



(An exploration stage company)

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2011**

(Unaudited, expressed in Canadian Dollars unless otherwise stated)

October 28, 2011

Brazil Resources Inc.

(An exploration stage company)

Management Discussion and Analysis

(Unaudited, expressed in Canadian dollars unless otherwise stated)

For the three and nine months ended August 31, 2011

**Overview**

The following management report and the discussion and analysis ("MD&A") of the financial condition and results of operations of Brazil Resources Inc. and its subsidiaries (collectively, the "Company") for the three and nine months ended August 31, 2011 should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes for the three and nine months ended August 31, 2011, its annual audited condensed consolidated financial statements for the year ended November 30, 2010 and the notes thereto and with the Company's prospectus dated April 21, 2011 (the "IPO Prospectus"), copies of which are available on SEDAR at www.sedar.com. The Company's financial statements for the three and nine months ended August 31, 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Unless otherwise stated, all references to "\$" or "dollars" herein are to Canadian dollars and all references to "US\$" are to United States dollars.

All information contained in this MD&A is as of October 28, 2011. Additional information relevant to the Company's activities can be found under the Company's profile at www.sedar.com.

Paulo Pereira, a member of the Company's technical team, has reviewed and approved the technical information contained in this MD&A. Mr. Pereira holds a Bachelor's degree in Geology from Universidad Do Amazonas in Brazil, is a qualified person as defined in National Instrument 43-101 and is a member of the Association of Professional Geoscientists of Ontario.

Disclaimer for Forward-Looking Information

This MD&A contains certain forward-looking statements that reflect the current views and/or expectations of the Company with respect to its performance, business and future events, including statements regarding the Company's plans in respect of the Company's projects, capital needs, business plans and expectations, anticipated work programs and goals and its future acquisition strategy. Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about the business and the industry and markets in which the Company operates, including that: the current price of and demand for minerals being targeted by the Company will be sustained or will improve; the Company's current exploration programs and objectives can be achieved; general business and economic conditions will not change in a material adverse manner; financing will be available if and when needed on reasonable terms; the Company will not experience any material accident; and the Company will be able to identify and acquire additional mineral interests on reasonable terms or at all. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including: that the Company has a limited operating history; that resource exploration and development is a speculative business; that the Company may lose or abandon its property interests; that the Company's properties are in the exploration stage and are without known bodies of commercial ore; that the Company may not be able to obtain all necessary permits and approvals on any of its properties; that environmental laws and regulations may become more onerous; that the Company may not be able to raise additional funds when necessary; potential defects in title to the Company's properties; fluctuations in currency exchange rates; fluctuating prices of commodities; operating hazards and risks; competition; potential inability to find suitable acquisition opportunities and/or complete the same; and other risks and uncertainties listed in the Company's public filings. These risks, as well as others, could cause actual results and events to vary significantly. Additional information about these and other assumptions, risks and uncertainties are set out in the "Risk Factors" section of the IPO Prospectus, a copy of which is available on SEDAR at www.sedar.com. Accordingly, readers should not place undue reliance on forward-looking statements and information, which are qualified in their entirety by this cautionary statement. There can be no assurance that forward-looking information, or the material factors or assumptions used to develop such forward-looking information, will prove to be accurate. The Company does not undertake any obligations to release publicly any revisions for updating any voluntary forward-looking statements, except as required by applicable securities laws.

Business Overview and Overall Performance

Brazil Resources Inc. was incorporated in the Province of British Columbia, Canada, on September 9, 2009. The Company is principally engaged in the acquisition, exploration and development of mineral properties in Brazil.

The Company's principal exploration property is the Montes Áureos Project, which is located in the municipality of Centro de Guilherme, region of Gurupi, approximately 200 kilometers directly west of the City of São Luís, the capital of the Maranhão State in Brazil and 250 kilometers southeast of Belém, the capital of Pará State.

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.

Initial Public Offering

On May 12, 2011, the Company closed its initial public offering of 3,800,000 common shares at a price of \$0.65 per common share for gross proceeds of \$2,470,000 (the "Offering"). The Company commenced trading on the TSX-V on May 16, 2011 under the symbol "BRI".

Canaccord Genuity Corp. (the "Agent") acted as the Company's agent in connection with the Offering. Pursuant to the Offering, the Agent and members of its selling group received: (i) a cash commission of \$144,950; (ii) 76,923 common shares in satisfaction of a corporate finance fee (the "Agent's Shares"); and (iii) 311,200 warrants. Each warrant is exercisable into one common share of the Company at a price of \$0.65 per warrant on or before May 12, 2012. 8,123 of the Agent's Shares were subject to a hold period that expired on September 13, 2011.

The Company intends to use the proceeds from the Offering to undertake the recommended work program on its Montes Áureos Project, with the remainder of the proceeds to be used to assess, explore and develop other opportunities in Brazil and elsewhere in South America and for general corporate purposes and working capital requirements. Please refer to "Liquidity and Capital Resources – Prospectus Financing" for further information respecting the use of proceeds from the Offering.

Montes Áureos Project

The Company's principal project is the Montes Áureos Project, a 4,942-acre exploration license, located within the Gurupi gold belt, a gold-producing area in the Pará and Maranhão states in north-eastern Brazil. Company geologists believe the Gurupi gold belt is an underexplored region. The project was discovered and put into production by early Portuguese and English miners and, in recent decades, by informal artisanal miners who are still active today.

During the three and nine months ended August 31, 2011, the Company initiated and concluded a follow-up exploration program on the Montes Áureos Project, building upon the initial program conducted in 2010. The focus of the follow-up exploration program is to extend, by auger drilling, the remaining 1.7 kilometers of a 2.0 kilometer anomalous gold trend and to delineate diamond drill targets. The Company has completed the auger drilling program which consisted of 107 holes (1,100 meters). Samples from the program have been sent to a certified lab for analysis. The interpretation of the auger drilling results received to date allowed for the identification and selection of areas for the diamond drilling program.

In September 2010, the Company conducted an initial exploration program, which included channel sampling, logging and sampling of previous artisanal miners' works from pits, drifts and previous excavations, and a systematic surface soil sampling program complemented with an auger drilling program over a selected area with anomalous gold soil sample results.

Brazil Resources Inc.

(An exploration stage company)

Management Discussion and Analysis

(Unaudited, expressed in Canadian dollars unless otherwise stated)

For the three and nine months ended August 31, 2011



A drill rig has been mobilized to the Montes Áureos project site to execute an initial 2,000 meter drilling program scheduled to start in October 2011, pending receipt of necessary permits, and will test areas delineated by the auger drilling program. During the nine month period ended August 31, 2011, the Company incurred \$402,033 of exploration expenditures on the Montes Áureos Project.

Initial results indicate the potential for a high-tonnage/low-grade type of deposit at Montes Áureos. During the three and nine month periods of 2011 a follow-up auger drilling program initiated the start of a \$1.7 million exploration program, which will include diamond drilling. To date the auger drilling program has been completed and the Company awaits results which have been sent to a certified laboratory for analysis. Current expenditures during the three and nine month periods total \$402,033 which are within budget estimates.

Further detailed technical information on the Montes Áureos Project and the Company's planned work program can be found in the National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* technical report, dated March 16, 2011 (the "Technical Report") authored by Coffey Mining, who is independent of the Company. A copy of the Technical Report is available under the Company's profile on SEDAR at www.sedar.com.

Project Acquisitions

On June 20, 2011, the Company announced the acquisition of the 23,643-acre Trinta Project situated in the emerging Gurupi Gold Belt located in Maranhão State, Brazil. The property consists of an exploration license located approximately 3 kilometers northeast of the Company's Montes Áureos Project. The acquisition of the Trinta Project was completed by amendment to the terms of the mineral property option and joint venture agreement relating to the Montes Áureos Project dated effective September 30, 2010 (the "Montes Áureos Agreement"). The Trinta property is subject to the option terms of the Montes Áureos Agreement. In addition to its previously disclosed obligations under the Montes Áureos Agreement, the Company will be responsible for the annual land fees payable to the Brazil National Department of Mineral Production with respect to the Trinta Project.

During the period a reconnaissance soil and Heavy Mineral Concentrate ("HMC") sampling program was initiated and completed at the Trinta property. Initial results from the program to date have confirmed anomalous gold results that will assist in further follow-up work and the selection of exploration target areas. Further reconnaissance HMC and soil sampling at the Trinta property, and initially at the Maua property, is anticipated to be completed by December 2011.

On September 15, 2011, the Company announced the acquisition of the 24,678 acre Maua Project in the emerging Gurupi Gold Belt located in Maranhão State, Brazil. The project is located approximately 2.5 km. west of the Company's Montes Áureos Gold Project. The acquisition represents the Company's third acquisition in the Gurupi Gold Belt, and increases its total land package in the Gurupi Gold Belt to 53,263 acres. The Maua Project was acquired through an application by an agent to the DNPM for a new exploration license.

The Company current exploration plan for the Maua Project includes, detailed soil sampling, trenching and auger drilling, initially focusing on historical artisanal production sites, with the objective of delineating initial drill targets. The initial \$120,000 program includes geological mapping and geochemical reconnaissance sampling over the entire property, with detailed soil sampling over a selected area.

Results of Operations

The following table sets forth selected financial information relating to the Company for the periods indicated:

| | For the three months ended August 31, | | For the nine months ended August 31, | |
|---|--|--------------|---|--------------|
| | 2011 (\$) | 2010 (\$) | 2011 (\$) | 2010 (\$) |
| Expenses | | | | |
| Consulting fees | 226,175 | 44,535 | 354,877 | 89,470 |
| Depreciation | 1,806 | - | 1,806 | - |
| Directors' fees, salaries and benefits | 51,579 | - | 51,579 | - |
| Exploration expenses | 260,489 | - | 402,981 | 92,013 |
| General and administrative | 210,341 | 11,053 | 418,673 | 57,862 |
| Professional fees | 54,106 | 4,760 | 193,992 | 18,877 |
| Project evaluation | 31,648 | 14,439 | 72,358 | 32,756 |
| Stock-based compensation | 212,348 | - | 212,348 | - |
| | 1,048,492 | 74,787 | 1,708,614 | 290,978 |
| Operating loss | (1,048,492) | (74,787) | (1,708,614) | (290,978) |
| Income tax expense | - | - | - | - |
| Interest Income | 17,217 | - | 17,217 | - |
| Net loss for the period | (1,031,275) | (74,787) | (1,691,397) | (290,978) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive loss for the period | (1,031,275) | (74,787) | (1,691,397) | (290,978) |
| Net loss per share, basic and diluted | (0.03) | (74,787) | (0.05) | (290,978) |
| Weighted average number of shares Outstanding, basic and diluted | 35,041,811 | 1 | 32,735,466 | 1 |

During the three and nine months ended August 31, 2011:

- exploration expenses increased to \$260,489 and \$402,981, respectively (2010: \$nil and \$92,013, respectively) due to increased exploration activities related to the Montes Áureos Project. The vast majority of these expenses were related to the Montes Áureos Project.
- consulting fees increased to \$226,175 and \$354,877, respectively (2010: \$44,535 and \$89,470, respectively). The increases for both the three and nine month periods were as a result of services rendered to manage the Company's exploration activities and various administrative functions in Brazil.
- stock-based compensation was \$212,348 and \$nil, respectively (2010: \$nil and \$nil, respectively). The increase during the periods was due to the Company's initial issuance of stock options to members of the Company's advisory board and to an investor relations provider.
- general and administrative costs increased to \$210,341 and \$418,673, respectively (2010: \$11,053 and \$57,862, respectively). The increases for both the three and nine month periods were due to the expansion of the Company's operations, specifically with respect to investor relations, office administration, travel and insurance costs.

Brazil Resources Inc.

(An exploration stage company)

Management Discussion and Analysis

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For the three and nine months ended August 31, 2011



- directors' fees, salaries and benefits were \$51,579 and \$nil (2010: \$nil and \$nil, respectively). The increase in director fees, salaries and benefits is due to: (i) the Company commencing payment of directors' fees as of August 1, 2011; and (ii) the Company's hiring of a number of full-time and part-time personnel during the periods.
- professional fees increased to \$54,106 and \$193,992, respectively (2010: \$4,760 and \$18,877, respectively), due to the Company's increased activity with respect to the Offering and its initial listing on the TSX-V and project due diligence reviews conducted during the periods.
- project evaluation expenses increased to \$31,648 and \$72,358, respectively (2010: \$14,439 and \$32,756, respectively) due to increased number of project reviews undertaken by the Company during both the three and nine month periods in 2011.

The Company incurred operating losses of \$1,048,492 and \$1,708,614 during the three and nine months ended August 31, 2011, respectively (2010: \$74,787 and \$290,978, respectively). The increased operating losses during the periods in 2011 were primarily as a result of expenses incurred in connection with increased exploration activities, the Offering, due diligence activities and the overall increased level of activity of the Company since the Offering and initial listing on the TSX-V.

The Company recorded a net loss for the three and nine month ended August 31, 2011 of \$1,031,275 (\$0.03 per share) and \$1,691,397 (\$0.05 per share), respectively compared to \$74,787 (\$74,787 per share) and \$290,978 (\$290,978 per share), respectively for the same periods in 2010. The increased losses for both the periods are a result of increased levels of the Company's operations and exploration activities after completing the Offering and its initial listing on the TSX-V.

Summary of Quarterly Results

The following table provides a summary of quarterly results derived from the Company's unaudited condensed consolidated interim financial statements from incorporation, September 9, 2009, to August 31, 2011:

| For the quarter ended | Revenues | Net loss (\$) | Basic and diluted net loss per share (\$) |
|----------------------------------|----------|------------------|---|
| August 31, 2011 ⁽¹⁾ | - | 1,031,275 | 0.03 |
| May 31, 2011 ⁽¹⁾ | - | 413,541 | 0.01 |
| February 28, 2011 ⁽²⁾ | - | 246,581 | 0.01 |
| November 30, 2010 ⁽³⁾ | - | 383,801 | 0.01 |
| August 31, 2010 ⁽⁴⁾ | - | 74,787 | 74,787 |
| May 31, 2010 ⁽⁴⁾ | - | 76,023 | 76,023 |
| February 28, 2010 ⁽⁴⁾ | - | 140,168 | 140,168 |
| November 30, 2009 ⁽⁴⁾ | - | 25,571 | 25,571 |

(1) Based on a total of 35,041,811 common shares issued and outstanding.

(2) Based on a total of 31,164,888 common shares issued and outstanding.

(3) Based on a total of 31,164,889 common shares issued and outstanding.

(4) Based on a total of one (1) common share issued and outstanding.

The net loss incurred by the Company increased on a quarterly basis in the last quarter of 2010 and the first three quarters of 2011 as a result of expenses incurred by the Company in connection with the Offering, the acquisition of the Montes Áureos Project, due diligence of potential acquisitions and the overall increase in the Company's activities in 2011.

Liquidity and Capital Resources

The following table sets out selected financial information with respect to the Company's financial position as at August 31, 2011 and November 30, 2010.

| | As at August 31, 2011 | As at November 30, 2010 |
|---------------------------|--------------------------|----------------------------|
| Cash and cash equivalents | 7,009,539 | 6,162,062 |
| Working capital | 6,904,077 | 6,160,352 |
| Total assets | 7,276,890 | 6,319,399 |
| Total liabilities | 291,537 | 134,047 |
| Shareholders' equity | 6,985,353 | 6,185,352 |

At August 31, 2011, the Company had a cash balance of \$7,009,539 and a working capital balance of \$6,904,077. The Company increased net cash by \$847,477 during the nine month period ended August 31, 2011. The increase in cash was as a result of proceeds from the Offering. Total liabilities increased from \$134,047 to \$291,537 during the nine months ended August 31, 2011, primarily as a result of increased accounts payable in relation to the expansion of the Company's operations, specifically with respect to consulting fees and exploration expenses.

The Company does not have any credit facilities and generally relies upon equity financing to fund all exploration expenditures.

Operating Activities

Net cash used in operating activities during the nine month period ended August 31, 2011 was \$1,375,163 compared to \$253,379 during the same period ended August 31, 2010. Significant operating expenditures during the current period included general and administrative expenses, exploration expenditures and professional and consulting fees. Stock-based compensation provided cash of \$212,348 during the nine months ended August 31, 2011 in connection with the issuance of incentive stock options.

Investing Activities

Net cash used in investing activities during the nine month period ended August 31, 2011 was \$58,082 compared to \$nil during the same period ended August 31, 2010. The increase is due to the Company's acquisition of computer equipment, furniture and fixtures for its Brazilian offices during nine month period ended August 31, 2011.

Financing Activities

Net cash provided by financing activities during the nine month period ended August 31, 2011 was \$2,280,722 compared to \$493,320 during the same period ended August 31, 2010. On May 12, 2011, the Company closed the Offering of 3,800,000 common shares at a price of \$0.65 per common share for gross proceeds of \$2,470,000 (net cash proceeds of \$2,279,050 after the Company paid \$144,950 to the Agent as a cash commission and \$46,000 to the Agent for expenses in connection with the Offering, including legal fees and the Agent's out-of-pocket expenses).

Prospectus Financing

On May 12, 2011, the Company completed its Offering, raising gross proceeds of \$2,470,000. The following table sets out the estimated use of the net proceeds of the Offering and the Company's working capital as at March 31, 2011 as disclosed in the IPO Prospectus and actual amounts spent between March 31, 2011 and August 31, 2011.

| | As disclosed in the IPO Prospectus (\$) | From March 31, 2011 to August 31, 2011 (\$) |
|--|---|--|
| Proposed exploration program for the Montes Áureos Project | 4,783,000 | 340,681 |
| General and administrative expenses | 900,000 | 599,367 |
| Expenses of the Offering | 120,000 | 78,500 |
| Reserve fund for future acquisition of mining claims/concessions | 1,880,000 | 179,548 |
| General working capital purposes | 514,100 | 58,082 |
| Total | 8,197,100⁽¹⁾ | 1,256,178 |

(1) Represents the estimated net proceeds disclosed in the IPO Prospectus, being \$2,297,100 and the working capital of the Company as at March 31, 2011, being \$5,900,000. As a result of reduced commissions paid with respect to President's list subscribers, the actual net proceeds realized under the Offering were \$2,279,050.

Broker Warrants

At August 31, 2011, 311,200 broker warrants remain outstanding, which were issued in connection with the Offering. The outstanding broker warrants have an exercise price of \$0.65 per share, and would yield net proceeds \$202,280 if all broker warrants were exercised. As the exercise of the warrants is at the discretion of the warrant holders thereof, there is no assurance that any of the broker warrants will be exercised.

Contractual Obligations

(i) Mineral Properties Obligations

Pursuant to the Montes Áureos Agreement, the Company has the option to acquire an initial undivided 51% interest in the Montes Áureos and Trinta Projects over a three year period, from September 30, 2010 to September 30, 2013.

The initial option commitments are as follows:

- (1) a cash payment of US\$25,000 within seven calendar days of September 30, 2010 (paid);
- (2) share issuances of 325,000 fully paid and non-assessable common shares in the capital of the Company in the following manner:
 - (a) 125,000 common shares on or before September 30, 2011 (issued);
 - (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; 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 to earn an additional undivided 46% interest in the Montes Áureos and Trinta Projects over a two year period, from September 30, 2013 to September 30, 2015. Additional option commitments are as follows:

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

The Company committed to pay its key executives a total of \$115,000 per year for management services.

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:

| | |
|------|------------|
| 2011 | \$ 101,491 |
| 2012 | \$ 216,583 |
| 2013 | \$ 117,200 |

The Company has a one-year office rental lease agreement which will expire in 2012. The future minimum lease payments total \$5,051 and \$10,101 by November 30, 2011 and 2012 respectively.

Future Liquidity

Based upon the current work program on the Company's projects, management believes that available cash will be adequate to meet its ongoing liquidity needs in the short-term and over the next year. Future expansion, including the acquisition of mineral properties or interests, may require additional financing, which the Company may obtain through equity and/or debt financing.

The Company's ability to meet its obligations and finance exploration and development activities over the long-term depends on its ability to generate cash flow through the issuance of common shares pursuant to private placements and short-term or long-term loans. Capital markets may not be receptive to offerings of new equity from treasury or debt, whether by way of private placements or public offerings. This may be further complicated by the limited liquidity for the common shares, restricting access to some institutional investors. The Company's growth and success is dependent on external sources of financing which may not be available on acceptable terms.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Transactions with Related Parties

Related Parties Transactions

During the three and nine months periods ended August 31, 2011 respectively, the Company incurred \$20,857 and \$21,206 (2010: \$nil and \$nil respectively), in general and administrative costs paid to Blendermedia Inc. controlled by a direct family member of a current director. The balance due to related parties of \$1,672 as at August 31, 2011 (\$nil as at November 30, 2010) relates entirely to amounts due to Blendermedia Inc.

Transactions with Key Management Personnel

| | For the nine months ended August 31, 2011 (\$) | For the nine months ended August 31, 2010 (\$) |
|--|--|--|
| Directors' fees, salaries and benefits | 9,583 | - |
| Stock-based compensation | - | - |
| Total | 9,583 | - |

Total compensation payable to members of management or companies controlled by members of management, in the nine months ended August 31, 2011 was \$9,583 (2010: \$nil). 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.

International Financial Reporting Standards

The Company's unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting*. 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, 2010, which have been prepared in accordance with IFRS.

Significant Accounting Policies

Basis of consolidation

The unaudited condensed consolidated interim financial statements for the three and nine months ended August 31, 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 statement of comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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.

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 in the period.

Mineral exploration, evaluation and development expenditures

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

Mineral property option agreements

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

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

Taxation

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

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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.

Financial liabilities

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

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

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

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

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

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 assets' 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.

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.

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.

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.

Impairment of non-financial assets

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

Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

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

Provisions

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

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

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

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

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

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

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.

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.

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.

Property, plant and equipment

Property, plant, and equipment are recorded at cost and are depreciated to their estimated residual value using the straight-line method over their estimated useful lives ranging from two to five years.

When an item of property, plant and equipment have different useful lives, the components are accounted for as separated 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.

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

Stock-based compensation

The Company grants stock 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 stock-based awards.

The fair value of share 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 tax purposes or provides services similar to those performed by a direct employee, including directors of the Company. 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 unvested amounts are revalued at each reporting period over the service period. Consideration received on the exercise of stock options is recorded as share capital and the related share-based compensation reserve is transferred to share capital.

Significant accounting judgments and estimates

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

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

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

Standards issued but not yet effective

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

New Standard IFRS 9 Financial Instruments: Classification and Measurement

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

New Standard IFRS 10 Consolidated Financial Statements

IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee. It replaces SIC-12 – *Consolidation – Special Purpose Entities* and the requirements relating to consolidated financial statements in IAS 27 – *Consolidated and Separate Financial Statements*.

New Standard IFRS 11 Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. It requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. IFRS is effective for annual periods beginning on or after January 1, 2013.

New Standard IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purposes vehicles and other off balance sheet vehicles.

New Standard IFRS 13 Fair Value Measurement

IFRS 13 establishes new guidance on fair value measurement and disclosure requirements. It requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. This standard is effective for annual periods beginning or after January 1, 2013.

Financial Instruments and Risk Management

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

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

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

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.

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, 2011 (\$) | As at November 30, 2010 (\$) |
|----------------------|----------------------------------|------------------------------------|
| Assets | | |
| United States Dollar | 6,617 | 50,213 |
| Brazilian Real | 155,345 | 47,243 |
| | 161,962 | 97,456 |

The Company's sensitivity analysis suggest that a consistent 5% change in the foreign currencies to Canadian dollar exchange rate on the Company's financial instruments based on balances at August 31, 2011 would be \$8,098 (\$4,873 at November 30, 2010).

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.

Credit risk

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

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

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, 2011. The Company's working capital as at August 31, 2011 was \$6,904,077. The Company's other receivables, deposits and accounts payable and accrued liabilities are expected to be realized or settled, respectively, within a one year period.

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.

Outstanding Share Data

The Company's authorized capital consists of an unlimited number of common shares.

The following table sets out the outstanding share data of the Company as at October 28, 2011:

| | Number Outstanding |
|--|--------------------|
| Common shares | 35,166,811 |
| Broker warrants to purchase common shares ⁽¹⁾ | 311,200 |
| Options to purchase common shares ⁽²⁾ | 1,587,500 |

(1) Each broker warrant is exercisable until May 12, 2012 into one (1) common share at a price of \$0.65.

(2) 300,000 options are exercisable until July 21, 2016 at a price of \$1.30 per common share; 1,182,500 options are exercisable until October 3, 2016 at a price of \$1.20 per common share; and 105,000 options are exercisable until October 11, 2016 at a price of \$1.20 per common share.