



(An exploration stage company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2013 AND 2012

(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 Brazil Resources Inc. have been prepared and are the responsibility of its Management. Brazil Resources Inc.'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)



|  | Notes | As at August 31,<br>2013<br>(\$) | As at November 30,<br>2012<br>(\$) |
|--|-------|----------------------------------|------------------------------------|
| <b>Assets</b>                            |       |                                  |                                    |
| Current assets                           |       |                                  |                                    |
| Cash                                     |       | 1,520,633                        | 5,520,141                          |
| Other receivables                        | 6     | 34,750                           | 141,681                            |
| Prepaid expenses and deposits            |       | 101,996                          | 157,561                            |
|  |       | 1,657,379                        | 5,819,383                          |
| Non-current assets                       |       |                                  |                                    |
| Equipment                                | 4     | 102,958                          | 119,988                            |
| Exploration and evaluation assets        | 5     | 10,826,239                       | 11,360,781                         |
|  |       | 12,586,576                       | 17,300,152                         |
| <b>Liabilities</b>                       |       |                                  |                                    |
| Current liabilities                      |       |                                  |                                    |
| Accounts payable and accrued liabilities | 7     | 291,121                          | 316,551                            |
| Due to related parties                   | 12    | 4,817                            | 7,182                              |
| Current portion of long-term obligations | 8     | 272,727                          | 272,727                            |
|  |       | 568,665                          | 596,460                            |
| Non-current liabilities                  |       |                                  |                                    |
| Long-term obligations                    | 8     | 223,928                          | 204,851                            |
|  |       | 792,593                          | 801,311                            |
| <b>Equity</b>                            |       |                                  |                                    |
| Issued capital                           | 9     | 15,785,863                       | 15,785,863                         |
| Share issuance obligations               | 9     | 8,365,040                        | 8,365,040                          |
| Reserves                                 | 9     | 1,183,290                        | 1,127,199                          |
| Accumulated deficit                      |       | (12,456,823)                     | (8,384,426)                        |
| Accumulated other comprehensive income   |       | (1,083,387)                      | (394,835)                          |
|  |       | 11,793,983                       | 16,498,841                         |
|  |       | 12,586,576                       | 17,300,152                         |

**Commitments** (Note 14)

**Subsequent events** (Note 15)

Approved and authorized for issue by the Board of Directors on October 24, 2013.

/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 Condensed Consolidated Interim Financial Statements*

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



|   | Notes | For the three months<br>ended August 31, |              | For the nine months<br>ended August 31, |              |
|---|-------|--|--------------|---|--------------|
|   |       | 2013<br>(\$)                             | 2012<br>(\$) | 2013<br>(\$)                            | 2012<br>(\$) |
| <b>Expenses</b>   |       |  |              |   |              |
| Consulting fees   |       | 95,233                                   | 134,743      | 311,031                                 | 388,284      |
| Depreciation  | 4     | 10,439                                   | 4,903        | 30,504                                  | 14,054       |
| Directors' fees, salaries and benefits                                      | 12    | 174,194                                  | 124,157      | 537,535                                 | 371,870      |
| Exploration expenses  | 5     | 660,803                                  | 190,884      | 2,187,933                               | 1,109,333    |
| General and administrative  |       | 150,569                                  | 207,662      | 747,803                                 | 746,460      |
| Professional fees   |       | 24,896                                   | 25,224       | 99,186                                  | 76,692       |
| Project evaluation costs  |       | -  | 127,607      | 132,013                                 | 168,131      |
| Share-based compensation  | 9     | 9,499                                    | 124,775      | 56,091                                  | 530,401      |
|   |       | 1,125,633                                | 939,955      | 4,102,096                               | 3,405,225    |
| <b>Operating loss</b>   |       | (1,125,633)                              | (939,955)    | (4,102,096)                             | (3,405,225)  |
| <b>Other items</b>  |       |  |              |   |              |
| Interest income   |       | 4,706                                    | 24,290       | 29,699                                  | 82,354       |
| <b>Net loss for the period</b>  |       | (1,120,927)                              | (915,665)    | (4,072,397)                             | (3,322,871)  |
| <b>Other comprehensive income</b>   |       |  |              |   |              |
| Foreign currency translation adjustments                                    |       | (1,079,524)                              | -            | (688,552)                               | -            |
| <b>Total comprehensive loss for the period</b>                              |       | (2,200,451)                              | (915,665)    | (4,760,949)                             | (3,322,871)  |
| <b>Net loss per share, basic and diluted</b>                                |       | (0.03)                                   | (0.02)       | (0.10)                                  | (0.08)       |
| <b>Weighted average number of shares<br/>outstanding, basic and diluted</b> |       |  |              |   |              |
|   |       | 41,330,147                               | 39,802,147   | 41,330,147                              | 39,295,101   |

*The accompanying notes are an integral part of these Condensed Consolidated Interim 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)

|  | Number of<br>Shares | Issued<br>Capital<br>(\$) | Share<br>Issuance<br>Obligations<br>(\$) | Reserves<br>(\$) | Deficit<br>(\$) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>(\$) | Total<br>(\$) |
|--|---------------------|---------------------------|--|------------------|-----------------|--|---------------|
| <b>Balance at November 30, 2011</b>        | 35,166,811          | 9,246,579                 | -  | 545,954          | (3,847,057)     | -  | 5,945,476     |
| Private placement containing:              |                     |                           |  |                  |                 |  |               |
| Cash                                       |                     |                           |  |                  |                 |  |               |
| Share issue costs                          | 4,324,136           | 4,756,550                 | -  | -                | -               | -  | 4,756,550     |
| Exercise of broker warrants                |                     | (262,673)                 | -  | -                | -               | -  | (262,673)     |
| Share-based compensation                   | 311,200             | 256,367                   | -  | (54,087)         | -               | -  | 202,280       |
| Net loss for the period                    | -                   | -                         | -  | 405,626          | -               | -  | 405,626       |
|  | -                   | -                         | -  | -                | (2,407,206)     | -  | (2,407,206)   |
| <b>Balance at May 31, 2012</b>             | 39,802,147          | 13,996,823                | -  | 897,493          | (6,254,263)     | -  | 8,640,053     |
| Share-based compensation                   | -                   | -                         | -  | 124,775          | -               | -  | 124,775       |
| Net loss for the period                    | -                   | -                         | -  | -                | (915,665)       | -  | (915,665)     |
| <b>Balance at August 31, 2012</b>          | 39,802,147          | 13,996,823                | -  | 1,022,268        | (7,169,928)     | -  | 7,849,163     |
| Issued capital pursuant to acquisition of: |                     |                           |  |                  |                 |  |               |
| Exploration and evaluation assets          | 1,528,000           | 1,789,040                 | 8,365,040                                | -                | -               | -  | 10,154,080    |
| Share-based compensation                   | -                   | -                         | -  | 104,931          | -               | -  | 104,931       |
| Foreign currency translation adjustments   | -                   | -                         | -  | -                | -               | (394,835)  | (394,835)     |
| Net loss for the period                    | -                   | -                         | -  | -                | (1,214,498)     | -  | (1,214,498)   |
| <b>Balance at November 30, 2012</b>        | 41,330,147          | 15,785,863                | 8,365,040                                | 1,127,199        | (8,384,426)     | (394,835)  | 16,498,841    |
| Share-based compensation                   | -                   | -                         | -  | 46,592           | -               | -  | 46,592        |
| Foreign currency translation adjustments   | -                   | -                         | -  | -                | -               | 390,972  | 390,972       |
| Net loss for the period                    | -                   | -                         | -  | -                | (2,951,470)     | -  | (2,951,470)   |
| <b>Balance at May 31, 2013</b>             | 41,330,147          | 15,785,863                | 8,365,040                                | 1,173,791        | (11,335,896)    | (3,863)  | 13,984,935    |
| Share-based compensation                   | -                   | -                         | -  | 9,499            | -               | -  | 9,499         |
| Foreign currency translation adjustments   | -                   | -                         | -  | -                | -               | (1,079,524)  | (1,079,524)   |
| Net loss for the period                    | -                   | -                         | -  | -                | (1,120,927)     | -  | (1,120,927)   |
| <b>Balance at August 31, 2013</b>          | 41,330,147          | 15,785,863                | 8,365,040                                | 1,183,290        | (12,456,823)    | (1,083,387)  | 11,793,983    |

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

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



|  | Notes | For the three months<br>ended August 31, |                  | For the nine months<br>ended August 31, |                    |
|--|-------|--|------------------|---|--------------------|
|  |       | 2013<br>(\$)                             | 2012<br>(\$)     | 2013<br>(\$)                            | 2012<br>(\$)       |
| <b>Operating activities</b>                              |       |  |                  |   |                    |
| Net loss for the period                                  |       | (1,120,927)                              | (915,665)        | (4,072,397)                             | (3,322,871)        |
| Adjustments for items not involving cash:                |       |  |                  |   |                    |
| Depreciation   | 4     | 10,439                                   | 4,903            | 30,504                                  | 14,054             |
| Share-based compensation                                 | 9     | 9,499                                    | 124,775          | 56,091                                  | 530,401            |
| Foreign exchange gain                                    |       | (12,441)                                 | -                | (41,032)                                | -                  |
| Net changes in non-cash working capital items:           |       |  |                  |   |                    |
| Other receivables  |       | 87,415                                   | 11,948           | 106,931                                 | (38,877)           |
| Prepaid expenses and deposits                            |       | 9,351                                    | (79,166)         | 55,565                                  | (203,205)          |
| Accounts payable and accrued liabilities                 |       | (28,366)                                 | (95,633)         | (25,430)                                | (288,985)          |
| <b>Cash used in operating activities</b>                 |       | <b>(1,045,030)</b>                       | <b>(948,838)</b> | <b>(3,889,768)</b>                      | <b>(3,309,483)</b> |
| <b>Investing activities</b>                              |       |  |                  |   |                    |
| Investment in exploration and evaluation assets          | 5     | -  | (25,000)         | (93,901)                                | (83,376)           |
| Purchase of equipment                                    | 4     | -  | -                | (13,474)                                | (4,894)            |
| <b>Cash used in investing activities</b>                 |       | <b>-</b>                                 | <b>(25,000)</b>  | <b>(107,375)</b>                        | <b>(88,270)</b>    |
| <b>Financing activities</b>                              |       |  |                  |   |                    |
| Proceeds from shares issued, net of share issuance costs |       | -  | -                | -                                       | 4,493,877          |
| Proceeds from broker warrant exercise                    |       | -  | -                | -                                       | 202,280            |
| Advances from related parties                            | 12    | (815)                                    | (372)            | (2,365)                                 | (1,126)            |
| <b>Cash generated from financing activities</b>          |       | <b>(815)</b>                             | <b>(372)</b>     | <b>(2,365)</b>                          | <b>4,695,031</b>   |
| <b>Net increase (decrease) in cash</b>                   |       | <b>(1,045,845)</b>                       | <b>(974,210)</b> | <b>(3,999,508)</b>                      | <b>1,297,278</b>   |
| <b>Cash</b>  |       |  |                  |   |                    |
| <b>Beginning of period</b>                               |       | <b>2,566,478</b>                         | <b>8,234,397</b> | <b>5,520,141</b>                        | <b>5,962,909</b>   |
| <b>End of period</b>                                     |       | <b>1,520,633</b>                         | <b>7,260,187</b> | <b>1,520,633</b>                        | <b>7,260,187</b>   |

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

## **1. Corporate Information**

Brazil Resources Inc. is a corporation organized under the laws of British Columbia and was incorporated in the Province of British Columbia, Canada, on September 9, 2009, and domiciled in Canada. Together with its subsidiaries (collectively, the "Company"), the Company is principally engaged in the acquisition, exploration and development of mineral properties in Brazil and Paraguay.

Brazil Resources Inc.'s common shares (the "BRI Shares") are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "BRI" and are traded on the OTCQX International Market under the symbol "BRIZF". 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 audited consolidated financial statements of the Company for the year ended November 30, 2012, 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 a historical cost basis. The Company's unaudited condensed consolidated interim financial statements and those of its wholly controlled subsidiaries are presented in Canadian dollars and all values are rounded to the nearest dollar except where otherwise indicated. Certain line items of the comparative figures have been reclassified to conform to the current periods' presentation format.

## **3. Significant Accounting Policies**

### **3.1 Basis of consolidation**

The unaudited condensed consolidated interim financial statements for the three and nine months ended August 31, 2013 and 2012 include the financial statements of Brazil Resources Inc. and its wholly controlled subsidiaries. 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 statements 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 of the Company and its subsidiaries is the Canadian dollar. The functional currency of the Company is the Canadian dollar and the functional currency of its subsidiaries in Brazil is the Brazilian Real and its subsidiary in Paraguay is the US dollar. Foreign operations are translated into Canadian dollars using period end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. All resulting exchange differences are recognized in other comprehensive income.

### **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 are charged to operations 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 consolidated statement of comprehensive loss.

### **3.6 Income Taxes**

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

#### *Current income tax*

Current income tax assets and liabilities 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").

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, due to related parties and current and long-term obligations 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 consolidated 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 11.

### **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.

**Brazil Resources Inc.**

(An exploration stage company)

Notes to Condensed Consolidated Interim Financial Statements  
(Unaudited, expressed in Canadian dollars unless otherwise stated)  
August 31, 2013 and 2012



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 consolidated 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.

**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**    *Equipment*

Equipment is recorded at cost and is depreciated using the straight-line method over their estimated useful lives. Equipment is depreciated over an estimated useful life ranging from two to five years.

When an item of equipment has different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive loss as incurred.

Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

### **3.19**    *Leases*

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

### **3.20**    *Share-based payment*

The Company grants incentive share options (the "Options") to certain directors, employees, and consultants of the Company. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The Company uses the Black-Scholes option-pricing model to determine the grant date fair-value of share-based awards.

The fair value of the Options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes, provides services that could be provided by a direct employee, or has authority and responsibility for planning, directing and controlling the activities of the Company, including non-executive directors. The fair value is measured at grant date and recognized over the period during which the Options vest.

For consultants, the fair value of the award is recorded as income over the term of the service provided, and the fair value of the unvested amounts are revalued at each reporting period over the service period.

Consideration received upon the exercise of the Options is recorded as issued capital and the related share-based compensation reserve is transferred to issued capital.

### **3.21**    *Significant accounting judgments and estimates*

The preparation of these condensed consolidated 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.

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The most significant estimates relate to valuation of recoverability of other receivables, asset impairment testing and valuation of share-based compensation and warrants.

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

**4. Equipment**

|                                 | Computer<br>Equipment<br>(\$) | Exploration<br>Equipment<br>(\$) | Furniture<br>and<br>Fixtures<br>(\$) | Leasehold<br>Improvements<br>(\$) | Vehicles<br>(\$) | Total<br>(\$) |
|---------------------------------|-------------------------------|----------------------------------|--------------------------------------|-----------------------------------|------------------|---------------|
| <b>Cost</b>                     |                               |                                  |                                      |                                   |                  |               |
| Balance at November 30, 2012    | 68,040                        | 28,367                           | 28,779                               | 1,447                             | 21,784           | 148,417       |
| Additions                       | 2,682                         | 2,142                            | 8,650                                | -                                 | -                | 13,474        |
| Balance at August 31, 2013      | 70,722                        | 30,509                           | 37,429                               | 1,447                             | 21,784           | 161,891       |
| <b>Accumulated Depreciation</b> |                               |                                  |                                      |                                   |                  |               |
| Balance at November 30, 2012    | 19,748                        | 946                              | 5,983                                | 1,025                             | 727              | 28,429        |
| Depreciation for the period     | 17,165                        | 4,469                            | 5,181                                | 422                               | 3,267            | 30,504        |
| Balance at August 31, 2013      | 36,913                        | 5,415                            | 11,164                               | 1,447                             | 3,994            | 58,933        |
| <b>Net Book Value</b>           |                               |                                  |                                      |                                   |                  |               |
| At November 30, 2012            | 48,292                        | 27,421                           | 22,796                               | 422                               | 21,057           | 119,988       |
| At August 31, 2013              | 33,809                        | 25,094                           | 26,265                               | -                                 | 17,790           | 102,958       |

**5. Exploration and Evaluation Assets**

|  | For the three months<br>ended August 31, |         | For the nine months<br>ended August 31, |         |
|--|--|---------|---|---------|
|  | 2013                                     | 2012    | 2013                                    | 2012    |
|  | (\$)                                     | (\$)    | (\$)                                    | (\$)    |
| Balance at the beginning of period       | 11,888,007                               | 246,414 | 11,360,781                              | 188,038 |
| Mineral properties acquired              | 5,315                                    | -       | 19,077                                  | -       |
| Mineral property option payment          | -  | 25,000  | 93,901                                  | 82,000  |
| Mineral rights acquired                  | -  | -       | -                                       | 1,376   |
| Foreign currency translation adjustments | (1,067,083)                              | -       | (647,520)                               | -       |
| Balance at the end of period             | 10,826,239                               | 271,414 | 10,826,239                              | 271,414 |

Exploration and evaluation assets on a project basis are as follows:

|                          | August 31, 2013<br>(\$) | November 30, 2012<br>(\$) |
|--------------------------|-------------------------|---------------------------|
| Cachoeira                | 10,324,917              | 10,935,205                |
| Montes Áureos and Trinta | 225,241                 | 238,956                   |
| Artulândia               | 155,121                 | 70,528                    |
| Apa High                 | 104,283                 | 98,400                    |
| Pireneus                 | 16,433                  | 17,433                    |
| Maua                     | 244                     | 259                       |
| Total                    | 10,826,239              | 11,360,781                |

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The Company's exploration and evaluation assets are detailed below:

***Cachoeira***

On September 24, 2012 (the "Cachoeira Closing Date"), the Company acquired a 100% interest in the Cachoeira gold project in Pará State, Brazil (the "Cachoeira Project") from Luna Gold Corp. ("Luna"). The transaction was completed under the terms of a share purchase agreement dated July 10, 2012 between Brazil Resources and Luna, as amended effective September 24, 2013 (the "Cachoeira Agreement"), pursuant to which Brazil Resources acquired all of the issued and outstanding shares of BRI International Corp. (formerly Luna Gold (International) Corp.).

The Company paid \$500,000 cash and issued 1,428,000 BRI Shares (issued with fair value of \$1,685,040) to Luna at closing (the "1st Payment"). Pursuant to the terms of Cachoeira Agreement (as amended), the following additional payments are to be made by the Company to Luna:

- 1,214,000 BRI Shares (issued on September 23, 2013 with fair value of \$1,432,520) within 12 months of closing the transaction (the "2<sup>nd</sup> Payment");
- \$300,000 cash plus an amount equal to interest accrued on such amount at a rate per annum equal to 12% from September 24, 2013 by the earlier of: (i) September 24, 2014; and (ii) ten business days after the Company completes one or more equity financings for aggregate gross proceeds of at least \$5 million after September 24, 2013 (the "3<sup>rd</sup> Payment");
- \$300,000 cash and 1,214,000 BRI Shares within 30 days of receipt of approval of a mine development plan by the Brazilian National Department of Mining Production ("DNPM") and the environmental preliminary licenses for a gold mining operation relating to the Cachoeira Project (the "4<sup>th</sup> Payment");
- \$2,500,000, payable in cash or BRI Shares, at the Company's sole discretion, upon commencing mine construction at the Cachoeira Project, consisting of completion of \$500,000 of expenditures towards such construction (the "5<sup>th</sup> Payment"); and
- \$3,000,000, payable in cash or BRI Shares, at the Company's sole discretion, one year after achieving commercial production at the Cachoeira Project (the "6<sup>th</sup> Payment").

Notwithstanding the foregoing milestones, all of the payments from the Company to Luna will become due and payable four years after the closing date of the transaction. Any discretionary share-based payments will be valued based on the volume weighted average trading price of the BRI Shares for the 10 days prior to such payment. The Company's payment obligations are evidenced by a promissory note issued by the Company to Luna, containing customary events of default and acceleration provisions, and are secured by security interests granted by the Company and its subsidiaries to Luna against, among other things, interests in the Cachoeira Project and the shares of the subsidiaries to be acquired under the Cachoeira Agreement.

In addition, the Cachoeira Project is subject to a 4.0% net smelter royalty payable by our subsidiary on future production to third parties. If production is not achieved at the Cachoeira Project by October 3, 2014, a US\$300,000 per year payment in lieu of the royalty will be payable to the third parties until such time as production is achieved at the Cachoeira Project.

***Montes Áureos and Trinta***

On September 30, 2010, the Company entered into the Option and Joint Venture Agreement with Apoio Engenharia e Mineração (the "Montes Áureos Agreement"). Pursuant to the Montes Áureos Agreement, the Company has the option to acquire an initial 51% undivided interest in the Montes Áureos Project over a three year period, from September 30, 2010 to September 30, 2013, (the "Initial Option"), and an additional 46% undivided interest over an additional two year period, from September 30, 2013 to September 30, 2015. On June 20, 2011, the Company amended the terms of the Montes Áureos Agreement by adding the option to acquire Trinta Project for no additional consideration. The Trinta property is subject to the same option terms stipulated in the Montes Áureos Agreement.

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The Montes Áureos Project is located within the Gurupi gold belt, a gold-producing area in the Pará and Maranhão states in north-eastern Brazil, comprised of a 4,942 acre exploration license. The 23,643 acre Trinta Project is located approximately 3 kilometers northeast of the Montes Áureos Project.

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 BRI Shares in the following manner:
  - (a) 125,000 BRI Shares on or before September 30, 2011 (issued with fair value of \$142,500);
  - (b) 100,000 additional BRI Shares on or before September 30, 2012 (issued with fair value of \$104,000); and
  - (c) 100,000 additional BRI Shares on or before September 30, 2013 (issued on September 23, 2013 with fair value of \$80,000);
- (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 (incurred);
  - (b) US\$500,000 of additional expenditures on or before September 30, 2012 (incurred); and
  - (c) US\$1,000,000 of additional expenditures on or before September 30, 2013 (incurred); and
- (4) make all necessary payments in order to keep the Montes Áureos and Trinta projects in good standing during the term of the Montes Áureos Agreement.

The Company has the option (the "Second Option") to earn an additional 46% undivided interest in the Montes Áureos and Trinta projects over a two year period, from September 30, 2013 to September 30, 2015. Additional option payments are as follows:

- (1) a cash payment of US\$1,000,000 on or before September 30, 2015;
- (2) share issuances of 700,000 BRI Shares in the following manner:
  - (a) 200,000 BRI Shares on or before September 30, 2014; and
  - (b) 500,000 additional BRI Shares on or before September 30, 2015; and
- (3) incur exploration expenditures 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
  - (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 Montes Áureos and Trinta projects on or before September 30, 2015.

Upon the Company exercise of the Second Option, Apoio Engenharia e Mineração will have a 3% carried interest in the expenditures until such time as a positive feasibility study is completed. Thereafter, either party may elect to dilute their interest in accordance with the terms and conditions of the Agreement. If such dilution reduces a party's interest below 3%, the interest will convert to a 1.5% net smelter return royalty.

***Artulândia***

The Company acquired a 100% undivided interest in the 12,000 acre Artulândia Property located in Goiás State, Brazil, through its wholly-owned subsidiary by way of an option (the "Artulândia Option Agreement"). The acquisition was completed by way of payments being made pursuant to terms of the Artulândia Option Agreement. An additional R\$1,000,000 (\$500,000) will be payable by the Company upon completion of a positive National Instrument 43-101-compliant pre-feasibility study.



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The Artulândia Property is within the Company's Pireneus district. Goiás State is an emerging gold-producing district with major international miners.

***Apa High***

The Company indirectly holds a mineral concession from the Republic of Paraguay, covering 198,068 hectares (489,426 acres) in Concepcion Department, Paraguay, (the "Apa High Project"). The Apa High Project area is contiguous with the Brazilian border and is located along the southern extension of the Cuiaba gold belt, Mato Grosso State Brazil. The area was acquired by the Company through Resolution 1692 issued by the Paraguayan Ministry of Public Works and Communication ("MOPC"), which includes the Vice Ministry of Mines and Energy. The resolution allows the Company to conduct initial prospecting and exploration activities over the concession area for a period of eight years subject to acquiring the required licenses.

***Pireneus***

The Company staked 247,000 acres covering the Pireneus region in Goiás State, Brazil. The Pireneus project area, which contains several occurrences of historic artisanal gold mining operations, is located approximately 150 kilometers west of Brasília, the capital city of Brazil.

The staked area is being acquired by the Company through an application to the DNPM. The pending application awaits final publication in the Diário Oficial da União (National Gazette).

***Maua***

The Company acquired the 24,678 acre Maua Project located in the Gurupi gold belt in Maranhão State, Brazil, and located approximately 2.5 kilometers west of the Company's Montes Áureos Gold Project.

The Maua property mineral rights were acquired through an application to the DNPM.

Exploration expenses on a project basis are as follows:

|               | For the three months ended August 31, |                | For the nine months ended August 31, |                  | For the period from incorporation, September 9, 2009, to August 31, 2013 |
|---------------|---------------------------------------|----------------|--------------------------------------|------------------|--|
|               | 2013                                  | 2012           | 2013                                 | 2012             |  |
|               | (\$)                                  | (\$)           | (\$)                                 | (\$)             | (\$)   |
| Cachoeira     | 453,345                               | -              | 1,513,767                            | -                | 1,693,702  |
| Montes Áureos | 40,421                                | 22,749         | 42,159                               | 491,315          | 1,642,718  |
| Trinta        | 441                                   | 772            | 13,141                               | 70,488           | 165,940  |
| Artulândia    | 162,502                               | 165,392        | 584,669                              | 519,185          | 1,239,442  |
| Apa High      | 3,212                                 | -              | 18,913                               | -                | 31,411   |
| Pireneus      | 441                                   | 1,199          | 2,031                                | 9,763            | 33,907   |
| Maua          | 441                                   | 772            | 13,253                               | 18,582           | 63,008   |
| <b>Total</b>  | <b>660,803</b>                        | <b>190,884</b> | <b>2,187,933</b>                     | <b>1,109,333</b> | <b>4,870,128</b>   |

## 6. Other Receivables

|                    | As at August 31,<br>2013<br>(\$) | As at November 30,<br>2012<br>(\$) |
|--------------------|----------------------------------|------------------------------------|
| Tax receivable     | 31,159                           | 84,324                             |
| Accrued interest   | 1,495                            | 5,988                              |
| Other              | 2,096                            | 1,369                              |
| Refundable advance | -                                | 50,000                             |
| <b>Total</b>       | <b>34,750</b>                    | <b>141,681</b>                     |

## 7. Accounts Payable and Accrued Liabilities

|                             | As at August 31,<br>2013<br>(\$) | As at November 30,<br>2012<br>(\$) |
|-----------------------------|----------------------------------|------------------------------------|
| Accrued liabilities         | 48,521                           | 80,061                             |
| Trade payables              | 191,584                          | 171,186                            |
| Payroll and tax withholding | 51,016                           | 65,304                             |
| <b>Total</b>                | <b>291,121</b>                   | <b>316,551</b>                     |

## 8. Long-Term Obligations

All long-term obligations relating to acquisition of Cachoeira Project have been reflected as of August 31, 2013. The cash payments due have been discounted using an interest rate of 10%.

|                       | Stated Value<br>as at Cachoeira<br>Closing Date<br>(\$) | Discount<br>(\$) | Net Present Value<br>as at August 31,<br>2013<br>(\$) |
|-----------------------|---|------------------|---|
| Cash payments         | 600,000   | (103,345)        | 496,655   |
|                       | 600,000   | (103,345)        | 496,655   |
| Less: current portion | (300,000)   | 27,273           | (272,727)   |
| <b>Total</b>          | <b>300,000</b>  | <b>(76,072)</b>  | <b>223,928</b>  |

## 9. Share Capital

### 9.1 Authorized

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

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|  | Notes | Number of Shares | Amount<br>(\$) |
|--|-------|------------------|----------------|
| Balance at November 30, 2011                   |       | 35,166,811       | 9,246,579      |
| Private Placement @ \$1.10 per share           |       | 4,324,136        | 4,756,550      |
| Share issuance costs                           |       | -                | (262,673)      |
| Exercise of broker warrants                    |       | 311,200          | 256,367        |
| Balance at May 31, 2012                        |       | 39,802,147       | 13,996,823     |
| Balance at August 31, 2012                     |       | 39,802,147       | 13,996,823     |
| Issued pursuant to the Cachoeira Agreement     | 5     | 1,428,000        | 1,685,040      |
| Issued pursuant to the Montes Áureos Agreement | 5     | 100,000          | 104,000        |
| Balance at November 30, 2012                   |       | 41,330,147       | 15,785,863     |
| Balance at May 31, 2013                        |       | 41,330,147       | 15,785,863     |
| Balance at August 31, 2013                     |       | 41,330,147       | 15,785,863     |

**9.3 Share Issuance Obligations**

Pursuant to the Cachoeira Agreement, the following BRI Shares payments are to be made by the Company to Luna:

|   | BRI Share Price<br>at Cachoeira<br>Closing Date<br>(\$) | Share Issuance<br>Obligations<br>(\$) |
|---|---|---------------------------------------|
| 2 <sup>nd</sup> Payment - 1,214,000 BRI Shares (issued on September 23, 2013) | 1.18  | 1,432,520                             |
| 4 <sup>th</sup> Payment - 1,214,000 BRI Shares                                | 1.18  | 1,432,520                             |
| 5 <sup>th</sup> Payment - \$2,500,000 in cash or BRI Shares                   |   | 2,500,000                             |
| 6 <sup>th</sup> Payment - \$3,000,000 in cash or BRI Shares                   |   | 3,000,000                             |
| Total   |   | 8,365,040                             |

**9.4 Reserves**

|                              | Share Options<br>(\$) | Broker Warrants<br>(\$) | Total<br>(\$) |
|------------------------------|-----------------------|-------------------------|---------------|
| Balance at November 30, 2011 | 491,867               | 54,087                  | 545,954       |
| Exercise of broker warrants  | -                     | (54,087)                | (54,087)      |
| Share-based compensation     | 405,626               | -                       | 405,626       |
| Balance at May 31, 2012      | 897,493               | -                       | 897,493       |
| Share-based compensation     | 124,775               | -                       | 124,775       |
| Balance at August 31, 2012   | 1,022,268             | -                       | 1,022,268     |
| Share-based compensation     | 104,931               | -                       | 104,931       |
| Balance at November 30, 2012 | 1,127,199             | -                       | 1,127,199     |
| Share-based compensation     | 46,592                | -                       | 46,592        |
| Balance at May 31, 2013      | 1,173,791             | -                       | 1,173,791     |
| Share-based compensation     | 9,499                 | -                       | 9,499         |
| Balance at August 31, 2013   | 1,183,290             | -                       | 1,183,290     |

### 9.5 Share Options

The changes in the Company's Options during the period were as follows:

|                              | Number of<br>Options | Weighted Average<br>Exercise Price<br>(\$) |
|------------------------------|----------------------|--|
| Balance at November 30, 2011 | 1,587,500            | 1.22                                       |
| Granted                      | 295,000              | 1.36                                       |
| Expired/Forfeited            | (24,375)             | 1.20                                       |
| Balance at May 31, 2012      | 1,858,125            | 1.24                                       |
| Granted                      | 150,000              | 0.90                                       |
| Expired/Forfeited            | (3,125)              | 1.20                                       |
| Balance at August 31, 2012   | 2,005,000            | 1.22                                       |
| Expired/Forfeited            | (1,250)              | 1.20                                       |
| Balance at November 30, 2012 | 2,003,750            | 1.22                                       |
| Granted                      | 115,000              | 1.04                                       |
| Expired/Forfeited            | (103,750)            | 1.20                                       |
| Balance at May 31, 2013      | 2,015,000            | 1.21                                       |
| Expired/Forfeited            | (100,000)            | 0.90                                       |
| Balance at August 31, 2013   | 1,915,000            | 1.22                                       |

A summary of Options outstanding and exercisable at August 31, 2013:

| Range of<br>Exercise Prices | Options Outstanding                 |  |  | Options Exercisable                 |  |  |
|-----------------------------|-------------------------------------|--|--|-------------------------------------|--|--|
|                             | Number of<br>Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price<br>(\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(years) | Number of<br>Options<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price<br>(\$) | Weight<br>Average<br>Remaining<br>Contractual<br>Life<br>(years) |
| \$0.90 to \$1.15            | 165,000                             | 1.00   | 4.28   | 88,750                              | 0.99   | 4.18   |
| \$1.16 to \$1.25            | 1,285,000                           | 1.20   | 3.11   | 1,277,500                           | 1.20   | 3.10   |
| \$1.26 to \$1.40            | 315,000                             | 1.30   | 2.91   | 315,000                             | 1.30   | 2.91   |
| \$1.41 to \$1.50            | 150,000                             | 1.50   | 3.44   | 150,000                             | 1.50   | 3.44   |
|                             | 1,915,000                           | 1.22   | 3.20   | 1,831,250                           | 1.23   | 3.15   |

The fair value of the Options recognized as expense during the three and nine months ended August 31, 2013 was \$9,499 and \$56,091 respectively (2012: \$124,775 and \$530,401) using the Black-Scholes option pricing model.

### 10. 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.

At August 31, 2013, the Company's capital structure consists of the equity of the Company (Note 9). The Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

## 11. Financial Instruments

The Company's financial assets include cash and other receivables. The Company's financial liabilities include accounts payable and accrued liabilities, due to related parties and current and long-term obligations. 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.

The following table sets forth the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at August 31, 2013, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

|  | Level 1<br>(\$) | Level 2<br>(\$) | Level 3<br>(\$) | Total<br>(\$) |
|--|-----------------|-----------------|-----------------|---------------|
| <b>Financial Assets</b>                  |                 |                 |                 |               |
| Cash                                     | 1,520,633       | -               | -               | 1,520,633     |
| Other receivables                        | 34,750          | -               | -               | 34,750        |
| <b>Financial Liabilities</b>             |                 |                 |                 |               |
| Accounts payable and accrued liabilities | 291,121         | -               | -               | 291,121       |
| Due to related parties                   | 4,817           | -               | -               | 4,817         |
| Current portion of long-term obligations | -               | 272,727         | -               | 272,727       |
| Long-term obligations                    | -               | 223,928         | -               | 223,928       |

### 11.1 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.

### 11.2 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 August 31,<br>2013<br>(\$) | As at November 30,<br>2012<br>(\$) |
|----------------------|----------------------------------|------------------------------------|
| <b>Assets</b>        |                                  |                                    |
| United States Dollar | 14,790                           | 33,582                             |
| Brazilian Real       | 126,358                          | 153,804                            |
| <b>Total</b>         | <b>141,148</b>                   | <b>187,386</b>                     |

The Company's sensitivity analysis suggests that a consistent 5% change in the foreign currencies to Canadian dollar exchange rate on the Company's financial instruments based on balances at August 31, 2013 would be \$7,057 (November 30, 2012: \$9,369).

### **11.3 Interest rate risk**

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

### **11.4 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, the goods and service tax receivable ("GST"), the harmonized sales tax receivable ("HST") and refundable cash advances towards contemplated transactions.

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

The GST and HST receivable includes amounts that have been accumulated to date in the Company. At August 31, 2013, 100% of the GST and HST receivable was due from the Canada Revenue Agency.

When entering into property acquisition agreements, the Company uses industry standard agreements and initial payments or advances prior to closing of transactions are meant to be refundable in the event completion of a transaction is not attained. Furthermore, deposit amounts are kept to a minimum in order to mitigate any credit risk associated with a pending transaction.

### **11.5 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 August 31, 2013. The Company's working capital as at August 31, 2013 was \$1,088,714. The Company's other receivables, deposits, accounts payable and accrued liabilities and due to related parties are expected to be realized or settled, respectively, within a one year period.

### 11.6 Commodity price risk

The Company's profitability is dependent upon 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.

## 12. Related Party Transactions

### 12.1 Related Party Transactions

During the three and nine months ended August 31, 2013, the Company had the following transactions with related parties:

- incurred \$2,466 and \$9,029 respectively (2012: \$6,038 and \$16,901) in general and administrative expenses related to website design, hosting services and marketing services paid to a company controlled by a direct family member of a director. The fee paid is commensurate to fees charged to the company's other clients for similar services provided; and
- incurred \$12,000 and \$36,000 respectively (2012: \$nil and \$nil) in consulting fees paid to a direct family member of a director. Corporate development fees paid were for introducing the Company to various parties in the areas of project generation, corporate finance groups and potential strategic partners, and are within industry standards.

The balance due to related parties of \$4,817 as at August 31, 2013 (November 30, 2012: \$7,182) relates entirely to amounts due to a company controlled by a direct family member of a director, and was unsecured, interest-free and repayable on demand.

### 12.2 Transactions with Key Management Personnel

|  | For the three months<br>ended August 31, |               | For the nine months<br>ended August 31, |                |
|--|--|---------------|---|----------------|
|  | 2013<br>(\$)                             | 2012<br>(\$)  | 2013<br>(\$)                            | 2012<br>(\$)   |
| Fees, salaries and benefits <sup>(1)</sup> | 39,695                                   | 36,908        | 145,760                                 | 106,908        |
| Share-based compensation                   | -  | 10,004        | -                                       | 71,366         |
| <b>Total</b>                               | <b>39,695</b>                            | <b>46,912</b> | <b>145,760</b>                          | <b>178,274</b> |

(1) Total Directors' fees, salaries and benefits of \$537,535 disclosed on the consolidated statement of comprehensive loss includes \$145,760 paid to the Company's Chief Executive Officer and Chief Financial Officer, \$185,250 paid to the Company's directors, and \$206,525 paid for employees' salaries and benefits.

Total compensation payable, including share-based compensation, to key members of management and directors for the three and nine months ended August 31, 2013 was \$39,695 and \$145,760, respectively (2012: \$46,912 and \$178,274). Compensation is comprised entirely of employment and similar forms of remuneration. Management includes the Chief Executive Officer and Chief Financial Officer, who are also directors of the Company.

## 13. 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 Brazil and as such the Company only has one reporting segment.

#### 14. Commitments

In addition to the Cachoeira Agreement, Montes Áureos Agreement and Artulândia Option Agreement (note 5), as at August 31, 2013, the Company has entered into consulting agreements, which require the Company to pay the following amounts for the following periods:

|              |                   |
|--------------|-------------------|
| 2013         | \$ 66,879         |
| 2014         | 116,430           |
| 2015         | 28,232            |
| <b>Total</b> | <b>\$ 211,541</b> |

The Company is renting or leasing various offices located in Canada and Brazil with total monthly payments of \$5,072. Office lease agreements expire between October 2013 and June 2014.

#### 15. Subsequent Events

On September 30, 2013, the Company announced that it entered into an arrangement agreement with Brazilian Gold Corporation ("BGC"), pursuant to which the Company will acquire all of the outstanding common shares of BGC (the "BGC Shares") by way of a plan of arrangement under the Business Corporations Act (British Columbia) (the "Arrangement").

Under the Arrangement, BGC shareholders will receive 0.172 BRI Shares for each BGC Share. The Company expects to issue 17,947,380 BRI Shares to BGC shareholders under the Arrangement. Total aggregate consideration under the Arrangement is approximately \$13.5 million.

Certain senior officers, directors and consultants of BGC have agreed to accept BRI shares after closing of the Arrangement in satisfaction of deferred compensation and directors fees amounting to approximately \$190,000. Such shares are expected to be issued at a price per share of \$0.78 after completion of the Arrangement, subject to receipt of TSX-V approval.

On October 18, 2013, the Company announced that it had completed the exercise of the Initial Option to acquire a 51% interest in the Montes Áureos and Trinta Projects under the Montes Áureos Agreement. The conditions of the option exercise were satisfied by making a cash payment of US\$25,000, issuing an aggregate of 325,000 BRI Shares and incurring aggregate exploration expenditures of at least US\$1,750,000 over the past three years. The Company has the option to acquire an additional 46% interest in the Montes Áureos and Trinta Projects pursuant to the terms of the underlying agreement by making additional cash payments totaling US\$1 million, issuing an aggregate of 700,000 BRI Shares and incurring at least US\$2 million of exploration expenditures by September 30, 2015.