) make all necessary payments in order to keep the Montes Áureos Project in good standing during the term of the Agreement.

The Company has the option to earn an additional undivided 46% interest in the Montes Áureos Project over a two year period, from September 30, 2013 to September 30, 2015. Additional option commitments are as follows:

- (1) a cash payment of US \$1,000,000 on or before September 30, 2015;
- (2) share issuances of 700,000 fully paid and non-assessable common shares in the capital of the Company in the following manner:
  - (a) 200,000 common shares on or before September 30, 2014; and
  - (b) 500,000 additional common shares on or before September 30, 2015; and
- (3) incur expenditures on the Property of to a maximum of US \$3,000,000 on or before September 30, 2015, in the following manner:
  - (a) US \$1,000,000 of the expenditures on or before September 30, 2014; and

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For the three and six month periods ended May 31, 2011 and 2010



- (b) the lesser of either US\$2,000,000 of additional expenditures or an amount of expenditures as may be required in order for the Company to obtain a feasibility study respecting any of the interests comprising the Property on or before September 30, 2015.

**5. Issued Capital and Broker Warrants****5.1 Authorized**

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

**5.2 Issued**

On May 12, 2011, the Company closed its initial public offering ("IPO") of 3,800,000 common shares at a price of \$0.65 per common share for gross proceeds of \$2,470,000. The Company paid \$144,950 to the agent as a cash commission, and \$46,000 to the agent for expenses in connection with the IPO, including legal fees and the agent's out-of-pocket expenses.

Pursuant to the IPO, the Company also issued to the agent 76,923 common shares (the "Agent's Shares") in satisfaction of a corporate finance fee and 311,200 broker warrants. Each broker warrant is exercisable at a price of \$0.65 on or before May 12, 2012. The \$50,000 value of the Agent Shares and the \$54,087 fair value of the Broker Warrants were recorded as finance charges. The fair value of the broker warrants was estimated using the Black-Scholes option pricing model with an expected life of 1 year, a risk free interest rate of 1.68%, a dividend yield of 0%, and an expected volatility of 66.68%. 8,123 of the Agent Shares are subject to a hold period expiring on September 13, 2011.

**5.3 Issued Capital**

	Number of Shares	Amount (\$)
Balance at November 30, 2009	1	-
Balance at February 28, 2010	1	-
Balance at May 31, 2010	1	-
Subscription agreement	31,164,889	6,890,702
Subscription agreement costs	-	(5,000)
Balance at November 30, 2010	31,164,889	6,885,702
Share redeemed by the Company	(1)	-
Balance at February 28, 2011	31,164,888	6,885,702
Initial public offering @ \$0.65 per share	3,800,000	2,470,000
Issue as corporate finance fee	76,923	50,000
Initial public offering costs – cash and equity	-	(295,037)
Balance at May 31, 2011	35,041,811	9,110,665

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**5.4 Broker warrants**

	Number of Broker Warrants	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (years)
Balance at November 30, 2009	-	-	-
Balance at February 28, 2010	-	-	-
Balance at May 31, 2010	-	-	-
Balance at November 30, 2010	-	-	-
Balance at February 28, 2011	-	-	-
Issued	311,200	0.65	1
Exercised	-	-	-
Balance at May 31, 2011	311,200	0.65	1

**6. Capital Risk Management**

The Company's objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At May 31, 2011, the Company's capital structure consists of the equity of the Company (Note 5). The Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

The Company expects that, based on the net proceeds from the subscription agreements concluded in May 2011 (Note 5), sufficient capital resources are available to support further expansion and development of its mining assets.

**7. Financial Instruments**

The Company's financial assets include cash and other receivables. The Company's financial liabilities include accounts payable and accrued liabilities. The Company uses the following hierarchy for determining and disclosing fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs have a significant effect on the recorded fair value which are observable, either directly or indirectly.
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.



All of the Company's financial instruments approximate their carrying amounts largely from the short-term maturities of these instruments.

**7.1 Financial risk management objectives and policies**

The financial risk arising from the Company's operations are currency risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how the Company mitigates these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

**7.2 Currency risk**

The Company's operating expenses and acquisition costs are denominated in U.S. dollars, the Brazilian Real and Canadian dollars. The exposure to exchange rate fluctuations arises mainly on foreign currencies against the Company's functional currency, being the Canadian dollar. The Company does not have any significant foreign currency denominated monetary liabilities.

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations; however, Management monitors foreign exchange exposure.

The Canadian dollar equivalents of the Company's foreign currency denominated monetary assets are as follows:

	As at May 31, 2011 (\$)	As at November 30, 2010 (\$)
<b>Assets</b>		
United States Dollar	47,994	50,213
Brazilian Real	27,487	47,243
	<u>75,481</u>	<u>97,456</u>

The Company's sensitivity analysis suggest that a consistent 5% change in the foreign currencies to Canadian dollar exchange rate on the Company's financial instruments based on balances at May 31, 2011 would be \$3,774 (\$4,873 at November 30, 2010).

**7.3 Interest rate risk**

The Company is not exposed to interest rate risk as the Company has no outstanding debt or short and long-term investments. As such, the Company has not entered into any derivative instruments to manage interest rate fluctuations.

**7.4 Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Credit risk for the Company is primarily associated with the Company's bank balances and the harmonized sales tax receivable.

The Company mitigates credit risk associated with its bank balance by only holding cash with large, reputable financial institutions.

### 7.5 *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. To manage liquidity risk, the Company closely monitors its liquidity position and ensures it has adequate sources of funding to finance its projects and operations. The directors of the Company are of the opinion that, taking the Company's cash reserves and external financial resources into account, the Company has sufficient working capital for its present obligations for at least the next twelve months commencing from May 31, 2011. The Company's working capital as at May 31, 2011 was \$7,779,280. The Company's other receivables, deposits and accounts payable and accrued liabilities are expected to be realized or settled, respectively, within a one year period.

### 7.6 *Commodity price risk*

The Company's profitability is dependent on prices of the minerals it is able to realize. Mineral prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand. The Company currently has no mines in production and therefore has limited exposure to commodity price risk.

## 8. Supplemental Cash Flow Information

	As at May 31, 2011 (\$)	As at November 30, 2010 (\$)
<b>Cash consists of:</b>		
Cash in bank	7,781,859	6,162,062
	<u>7,781,859</u>	<u>6,162,062</u>

No income tax or interest has been paid during the three and six month periods ended May 31, 2011 and 2010.

## 9. Related Party Disclosures

These condensed consolidated financial statements include funds received from the Company's directors, officers and related entities to the Company's directors and officers, in accordance with various share subscription agreements, an aggregate amount of \$nil and \$nil during the three and six month periods ended May 31, 2011 respectively (2010: \$30,000 and \$40,000 respectively).

Management did not receive any compensation during the three and six month periods ended May 31, 2011 and 2010.

## 10. Operating Segments

The Company conducts its business as a single operating segment, being the acquisition, exploration and development of mineral properties. Substantially all of the Company's assets and liabilities are held within Canada and as such the Company only has only one reportable segment.

## 11. Commitments

In addition to the Agreement disclosure made in note 4, as at May 31, 2011, the Company entered into marketing and corporate development consulting agreements which require the Company to pay fees of \$116,352 and \$29,058 by November 30, 2011 and 2012 respectively.

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**12. Subsequent Events**

On June 20, 2011, the Company announced the acquisition of the 23,643-acre Trinta Project situated in the emerging Gurupi Gold Belt located in Maranhão State, Brazil. The property consists of an exploration license located approximately 13 kilometers northeast of the Company's Montes Áureos Gold Project. The addition of the Trinta Project increases the Company's total land package in the Gurupi Gold Belt to 28,585 acres.

An exploration permit for the Trinta Project is already in place and the Company plans to conduct an initial \$150,000 exploration program, which includes geological mapping and geochemical reconnaissance sampling over the entire property and detailed soil sampling/auger drilling over selected areas. Initial bedrock exploration targets will be located close to historical artisanal alluvial gold workings. This exploration program is in addition to the Company's previously announced \$1.7 million initial exploration program on its primary Gurupi Gold Belt project, the Montes Áureos Gold Project.

The acquisition of the Trinta Project has been completed by amendment to the terms of the Agreement between the Company and Apoio Engenharia e Mineração dated effective September 30, 2010. In addition to its previously disclosed obligations under the Agreement, the Company will be responsible for the annual land fees payable to the Brazil National Department of Mineral Production.

On July 21, 2011, the Company granted 300,000 incentive stock options (the "Options") to members of the Company's advisory board and an investor relations provider. The Options have an exercise price of \$1.30 per common share and expire on July 21, 2016.