(An exploration stage company)

# MANAGEMENT'S DISCUSSION AND ANALYSIS
# FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2012

(Expressed in Canadian Dollars unless otherwise stated)

July 20, 2012

BRAZIL RESOURCES INC

## Overview

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of Brazil Resources Inc. (the "Company" or "Brazil Resources") for the three and six months ended May 31, 2012 should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three and six months ended May 31, 2012, and its annual audited consolidated financial statements and the notes thereto for the years ended November 30, 2011and 2010, copies of which are available on SEDAR at www.sedar.com. The Company's financial statements for the three and six months ended May 31, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise stated, all information contained in this MD&A is as of July 20, 2012.

Unless otherwise stated, references to "$" or "dollars" herein are to Canadian dollars, references to "US$" are to United States dollars and references to "R$" are to Brazilian Real. References in this MD&A to the "Company" mean "Brazil Resources Inc.", together with its subsidiaries, unless the context otherwise requires.

Paulo Pereira, Vice President of Exploration, has reviewed and approved the scientific and 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 ("NI 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, the completion of the transactions contemplated under the Cachoeira Agreement (as defined herein), 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 assumptions relating to the ability of the parties to satisfy the conditions required in order to complete the Cachoeira Agreement and related agreements and the expected effects or benefits of the acquisition of the Cachoeira Project (as defined herein) on the business of the Company and 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: any inability of the parties to satisfy the conditions of the closing under the Cachoeira Agreement and: 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, including the Cachoeira Project; 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" of the Company's Management's Discussion and Analysis for the year ended November 30, 2011, 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 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, in the Gurupi region, 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' common shares (the "BRI Shares") are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "BRI" and are traded on the OTCQX International Market under the symbol "BRIZF". The head office and principal address of the Company is located at Suite 320, 1111 West Hastings Street, Vancouver, British Columbia, V6E 2J3, Canada.

*Private Placement*

On December 28, 2011, the Company completed a non-brokered private placement (the "Private Placement") of 4,324,136 BRI Shares at a subscription price of $1.10 per BRI 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 BRI Shares under the Private Placement in the aggregate amount of $246,213.

*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 gold occurrences and deposits in the project area were first discovered and put into production by early Portuguese and English miners and, in recent decades, by informal artisanal miners who are still active in the region today.

In September 2010, the Company initiated an 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.

During the year ended November 30, 2011, the Company 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 was to extend, by auger drilling, the remaining 1.7 kilometers of a 2.0 kilometer anomalous soil gold trend and to delineate diamond drill targets. The Company also completed the auger drilling program which consisted of 107 holes (1,100 meters). The interpretation of the auger drilling results allowed for the identification and selection of areas for a diamond drilling program.

As set forth in the Company's news release dated April 26, 2012, Brazil Resources completed ten drill holes totaling 1,616 meters at the Montes Áureos Project. Nine drill holes tested the 500-meter northern expression of a 2-kilometer long gold/arsenic soil/auger anomaly identified by the Company. Interval spacing was approximately 40m-50m with a north-south orientation. Each drill hole was drilled at a 60-degree azimuth and at a 60-degree dip

from surface. An additional exploratory drill hole (MADDH-01) was completed to test an isolated soil anomaly to the southeast of the main soil anomaly, near a site with artisanal mining activities.

The drill results have confirmed a continuous low-grade 100-130 meter wide gold enrichment zone that hosts several 1-meter to 17-meter intersections with grades between 0.45 and 3.5 g/t gold. The remaining 1.5 kilometer of the soil/auger anomaly is open to the south. The Company currently anticipates that a further drill program in 2012 will test the southern extension zone at Monte Áureos. The mineralization is typical of greenstone-hosted bulk low-grade deposits. More drilling will be required along strike to understand the full extent of the mineralization at depth, and Company geologists have already sited additional drill targets for future testing.

During the six months ended May 31, 2012, the Company incurred $468,566 of exploration expenditures on the Montes Áureos Project, which is within budgeted estimates.

Further detailed technical information on the Montes Áureos Project can be found in the NI 43-101 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.

*Trinta Project*

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 three 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 Project 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 is responsible for the annual land fees payable to the Brazil National Department of Mineral Production ("DNPM") with respect to the Trinta Project.

During the year ended November 30, 2011 and the six months ended May 31, 2012, the Company continued to conduct its previously disclosed exploration programs with the objective of identifying drill-ready targets. As disclosed in the Company's news release dated April 26, 2012, a property reconnaissance float, stream sediment, soil and trenching program was completed, comprising 1,328 samples. As a result, three target areas with gold soil anomalies have been identified. Follow-up work completed in one of the areas confirmed the presence of mineralization associated with quartz veining in a foliated granitoid. Grab samples from quartz float returned high-grade gold results including 20 g/t gold and 12.5 g/t gold, with the highest returning 60 g/t gold.

Government geophysical surveys from the district show the mineralisation to be coincident with linear NNW-SSE magnetic highs and such highs will be the focus of follow up exploration in 2012. The western geophysical anomaly extends north-south for approximately 5 kilometers, and the eastern anomaly extends for approximately 9 kilometers.

*Maua Project*

On September 15, 2011, the Company announced the acquisition of the 24,678 acre Maua Project located approximately 2.5 kilometers west of the Company's Montes Áureos Gold Project. The acquisition represented the Company's third acquisition in the Gurupi Gold Belt, and increased its total land package in the Gurupi Gold Belt to 53,263 acres. The Maua Project was acquired through an application to the DNPM for a new exploration license. The Company's initial $120,000 exploration program at the Maua Project includes geological mapping and geochemical reconnaissance sampling over the entire property, with detailed soil sampling over a selected area.

During the year ended November 30, 2011, a reconnaissance Heavy Mineral Concentrate ("HMC") sampling program was initiated and completed at the Maua Project. Results from the program have confirmed the presence of

two areas with gold anomalous results inside the property. These areas will be further investigated in 2012 by detailed HMC and soil sampling work programs with the objective of delineating initial drill targets.

*Pireneus Project*

On November 29, 2011, the Company announced it had staked 247,000 acres covering the Pireneus region in Goias State, Brazil. The project area is located approximately 150 kilometers west of Brasilia and contains several occurrences of historic artisanal gold mining operations.

Goias State is a gold-producing district in Brazil with increasing production from the Kinross-Anglogold Ashanti Crixas Mine and Yamana Gold's Chapada Mine. The Company has identified areas of initial interest based on geophysical surveys and regional geochemical sampling. A regional exploration program, which will include mapping, stream sediment sampling and soil sampling, will be conducted on these areas upon obtaining the requisite exploration license.

The staked area is being acquired by the Company through an application to the DNPM for a new exploration license, which has priority. The Company is waiting for publication of the exploration licenses to initiate the work program proposed for Pireneus Project. The DNPM has advised that it will not be publishing new exploration licences until potential changes under the country's proposed new mining regulations are more clearly defined. The initial term of the exploration license is three years from the date of official publication. Under the terms of the license, in addition to its exploration programs and other requirements under the license and applicable law, the Company will be responsible for annual land fees.

The first phase of work on the Pireneus Project is expected to consist of regional stream sediment sampling program and mapping to define target areas for further follow-up work.

*Artulandia Project*

On December 8, 2011, the Company announced that its wholly-owned subsidiary entered into an option agreement (the "Artulandia Agreement") to acquire a 100%-interest in the 12,000 acre Artulandia Property located in Goias State, Brazil. The Artulandia Property is contiguous to the Company's 247,000 acre Pireneus Project.

As disclosed in the Company's news release dated April 26, 2012, geological mapping and follow-up sampling programs, including stream sediment (62 samples), soil (1,355 samples) and rock (397 samples) sampling, have been completed. As a result of this work, eight target areas for copper, lead, zinc, silver and gold have been identified.

Follow-up work completed on target ART-1 confirmed the presence of rock samples with copper values of up to 0.7%, lead-zinc values of greater than 2%, silver grades of up to 183 g/t and gold grades of up to 1.2 g/t gold. These elevated base metal values are associated with hydrothermally modified metavolcanic rock units distributed around the contact zones of a large intrusive granitoid. Preliminary data indicates that the potential target may be a base metal skarn-type deposit.

Gold values from the work completed by the Company to date on the Artulandia Property are generally low to consider any of the current targets as gold-only targets. However, such gold anomalies are relevant when targeting base metals.

During the second quarter of 2012 detailed geological mapping (scale 1: 5,000) has been completed on the target area ART-1 to delimitate the extension and distribution of the mafic rock unit that host the Cu-Pb-Zn (Au-Ag) mineralization. Further results from grab samples collected in the area of anomaly ART-1 confirmed the presence of mineralized outcrops sparsely distributed over an area approximately 1,200 m by 300 m.

Petrographic analysis from mineralized specimens indicate that the mineralization is associated with replacement patches of sulphides, consisting of galena (altered in part to cerussite and non-reflective opaque), chalcopyrite (altered strongly to hematite with lesser malachite and trace covellite), and sphalerite (altered to a variety of secondary Zn minerals) with minor pyrite (altered almost completely to hematite).

Based on the geochemistry and limited geological information available to date, it is very difficult to define the style/genetic association of the base metal targets as most of the critical elements/pathfinders are below detection. However, early indicators suggest that the main target is related to fractionation of fluids (Zr) from a highly evolved (from mafic magmatic source of base metals) intrusive event with the mineralization being late/post deformation (dilational structural setting), i.e. intrusion related.

Further follow-up work is expected to be completed at ART-1, including trenching and ground geophysical surveys programs. Ground electrical method (IP) and magnetometry surveys will be executed in the third quarter of 2012, which will assist in defining potential drill targets.

Please refer to the Company's news release dated April 26, 2012 for further information regarding recent work completed by the Company on its Montes Áureos and Trinta Projects and its Artulandia Property.

*Cachoeira Project*

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 kilometers southeast of the Pará State capital of Belém and about 270 kilometers 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).

Luna previously completed a 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 Cachoeira Agreement will consist of:

(1) $500,000 cash and 1,428,000 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.

Upon completion of the transaction under the Cachoeira Agreement and the Company's management and technical personnel's review of proposed work programs respecting the Cachoeira Project, the Company may reallocate its planned exploration expenditures to incorporate the Cachoeira Project into its ongoing exploration and development strategy.

**Results of Operations**

*General*

The Company recorded a net loss of $1,030,936 and $2,407,206 during the three and six months ended May 31, 2012, respectively (2011: $413,541 and $660,122). The increase in net loss is primarily due to increased corporate and exploration activity during 2012 compared with 2011.

*Expenses*

The Company incurred operating losses of $1,065,944 and $2,465,270 respectively, during the three and six months ended May 31, 2012, compared to $413,541 and $660,122 for the same period in 2011. The increase in operating

losses was primarily as a result of expenses incurred in connection with increased exploration activities, due diligence activities and the overall increased level of activity of the Company.

Exploration expenses increased to $274,528 and $918,449, respectively during the three and six months ended May 31, 2012 (2011: $122,930 and $142,492). The increase for both the three and six months periods in 2012 were due to the increased exploration activities related to the Company's current projects.

Exploration expenditures for the three and six months ended May 31, 2012 and 2011, on a project-by-project basis were as follows:

| | For the three months ended May 31, | | For the six months ended May 31, | |
|---|---|---|---|---|
| | 2012 ($) | 2011 ($) | 2012 ($) | 2011 ($) |
| Montes Áureos | 65,601 | 122,930 | 468,566 | 142,492 |
| Trinta | 19,210 | - | 69,717 | - |
| Maua | 1,354 | - | 17,810 | - |
| Pireneus | 1,354 | - | 8,563 | - |
| Artulandia | 187,009 | - | 353,793 | - |
| Total | 274,528 | 122,930 | 918,449 | 142,492 |

General and administrative expenses during the three and six months ended May 31, 2012, increased to $335,441 and $538,798, respectively (2011: $112,191 and $208,332), primarily as a result of the expansion of the Company's operations, specifically with respect to corporate development, office administration, investor relations, travel and insurance costs.

Share-based compensation expenses were $122,821 and $405,626 during the three and six months ended May 31, 2012, respectively, compared to $nil and $nil in the same period of 2011, consisting of options granted to the Company's directors, senior officers, employees and consultants. There were no stock options granted or vesting in the comparative period. These non-cash amounts are calculated using the Black-Scholes option-pricing model and represent the fair value of stock options granted to management, employees and consultants.

Consulting fees were $166,849 and $300,146 during the three and six months ended May 31, 2012, respectively, compared to $65,927 and $128,702 for the same period in 2011. The increases during both three and six month periods were a result of services rendered to manage the Company's exploration activities and various administrative and corporate functions in Brazil and Canada.

Directors' fees, salaries and benefits were $117,516 and $220,655 for the three and six months ended May 31, 2012, compared to $nil and $nil in the same period of 2011. The increases for both periods were due to the Company commencing payment of directors' fees, officers' fees and salaries as of August 1, 2011 and the hiring of a number of full-time and part-time employees after May 2011.

Professional fees decreased from $78,463 and $139,886 in the three and six months ended May 31, 2011 to $29,762 and $51,468 in the three and six months ended May 31, 2012. The majority of professional fees incurred in the three months and six months ended May 31, 2011 was due to the Company's increased activity with respect to the Company's initial public offering completed on May 12, 2011 (the "Offering").

Project evaluation expenses decreased from $34,030 and $40,710 in the three and six months ended May 31, 2011 to $14,371 and $20,977 in the three and six months ended May 31, 2012 due to the decreased number of project reviews undertaken by the Company during the three and six months ended May 31, 2012.

**Summary of Quarterly Results**

| For the quarter ended | Revenues | Net loss ($) | Basic and diluted net loss per share ($) |
|---|---|---|---|
| May 31, 2012 | - | 1,030,936 | 0.02 |
| February 29, 2012 | - | 1,376,270 | 0.04 |
| November 30, 2011 | - | 1,455,310 | 0.04 |
| August 31, 2011 | - | 1,031,275 | 0.03 |
| May 31, 2011 | - | 413,541 | 0.01 |
| February 28, 2011 | - | 246,581 | 0.01 |
| November 30, 2010 | - | 383,801 | 0.01 |
| August 31, 2010 | - | 74,787 | 74,787 |

Brazil Resources Inc. is an exploration stage company, and the Company currently expenses all its mineral exploration costs and general and administration costs, with such amounts included in the loss for each quarter.

**Liquidity and Capital Resources**

The following table sets out selected financial information with respect to the Company's financial position as at May 31, 2012 and November 30, 2011.

| | As at May 31, 2012 | As at November 30, 2011 |
|---|---|---|
| Cash and cash equivalents | 8,234,397 | 5,962,909 |
| Working capital | 8,342,845 | 5,702,387 |
| Total assets | 8,832,665 | 6,332,194 |
| Total liabilities | 192,612 | 386,718 |
| Shareholders' equity | 8,640,053 | 5,945,476 |

As at May 31, 2012, the Company had working capital of $8,342,845 (November 30, 2011: $5,702,387), comprised of cash and cash equivalents of $8,234,397 (November 30, 2011:  $5,962,909), accounts and other receivable of $146,149 (November 30, 2011: $95,324), prepaid expenses and deposits of $154,911 (November 30, 2011: $30,872) offset by current liabilities of $192,612 (November 30, 2011:  $386,718).

The Company decreased net cash by $923,834 during the three month period ended May 31, 2012 and increased net cash by $2,271,488 during the six month period ended May 31, 2012. The increase in cash during the six months ended May 31, 2012 was a result of proceeds from the Private Placement.  The accounts and other receivable and prepaid expenses and deposits increased from $30,872 to $154,911 during the six months ended May 31, 2012. Such increases were attributable to ongoing corporate and exploration activities.  Total liabilities decreased from $386,718 to $192,612 during the six months ended May 31, 2012, primarily as a result of the Company's normal payment processes.

*Operating Activities*

Net cash used in operating activities during the six months ended May 31, 2012 was $2,360,645, compared to $659,253 for the same in 2011.  Significant operating expenditures during the current year included mineral property expenditures, general and administrative expenses, and professional and consulting fees.

*Investing Activities*

Net cash used in investing activities during the six months ended May 31, 2012 was $63,270, compared to $nil for the same in 2011. The increase was primarily due to the Company's acquisition of mineral properties during the six months ended May 31, 2012.

*Financing Activities*

Net cash provided by financing activities during the six months ended May 31, 2012 was $4,695,403, compared to $2,279,050 for the same in 2011. On December 28, 2011, the Company closed a Private Placement of 4,324,136 BRI Shares at a price of $1.10 per BRI Share for gross proceeds of $4,756,550 (net cash proceeds of $4,493,877 after the Company paid commissions of $246,213 in connection with the Private Placement).

*Share Options and Broker Warrants*

As at May 31, 2012, 1,858,125 share options remain outstanding. All remaining broker warrants granted in connection with the Private Placement were exercised during the six months ended May 31, 2012, resulting in gross proceeds of $202,280. The outstanding share options have a weighted average exercise price of $1.24 per share. At May 31, 2012, outstanding share options represented 1,858,125 BRI Shares issuable for gross proceeds of approximately $2,306,250 should these options be exercised in full. At May 31, 2012, all outstanding share options were out-of-the-money. The exercise of these stock options is at the discretion of the respective holders and, accordingly, there is no assurance that any of these stock options will be exercised in the future.

*Prospectus Financing*

On May 12, 2011, the Company completed the 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 Company's prospectus dated April 21, 2011 (the "IPO Prospectus") and actual amounts spent between March 31, 2011 and May 31, 2012.

| | As disclosed in the IPO Prospectus ($) | From March 31, 2011 to May 31, 2012 ($) |
|---|---|---|
| Proposed exploration program for the Montes Áureos Project | 4,783,000 | 1,247,220 |
| General and administrative expenses | 900,000 | 1,359,194(1) |
| Expenses of the Offering | 120,000 | 105,875 |
| Reserve fund for future acquisition of mining claims/concessions | 1,880,000 | 874,931 |
| General working capital purposes | 514,100 | 165,410 |
| Total | 8,197,100(2) | 3,752,630 |

(1) Represents actual expenditures between March 31, 2011 and March 31, 2012 as the estimated general and administrative expenses disclosed in the IPO Prospectus were for a twelve month period. General and administrative expenses exceeded prospectus estimates due to an increase in corporate development and geological consulting fees as well as investor relations fees as a result of increased activities of the Company subsequent to the Offering.

(2) 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. The actual net proceeds realized under the Offering after all share issue costs were $2,272,464.

*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 under the Montes Áureos Agreement are as follows:

(1) a cash payment of US$25,000 within seven calendar days of September 30, 2010 (paid);

(2) share issuances of 325,000 BRI Shares in the following manner:

   (a) 125,000 BRI Shares on or before September 30, 2011 (issued with fair value of $142,500);

   (b) 100,000 additional BRI Shares on or before September 30, 2012; and

   (c) 100,000 additional BRI 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 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 payments are as follows:

(1) a cash payment of US$1,000,000 on or before September 30, 2015;

(2) share issuances of 700,000 BRI Shares in the following manner:

   (a) 200,000 BRI Shares on or before September 30, 2014; and

   (b) 500,000 additional BRI Shares on or before September 30, 2015; and

(3) incur exploration expenditures to a maximum of US $3,000,000 on or before September 30, 2015, in the following manner:

   (a) US$1,000,000 of the expenditures on or before September 30, 2014; and

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

Upon the Company'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 Montes Áureos Agreement. If such dilution reduces a party's interest below 3%, the interest will convert to a 1.5% net smelter return royalty.

Pursuant to the Artulandia Agreement respecting the Company's Artulandia Property, a wholly-owned subsidiary of the Company was granted the option in consideration for an initial payment of approximately R$100,000 ($57,000).

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) R$50,000 ($28,500) within 6 months (paid June 6, 2012); and (ii) R$200,000 ($114,000) within 12 months of the date of the Artulandia Agreement. If the option is exercised, an additional R$1,000,000 ($570,000) will be payable by the Company upon completion of a positive NI 43-101-compliant pre-feasibility study.

(ii) General and Administration Obligations

The Company has 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.

*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 BRI 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 of the BRI 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 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.

*Transactions with Key Management Personnel*

The following table sets out amounts paid to key management personnel and directors for the three and six months ended May 31, 2012 and 2011, pursuant to directors' fees, management salaries, benefits and option grants.

| | For the three months ended May 31, | | For the six months 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.

## International Financial Reporting Standards

The Company's unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the 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.

## Significant Accounting Policies

*Basis of consolidation*

The unaudited condensed consolidated interim financial statements for the three and six months ended May 31, 2012 include the financial statements of Brazil Resources 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.

*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.

*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 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 consolidated statement of comprehensive loss.

*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.

*Share-based compensation*

The Company grants share 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 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 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 share options is recorded as issued capital and the related share-based compensation reserve is transferred to issued capital.

*Significant accounting judgments and estimates*

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

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.

**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 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.

*Financial risk management objectives and polices*

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 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).

*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, 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.

*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.

*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 BRI Shares.

The following table sets out the outstanding share data of the Company as at July 20, 2012:

| | Number Outstanding |
|---|---|
| BRI Shares | 39,802,147 |
| Broker warrants to purchase BRI Shares | - |
| Options to purchase BRI Shares[1] | 2,005,000 |

(1) 300,000 options are exercisable until July 21, 2016 at a price of $1.30 per BRI Share; 1,155,000 options are exercisable until October 3, 2016 at a price of $1.20 per BRI Share; 105,000 options are exercisable until October 11, 2016 at a price of $1.20 per BRI Share; 15,000 options are exercisable until January 11, 2017 at a price of $1.30 per BRI Share; 150,000 options are exercisable until February 7, 2017 at a price of $1.50 per BRI Share; 130,000 options are exercisable until April 23, 2017 at a price of $1.20 per BRI Share; and 150,000 options exercisable until June 22, 2017 at a price of $0.90 per BRI share.

## Additional Information

Additional information regarding the Company is available on SEDAR at www.sedar.com.