



(An exploration stage company)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2012 AND 2011**

(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 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)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars unless otherwise stated)



	Notes	As at May 31, 2012 (\$)	As at November 30, 2011 (\$)
Assets			
Current assets			
Cash		8,234,397	5,962,909
Other receivables	6	146,149	95,324
Prepaid expenses and deposits		154,911	30,872
		8,535,457	6,089,105
Non-current assets			
Equipment	4	50,794	55,051
Exploration and evaluation assets	5	246,414	188,038
		8,832,665	6,332,194
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	190,482	383,834
Due to related parties	11	2,130	2,884
		192,612	386,718
Equity			
Issued capital	8	13,996,823	9,246,579
Reserves	8	897,493	545,954
Deficit		(6,254,263)	(3,847,057)
		8,640,053	5,945,476
		8,832,665	6,332,194

Commitments (Note 13)

Subsequent events (Note 14)

Approved and authorized for issue by the Board of Directors on July 20, 2012.

/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)
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars unless otherwise stated)



	Notes	For the three months ended May 31,		For the six months ended May 31,	
		2012 (\$)	2011 (\$)	2012 (\$)	2011 (\$)
Expenses					
Consulting fees		166,849	65,927	300,146	128,702
Depreciation	4	4,656	-	9,151	-
Directors' fees, salaries and benefits	11	117,516	-	220,655	-
Exploration expenses	5	274,528	122,930	918,449	142,492
General and administrative		335,441	112,191	538,798	208,332
Professional fees		29,762	78,463	51,468	139,886
Project evaluation costs		14,371	34,030	20,977	40,710
Share-based compensation	8	122,821	-	405,626	-
		1,065,944	413,541	2,465,270	660,122
Operating loss		(1,065,944)	(413,541)	(2,465,270)	(660,122)
Other items					
Interest income		35,008	-	58,064	-
Net loss for the period		(1,030,936)	(413,541)	(2,407,206)	(660,122)
Other comprehensive income (loss)		-	-	-	-
Total comprehensive loss for the period		(1,030,936)	(413,541)	(2,407,206)	(660,122)
Net loss per share, basic and diluted		(0.02)	(0.01)	(0.06)	(0.02)
Weighted average number of shares outstanding, basic and diluted					
		39,673,547	31,965,557	39,040,193	31,569,622

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Brazil Resources Inc.
(An exploration stage company)
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars unless otherwise stated)



	Note	Issued Capital (\$)	Reserves (\$)	Deficit (\$)	Total (\$)
Balance at November 30, 2010		6,885,702	-	(700,350)	6,185,352
Total comprehensive loss for the period		-	-	(246,581)	(246,581)
Balance at February 29, 2011		6,885,702	-	(946,931)	5,938,771
Initial public offering containing:					
Cash		2,470,000	-	-	2,470,000
Share issue costs		(245,037)	54,087	-	(190,950)
Total comprehensive loss for the period		-	-	(413,541)	(413,541)
Balance at May 31, 2011		9,110,665	54,087	(1,360,472)	7,804,280
Initial public offering containing:					
Share issue costs		(6,586)	-	-	(6,586)
Issued capital pursuant to acquisition of:					
Exploration and evaluation assets		142,500	-	-	142,500
Share-based compensation		-	491,867	-	491,867
Total comprehensive loss for the period		-	-	(2,486,585)	(2,486,585)
Balance at November 30, 2011		9,246,579	545,954	(3,847,057)	5,945,476
Private placement containing:					
Cash	8	4,756,550	-	-	4,756,550
Share issue costs	8	(262,673)	-	-	(262,673)
Exercise of broker warrants		4,943	(1,043)	-	3,900
Share-based compensation		-	282,805	-	282,805
Total comprehensive loss for the period		-	-	(1,376,270)	(1,376,270)
Balance at February 29, 2012		13,745,399	827,716	(5,223,327)	9,349,788
Exercise of broker warrants	8	251,424	(53,044)	-	198,380
Share-based compensation		-	122,821	-	122,821
Total comprehensive loss for the period		-	-	(1,030,936)	(1,030,936)
Balance at May 31, 2012		13,996,823	897,493	(6,254,263)	8,640,053

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Brazil Resources Inc.
(An exploration stage company)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars unless otherwise stated)



	Notes	For the three months ended May 31,		For the six months ended May 31,	
		2012 (\$)	2011 (\$)	2012 (\$)	2011 (\$)
Operating activities					
Net loss for the period		(1,030,936)	(413,541)	(2,407,206)	(660,122)
Adjustments for items not involving cash:					
Depreciation	4	4,656	-	9,151	-
Share-based compensation	8	122,821	-	405,626	-
Net changes in non-cash working capital items:					
Other receivables		(31,967)	(4,330)	(50,825)	102,649
Prepaid expenses and deposits		(94,228)	(127,221)	(124,039)	(134,823)
Accounts payable and accrued liabilities		(87,904)	35,982	(193,352)	33,043
Cash used in operating activities		(1,117,558)	(509,110)	(2,360,645)	(659,253)
Investing activities					
Investment in equipment	4	(4,894)	-	(4,894)	-
Investment in exploration and evaluation assets	5	-	-	(58,376)	-
Cash used in investing activities		(4,894)	-	(63,270)	-
Financing activities					
Shares issued for cash, net of share issue costs	8	-	2,279,050	4,493,877	2,279,050
Shares issued on warrant exercise	8	198,380	-	202,280	-
Advances from related parties		238	-	(754)	-
Cash generated from financing activities		198,618	2,279,050	4,695,403	2,279,050
Net increase in cash and cash equivalents		(923,834)	1,769,940	2,271,488	1,619,797
Cash and cash equivalents					
Beginning of period		9,158,231	6,011,919	5,962,909	6,162,062
End of period		8,234,397	7,781,859	8,234,397	7,781,859

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.

Brazil Resources Inc.'s common 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 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, 2011, 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 year's presentation format.

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, 2012 and 2011 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 and the functional currency of the Company and its subsidiaries 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.

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 and due to related parties 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 10.

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 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 *Property, plant and equipment*

Property, plant, and equipment are recorded at cost and are 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 property, plant and equipment have different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and 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 in 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 on 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 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, 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 Equipment (\$)	Furniture and Fixtures (\$)	Leasehold Improvement (\$)	Total (\$)
Cost				
Balance at November 30, 2011	39,718	20,093	1,447	61,258
Additions	4,894	-	-	4,894
Balance at May 31, 2012	44,612	20,093	1,447	66,152
Accumulated Depreciation				
Balance at November 30, 2011	4,231	1,674	302	6,207
Depreciation	6,780	2,010	361	9,151
Balance at May 31, 2012	11,011	3,684	663	15,358
Net Book Value				
At November 30, 2011	35,487	18,419	1,145	55,051
At May 31, 2012	33,601	16,409	784	50,794

5. Exploration and Evaluation Assets

	For the three months ended May 31,		For the six months ended May 31,	
	2012 (\$)	2011 (\$)	2012 (\$)	2011 (\$)
Balance at the beginning of period	246,414	25,000	188,038	25,000
Mineral property option payment	-	-	57,000	-
Mineral rights acquired	-	-	1,376	-
Balance at the end of period	246,414	25,000	246,414	25,000

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

	May 31, 2012 (\$)	November 30, 2011 (\$)
Montes Áureos and Trinta	167,500	167,500
Maua	340	340
Pireneus	21,574	20,198
Artulandia	57,000	-
Total	246,414	188,038

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

Montes Áureos and Trinta

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 51% undivided interest in the Montes Áureos Project over a three year period, from September 30, 2010 to September 30, 2013, 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 Agreement by adding the options to acquire Trinta Project for no additional consideration. The Trinta property is subject to the same option terms stipulated in the Agreement.

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 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 (issued with fair value of \$142,500);
 - (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 (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; and
- (4) make all necessary payments in order to keep the Montes Áureos and Trinta projects in good standing during the term of the 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 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 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.

Brazil Resources Inc.

(An exploration stage company)

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars unless otherwise stated)

May 31, 2012 and 2011



Upon the Company's 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.

Maua

On September 15, 2011, the Company acquired the 24,678 acre Maua Project in the Gurupi Gold Belt located in Maranhão State, Brazil, and is 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 Brazilian National Department of Mining Production ("DNPM").

Pireneus

On November 29, 2011, the Company announced it had 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). The acquisition of the mineral rights paid to DNPM during the period ended May 31, 2012 was \$1,375.74.

Artulandia

On December 8, 2011, the Company announced that its wholly-owned subsidiary entered into an option agreement (the "Option Agreement") to acquire a 100% undivided interest in the 12,000 acre Artulandia Property located in Goiás State, Brazil. The Artulandia Property is contiguous to the Company's Pireneus Project. Goiás State is an emerging gold-producing district with major international miners.

Pursuant to the Option Agreement, a wholly-owned subsidiary of the Company was granted the option in consideration for an initial payment of \$57,000, Brazilian Real ("R") \$100,000, paid to Rodrigo Vasconcellos De Moraes E Silvia. Under the option, the Company may acquire a 100% interest in the mineral licences underlying the Artulandia Property by making additional payments of approximately: (i) \$28,500 (R\$50,000) within 6 months (paid June 6, 2012); and (ii) \$114,000 (R\$200,000) within 12 months of the date of the Option Agreement. If the option is exercised, an additional \$570,000 (R\$1,000,000) will be payable by the Company upon completion of a positive National Instrument 43-101-compliant pre-feasibility study. The vendor will retain a 1.5% net smelter return royalty on gold production from the property, which may be reduced to 0.5%, at the option of the Company, for a further payment of \$685,000 (R\$1,200,000). Amounts payable by the Company under the Option Agreement are in Brazilian Real.

Exploration expenses on a project basis are as follows:

	For the three months ended May 31,		For the six months ended May 31,		For the period from incorporation, September 9, 2009, to May 31, 2012
	2012 (\$)	2011 (\$)	2012 (\$)	2011 (\$)	
Montes Áureos	65,601	122,930	468,566	142,492	1,576,386
Trinta	19,210	-	69,717	-	151,290
Maua	1,354	-	17,810	-	48,245
Pireneus	1,354	-	8,563	-	29,730
Artulandia	187,009	-	353,793	-	353,793
Total	274,528	122,930	918,449	142,492	2,159,444

6. Other Receivables

	May 31, 2012 (\$)	November 30, 2011 (\$)
Refundable advance	50,000	50,000
Harmonized sales tax receivable	85,410	44,718
Accrued interest	8,497	-
Other	2,242	606
	146,149	95,324

As at May 31, 2012 and November 30, 2011, the Company has no trade receivables, and a receivable of \$50,000 was outstanding for a refundable advance towards a property acquisition for which the Company has requested repayment.

7. Accounts Payable and Accrued Liabilities

	May 31, 2012 (\$)	November 30, 2011 (\$)
Trade payables	166,816	313,640
Accrued liabilities	17,213	56,671
Other	6,453	13,523
	190,482	383,834

8. Share Capital

8.1 Authorized

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

8.2 Private Placement

On December 28, 2011, the Company completed a non-brokered private placement (the "Private Placement") of 4,324,136 common shares (the "Shares") at a subscription price of \$1.10 per Share for aggregate gross proceeds of \$4,756,550. In connection with the Private Placement, the Company paid cash commissions equal to 6% on a

portion of the gross proceeds derived from the sale of the Shares in the aggregate amount of \$246,213, and \$16,460 to its legal adviser.

8.3 Issued Capital

	Note	Number of Shares	Amount (\$)
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 of Agent's Shares		76,923	50,000
Share issue cost		-	(295,037)
Balance at May 31, 2011		35,041,811	9,110,665
Share issue cost		-	(6,586)
Issue pursuant to the Agreement		125,000	142,500
Balance at November 30, 2011		35,166,811	9,246,579
Private Placement @ \$1.10 per share		4,324,136	4,756,550
Share issue cost		-	(262,673)
Exercise of broker warrants		6,000	4,943
Balance at February 29, 2012		39,496,947	13,745,399
Exercise of broker warrants		305,200	251,424
Balance at May 31, 2012		39,802,147	13,996,823

8.4 Reserves

	Share Options (\$)	Broker Warrants (\$)	Total (\$)
Balance at November 30, 2010	-	-	-
Balance at February 28, 2011	-	-	-
Issuance of broker warrants	-	54,087	54,087
Balance at May 31, 2011	-	54,087	54,087
Share-based compensation	491,867	-	491,867
Balance at November 30, 2011	491,867	54,087	545,954
Exercise of broker warrants	-	(1,043)	(1,043)
Share-based compensation	282,805	-	282,805
Balance at February 29, 2012	774,672	53,044	827,716
Exercise of broker warrants	-	(53,044)	(53,044)
Share-based compensation	122,821	-	122,821
Balance at May 31, 2012	897,493	-	897,493

During the three and six months period ended May 31, 2012, a total of 6,000 and 305,200, respectively, broker warrants were exercised at a weighted exercise price of \$0.65 per common share. The total proceeds received by the Company from the broker warrants exercises was \$202,280.

8.5 Share Options

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

	Number of Options	Weighted Average Exercise Price (\$)
Balance at November 30, 2011	1,587,500	1.22
Granted	165,000	1.48
Cancelled	(11,250)	1.20
Balance at February 29, 2012	1,741,250	1.24
Granted	130,000	1.20
Cancelled	(13,125)	1.20
Balance at May 31, 2012	1,858,125	1.24

A summary of the Options outstanding and exercisable at May 31, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options Exercisable	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
\$1.20 to \$1.25	1,393,125	1.20	4.40	640,625	1.20	4.35
\$1.26 to \$1.40	315,000	1.30	4.16	266,250	1.30	4.15
\$1.41 to \$1.50	150,000	1.50	4.69	37,500	1.50	4.69
	1,858,125	1.24	4.38	944,375	1.24	4.31

The fair value of the Options recognized as expense during the three and six months ended May 31, 2012 was \$122,821 and \$405,626 respectively (2011: \$nil and \$nil) using the Black-Scholes option pricing model.

9. 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 May 31, 2012, the Company's capital structure consists of the equity of the Company (Note 8). 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 Private Placement (Note 8), sufficient capital resources are available to support further expansion and development of its mineral properties.

10. Financial Instruments

The Company's financial assets include cash and other receivables. The Company's financial liabilities include accounts payable and accrued liabilities and due to related parties. 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 and are included in Level 1.

10.1 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.

10.2 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, 2012 (\$)	As at November 30, 2011 (\$)
Assets		
United States Dollar	56,202	14,443
Brazilian Real	49,810	51,774
	106,012	66,217

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 May 31, 2012 would be \$5,301 (\$3,311 at November 30, 2011).

10.3 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.

10.4 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 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 HST receivable includes amounts that have been accumulated to date in the Company. At May 31, 2012, 100% of the HST receivable was due from the Canadian Government Taxation Authority.

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.

10.5 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, 2012. The Company's working capital as at May 31, 2012 was \$8,342,845. 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.

10.6 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.

11. Related Party Transactions

11.1 Related Party Transactions

During the three and six months ended May 31, 2012, the Company incurred \$6,326 and \$10,863 respectively (2011: \$194 and \$349 respectively) 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 balance due to related parties of \$2,130 as at May 31, 2012 (\$2,884 as at November 30, 2011) 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.

11.2 Transactions with Key Management Personnel

	For the three months		For the six months	
	ended May 31,		ended May 31,	
	2012	2011	2012	2011
	(\$)	(\$)	(\$)	(\$)
Fees, salaries and benefits ⁽¹⁾	35,000	-	70,000	-
Share-based compensation	22,824	-	61,362	-
Total	57,824	-	131,362	-

(1) Total Directors' fees, salaries and benefits of \$220,655 disclosed on the consolidated statement of comprehensive loss for the six months ended May 31, 2012 includes \$70,000 paid to the Company's Chief Executive Officer and Chief Financial Officer, \$63,500 paid to the Company's directors, and \$87,155 paid for employees' salaries and benefits.

Total compensation payable, including share-based compensation, to members of management and directors in the three and six months ended May 31, 2012 was \$57,824 and \$131,362, respectively (2011: \$nil and \$nil). Compensation is comprised entirely of employment and similar forms of remuneration. Management includes the Chief Executive Officer and the Chief Financial Officer, who are also directors of the Company.

12. 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 Company only has one reporting segment.

13. Commitments

In addition to the Agreement (note 5), as at May 31, 2012, the Company entered into consulting agreements, including corporate development and investor relations agreements, which require the Company to pay the following amounts for the following periods:

November 30, 2012	\$ 251,339
November 30, 2013	\$ 172,953
Total	\$ 424,292

The Company has an office lease agreement in Brazil which will expire in June 2013, and rents office space on a month-to-month basis in Canada. The total monthly office lease payments are \$2,868.

14. Subsequent Events

On July 11, 2012, the Company announced that it had entered into a definitive share purchase agreement (the "Cachoeira Agreement") with Luna Gold Corp. ("Luna") to acquire all of the issued and outstanding shares of Luna Gold (International) Corp., a wholly-owned subsidiary of Luna, which owns an indirect 100% interest in the Cachoeira gold project in Pará State, Brazil (the "Cachoeira Project").

The Cachoeira Project is located on the Gurupi Gold Belt, approximately 220 kilometres southeast of the Pará State capital of Belém and about 270 kilometres northwest of the port city of São Luis, Maranhão State. The Cachoeira Project comprises one contiguous block consisting of two mining and three exploration licenses covering approximately 4,742 hectares. Between 1985 and 2008, Luna and prior operators, completed drilling programs at the Cachoeira Project consisting of 183 diamond core holes (23,263 m), 94 RC holes (6,732 m), eight combined diamond/RC holes (1,307 m), and 488 auger holes (5,798 m) for a total of 773 holes drilled (37,100 m).

Brazil Resources Inc.

(An exploration stage company)

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars unless otherwise stated)

May 31, 2012 and 2011



Luna previously completed a National Instrument 43-101 ("NI 43-101") technical report respecting the Cachoeira Project dated February 3, 2011, which was prepared by Scott Wilson Roscoe Postle Associates Inc. and entitled "Technical Report on the Cachoeira Project, Para State, Brazil" (the "Cachoeira Report"). The Cachoeira Report estimated:

- an indicated mineral resource of 12.5 million tonnes at 1.11 g/t Au, or 446,000 ounces of gold; and
- an inferred resource of 5.4 million tonnes at 1.27 g/t Au, or 221,300 ounces of gold,

for the Tucano, Arara and Coruja deposits at the Cachoeira Project as at December 22, 2010. In addition, the Cachoeira Report stated that good potential exists for continuation of mineralization at depth and between the three deposits following the major structural corridor.

In addition to governmental royalties, the Cachoeira Project is subject to a 4.0% net profits royalty payable to prior owners. Up to one-half of such royalty interest may be re-acquired prior to the first anniversary of commercial production at the Cachoeira Project by paying the holders US\$1,000,000 for each 0.5% increment of the royalty interest. If production is not achieved at the Cachoeira Project by March 10, 2014, a US\$300,000 per year payment in lieu of the royalty will be payable to the royalty holders.

Investors are encouraged to review the full Cachoeira Report, which is available for download under Luna's profile at www.sedar.com. To the best of the Company's knowledge, information, and belief, there is no new material scientific or technical information that would make the disclosure of the mineral resources set forth herein and based on the Cachoeira Report inaccurate or misleading. The Company plans to complete an updated technical report respecting the Cachoeira Project prior to closing of the transaction.

Subject to the terms of the Cachoeira Agreement, immediately upon closing of the transaction, the Company will acquire 100% of the issued and outstanding shares of Luna Gold (International) Corp., which holds an indirect 100% interest in the Cachoeira Project through its subsidiaries. The consideration payable by the Company to Luna under the Share Purchase Agreement will consist of:

- (1) \$500,000 cash and 1,428,000 common shares of the Company ("BRI Shares") upon closing of the transaction;
- (2) \$300,000 cash and 1,214,000 BRI Shares within 12 months of closing the transaction;
- (3) \$300,000 cash and 1,214,000 BRI Shares within 30 days of receipt of approval of a mine development plan by the DNPM and the environmental preliminary licenses for a gold mining operation relating to the Cachoeira Project;
- (4) \$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; and
- (5) \$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.

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 will be evidenced by a promissory note issued by the Company to Luna, containing customary events of default and acceleration provisions, and will be 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.

Completion of the transaction contemplated under the Cachoeira Agreement is conditional upon, among other things, customary closing conditions and the receipt of all required consents and approvals, including the approval of the TSX-V and completion of an updated NI 43-101 compliant technical report by the Company.