

Consolidated Financial Statements
(Expressed in U.S. dollars)

BRAZILIAN RESOURCES, INC.

December 31, 2008 and 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Brazilian Resources, Inc. and all the information contained in this annual report are the responsibility of management and have been approved by the Board of Directors. These financial statements and all other information have been prepared by management in accordance with accounting principles generally accepted in Canada. Some amounts included in the financial statements are based on management's best estimates and have been derived with careful judgment. In fulfilling its responsibilities, management has developed and maintains a system of internal controls. These controls ensure that transactions are authorized, assets are safeguarded from loss or unauthorized use, and financial records are reliable for the purpose of preparing financial statements. The Board of Directors carries out its responsibilities for the financial statements through the Audit Committee. The Audit Committee periodically reviews and discusses financial reporting matters with the Company's auditors, KPMG LLP, as well as with management. These financial statements have been audited by KPMG LLP, Chartered Accountants, on behalf of the shareholders.

"Robert J. Lloyd"

Robert J. Lloyd
President and CEO

"Jeffrey C. Kirchhoff"

Jeffrey C. Kirchhoff
Chief Financial Officer



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AUDITORS' REPORT

To the Shareholders of Brazilian Resources, Inc.

We have audited the consolidated balance sheets of Brazilian Resources, Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and comprehensive income (loss), shareholders' equity and cash flows for each of the years in the two year period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
May 22, 2009

BRAZILIAN RESOURCES, INC.

Consolidated Balance Sheets
(Expressed in U.S. dollars)

	December 31, 2008	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents	\$ 370,017	\$ 551,050
Related party receivables (Note 8)	-	694,700
Prepaid expenses and sundry receivables (Note 7)	544,816	209,782
Current assets related to discontinued operations (Note 6)	-	7,213,985
	914,833	8,669,517
Related party receivables (Note 8)	-	742,050
Property, plant and equipment (Note 9)	1,100,164	982,570
Mineral properties and exploration (Note 10)	8,597,512	-
Investment (Note 11)	8,222,634	43,829,217
Other investment	4,862	4,862
Long-term assets related to discontinued operations (Note 6)	-	12,266,359
	\$ 18,840,005	\$ 66,494,575
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 1,779,346	\$ 1,095,712
Accrued interest	115,052	232,654
Income taxes payable	37,235	6,818
Due to related parties (Note 13)	161,814	101,255
Due to non-controlling shareholders (Note 10)	4,415,330	-
Convertible debentures (Note 14)	-	3,467,926
Current portion of loans payable (Note 15)	940,533	7,658,528
Current liabilities related to discontinued operations (Note 6)	-	16,495,560
	7,449,310	29,058,453
Loans payable (Note 15)	20,800	3,110
Future tax liability (Note 12)	2,160,534	8,341,212
Other payables (Note 16)	53,578	113,744
Long-term liabilities related to discontinued operations (Note 6)	-	3,845,983
	9,684,222	41,362,502
Shareholders' Equity:		
Capital stock (Note 17(a))	22,892,131	24,785,644
Warrants (Note 17(b))	397,100	319,571
Stock options (Note 17(c))	395,716	480,403
Equity component of convertible debentures (Note 14)	-	326,305
Contributed surplus (Note 17(d))	1,120,598	46,700
Deficit	(18,898,636)	(23,519,356)
Accumulated other comprehensive income (Note 11)	3,248,874	22,692,806
	9,155,783	25,132,073
Going Concern (Note 1)		
Commitments and Contingencies (Note 19)		
	\$ 18,840,005	\$ 66,494,575

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"R. Lloyd" _____, Director

"J. Kirchoff" _____, Director

BRAZILIAN RESOURCES, INC.

Consolidated Statements of Operations and Deficit and Comprehensive Income (Loss)
(Expressed in U.S. dollars)

	December 31, 2008	December 31, 2007
Expenses (income):		
Professional fees	\$ 1,253,012	\$ 1,354,251
Consulting expenses	1,038,221	1,046,454
General and administrative expenses	2,238,218	1,478,184
Interest	1,043,277	1,676,572
Depreciation	10,851	45,286
Salaries and employee benefits	655,443	571,836
Stock based compensation	23,675	142,299
Write-off uncollectible loans (Note 8(a))	200,000	-
(Gain) Loss on foreign exchange	(992,213)	574,636
Other (income) expense	479,207	(370,296)
Other taxes	35,573	67,962
	(5,985,264)	(6,587,184)
Gain on sale of shares of Jaguar Mining (Note 11)	15,773,537	1,342,120
Dilution gain in Jaguar Mining	-	1,377,457
Equity in loss of Jaguar Mining	-	(35,205)
Income (loss) before income taxes	9,788,273	(3,902,812)
Future income tax (recovery) expense (Note 12)	4,488,710	(6,543,074)
Income from continuing operations	5,299,563	2,640,262
Loss from discontinued operations (Note 6)	(678,843)	(3,582,362)
Net income (loss)	4,620,720	(942,100)
Deficit, beginning of year	(23,519,356)	(22,577,256)
Deficit, end of year	\$ (18,898,636)	\$ (23,519,356)
Basic and diluted income (loss) per share (Note 18)	\$ 0.04	\$ (0.01)
Weighted average number of common shares outstanding (Note 18)	106,789,667	106,313,631
Statement of Comprehensive Income (Loss)		
Net income (loss)	\$ 4,620,720	\$ (942,100)
Other comprehensive income (loss), net of tax (Note 11)	(19,443,932)	22,692,806
Comprehensive income (loss)	\$ (14,823,212)	\$ 21,750,706

See accompanying notes to consolidated financial statements.

Brazilian Resources, Inc.

Statement of Shareholders Equity
(Expressed in U.S. Dollars)

	Capital Stock	Warrants	Options	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total				
Balance, December 31, 2006	105,752,142	\$ 24,497,041	23,000,000	\$ 319,571	10,912,139	\$ 407,648	\$ 326,305	\$ 31,500	\$ (22,577,256)	\$ -	\$ 3,004,809	
Options exercised (Note 17(c))	2,319,982	-	-	-	(2,319,982)	(54,343)	-	-	-	-	234,260	
Options expired (Note 17(c))	-	-	-	-	(600,000)	(24,700)	-	15,200	-	-	(9,500)	
Options granted (Note 17(c))	-	-	-	-	1,695,000	103,212	-	-	-	-	103,212	
Stock based compensation (Note 17(c))	-	-	-	-	-	48,586	-	-	-	-	48,586	
Net loss for the year	-	-	-	-	-	-	-	-	-	(942,100)	(942,100)	
Other comprehensive income for the year (Note 11)	-	-	-	-	-	-	-	-	-	-	22,692,806	
Balance, December 31, 2007	108,072,124	\$ 24,785,644	23,000,000	\$ 319,571	9,687,157	\$ 480,403	\$ 326,305	\$ 46,700	\$ (23,519,356)	\$ -	\$ 22,692,806	\$ 25,132,073
Balance, December 31, 2007	108,072,124	\$ 24,785,644	23,000,000	\$ 319,571	9,687,157	\$ 480,403	\$ 326,305	\$ 46,700	\$ (23,519,356)	\$ -	\$ 22,692,806	\$ 25,132,073
Share repurchase/cancellation (Note 17(a))	(10,000,000)	(2,270,000)	-	-	-	-	-	833,736	-	-	-	(1,436,264)
Shares issued for professional fees	30,000	2,921	-	-	-	-	-	-	-	-	-	2,921
Warrants issued (Note 17(b))	-	-	-	-	-	-	-	-	-	-	-	292,100
Warrants expired (Note 17(b))	-	-	5,750,000	292,100	-	-	-	-	-	-	-	-
Options exercised (Note 17(c))	-	-	(20,000,000)	(214,571)	-	-	-	214,571	-	-	-	302,987
Options expired (Note 17(c))	2,983,408	-	-	-	(3,013,408)	(70,579)	-	-	-	-	-	-
Options expired (Note 17(c))	-	-	-	-	(842,540)	(37,784)	-	37,784	-	-	-	-
Stock based compensation (Note 17(c))	-	-	-	-	175,000	23,676	-	-	-	-	-	23,676
Convertible debentures cancellation without conversion (Note 14)	-	-	-	-	-	-	(326,305)	(12,193)	-	-	-	(338,498)
Net income for the year	-	-	-	-	-	-	-	-	4,620,720	-	-	4,620,720
Other comprehensive loss for the year (Note 11)	-	-	-	-	-	-	-	-	-	-	(19,443,932)	(19,443,932)
Balance, December 31, 2008	101,085,532	\$ 22,892,131	8,750,000	\$ 397,100	6,006,209	\$ 395,716	\$ -	\$ 1,120,598	\$ (18,898,636)	\$ -	\$ 3,248,874	\$ 9,155,783

See accompanying notes to the consolidated financial statements.

BRAZILIAN RESOURCES, INC.

Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

	December 31, 2008	December 31, 2007
Cash provided by (used in):		
Operating Activities:		
Income from continuing operations	\$ 5,299,563	\$ 2,640,262
Items not involving cash from continuing operations:		
Depreciation and amortization	10,851	45,286
Stock based compensation (Note 17(c))	23,675	142,299
Gain on disposal of Jaguar Mining Inc. shares	(15,773,537)	(2,684,372)
Non-cash management fees and interest	1,433,627	570,169
Shares issued for professional fees	2,921	-
Future income tax (recovery) expense	4,436,317	(6,543,074)
Unrealized foreign exchange (gain) loss	(1,196,299)	443,052
Write-off of uncollectible debt	200,000	-
Change in non-cash working capital (Note 21)	399,223	508,248
Cash flows used in continuing operations	(5,163,659)	(4,878,130)
Cash flows used in discontinued operations	(1,205,250)	(2,807,961)
Cash flows used in operating activities	(6,368,909)	(7,686,091)
Financing Activities:		
Increase in debt	6,043,500	2,211,931
Repayment of debt	(13,188,773)	-
Repayment of convertible debentures	(2,269,481)	-
Issuance of common shares and warrants	173,545	234,259
Related party payable	(520,562)	-
Debt repayment on mineral property acquisition (Note 10)	(900,755)	-
Cash flows (used in) provided by financing continuing operations	(10,662,526)	2,446,190
Cash flows provided by discontinued financing operations	48,451	4,921,623
Cash flows (used in) provided by financing activities	(10,614,075)	7,367,813
Investing Activities:		
Purchase of property, plant and equipment	(120,725)	(759,929)
Proceeds on disposal of shares of Jaguar Mining Inc.	16,069,159	1,320,790
Related party receivables	-	(123,500)
Cash flows provided by investing in continuing operations	15,948,434	437,361
Cash flows (used in) provided by investing in discontinued operations	853,517	(1,890,308)
Cash flows (used in) provided by investing activities	16,801,951	(1,452,947)
Decrease in cash for the year	(181,033)	(1,771,225)
Cash and cash equivalents, beginning of year	551,050	2,322,275
Cash and cash equivalents, end of year	\$ 370,017	\$ 551,050

Supplemental cash flow information (Note 21)

See accompanying notes to consolidated financial statements.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements
(Expressed in U.S. dollars)

Years Ended December 31, 2008 and 2007

Brazilian Resources, Inc. (the "Company") is a New Hampshire corporation incorporated in November 1990. The Company is a resource and infrastructure development company focused on investing in ventures located in Brazil. Substantially all of the Company's efforts are devoted to financing and developing these projects.

1. **Going Concern:**

The recoverability of the amounts shown for mineral interests is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet the Company's obligations under various agreements and the success of future operations or dispositions.

These consolidated financial statements have been prepared on a going concern basis whereby the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue as a going concern is dependant upon its ability to finance current and future operations. The Company is considering a number of alternatives to secure additional capital including additional credit facilities or equity financing, however the ultimate success of additional sources of financing are uncertain and there is no assurance that these initiatives would be successful or sufficient. The Company has a working capital deficiency of \$6,534,477. In addition, as of December 31, 2008, the Company has \$2,355,059 available under its current credit line and this amount will fluctuate based on the market value of the 1,291,692 common shares of Jaguar Mining Inc. ("Jaguar") used as security under the credit facility (Note 15(b)). Management believes that the Company has sufficient cash to carry out its planned operations beyond 2009. Failure to secure additional credit facilities or equity funding raises substantial doubt that the Company could fully implement its long-term business objectives.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets such as mineral interests, and liabilities, the reported expenses, and the balance sheet classifications used.

2. **Basis of Presentation:**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries. Intercompany transactions and balances are eliminated on consolidations.

Certain prior year comparative figures have been reclassified to conform to the presentation adopted for the current year. All financial results from discontinued operations have been reported separately from the balances of the Company.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

3. Changes in Accounting Policies and Recent Accounting Pronouncements:

(a) Effective January 1, 2008, the Company has adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA). The new standards and accounting policy changes are as follows:

(i) Inventories:

In January 2007, the CICA published Section 3031 of the Handbook, Inventories. This section prescribes the accounting treatment for inventories and provides guidance on determination of costs, subsequent recognition as an expense, and provides guidance on the cost formulas used to assign costs to inventories. There was no impact to the adoption of CICA HB 3031.

(ii) Financial Instruments-Disclosure and Presentation:

In December 2006, the CICA published the following two sections of the CICA Handbook: Section 3862 Financial Instruments-Disclosures and Section 3863, Financial Instruments-Presentation. These standards introduce disclosure and presentation requirements that will enable the users of financial statements to evaluate and enhance their understanding of the significance of financial instruments for the entity's financial position, performance and cash flows, the nature and extent of risks arising from financial instruments to which the entity is exposed and how those risks are managed.

(iii) Capital Disclosures:

The CICA Issued accounting standard Section 1535- Capital Disclosures which establishes standards for disclosing information about a company's capital structure and how it is managed, under this standard the company is required to disclose the following, based on information provided internally to the company's key management personnel:

- (a) qualitative information about its objectives, policies and processes for managing capital;
- (b) summary quantitative data about what it manages as capital;
- (c) whether during the period it complied with externally imposed capital requirements, the subject and
- (d) when the company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

(b) The following accounting policies have been issued but not yet adopted:

(i) Income Taxes:

In August 2008, the CICA issued the Emerging Issues Committee (EIC) Abstract 172- Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income. EIC-172 provides that the tax benefit from the recognition of previously unrecognized tax loss carryforwards consequent to the recording of unrealized gains on available for sale financial assets in other comprehensive income should be recognized in net income. This accounting standard is to be applied retrospectively, with restatement of prior periods from the date of adoption.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

3. Changes in Accounting Policies and Recent Accounting Pronouncements (continued):

(b) The following accounting policies have been issued but not yet adopted:

(ii) Credit Risk and Fair Value of Financial Assets and Liabilities:

In January 2009, the CICA issued the Emerging Issues Committee Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities effective for interim and annual financial statements ending on or after January 20, 2009. Earlier adoption of this abstract is permitted. EIC-173 provides further information on the determination of the fair value of the financial assets and the financial liabilities under Section 3855, Financial Instruments- Recognition and Measurement. It states that an entity's own credit and the credit risk of the counterparty should be taken into accounting in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retrospectively, without restatement of prior periods to all financial assets and liabilities measured at fair value. The Company will adopt this abstract during the first quarter of the 2009 fiscal year. This standard is not expected to have any material impact on the Company's financial statements.

(iii) Business Combinations:

In January 2009, the CICA issued the new Handbook Section 1582-Business Combinations, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The pronouncement further aligns Canadian GAAP with US GAAP and International Financials Reporting Standards ("IFRS") and changes the accounting for business combinations in a number of areas. It established principals and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also established disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on its consolidated financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

(iv) Consolidated Financial Statements and Non-Controlling Interests:

In January 2009, the CICA issued Handbook Section 1601-Consolidated Financial Statements and Section 1602- Non-Controlling Interests effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these Sections is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement on income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impacts of adopting these pronouncements may have on its consolidated financial statements in fiscal 2011.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

3. Changes in Accounting Policies and Recent Accounting Pronouncements (continued):

(b) The following accounting policies have been issued but not yet adopted:

(v) Goodwill and Intangible Assets:

In January 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Other Intangible Assets, and results in the withdrawal of Section 3450, Research and Development Costs and Emerging Issues Committee ("EIC") Abstract 27, Revenues and Expenditures during the Pre-operating Period, and amendments to Accounting Guideline ("AcG") 11, Enterprises in the Development Stage. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

4. Significant Accounting Policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation.

The Company previously accounted for its investment in Jaguar using the equity method. Under the equity method of accounting, the investment was initially recorded at cost with the carrying value subsequently adjusted to include the pro-rata share of post acquisition earnings of Jaguar. During the 2007, the Company determined that it no longer exerted significant influence on its investment in Jaguar. Therefore, the Company ceased using the equity method and began using the cost method of accounting for this investment. Under the cost method of accounting, the investment is initially recorded at cost and earnings from such investments are recognized only to the extent they are received or receivable. The Company has classified its investment in Jaguar as an available-for-sale investment.

The Company accounted for its 49% interest in the Prometalica Mineração Ltda. ("PML") joint venture by the proportionate consolidation method prior to the Judicial Restructuring. As a result of PML's Judicial Restructuring the Company determined that it no longer is able to exercise joint control over PML and has therefore reflected PML within these consolidated financial statements as a discontinued operation. The Company's joint venture partner prior to the Judicial Restructuring was IMS Empreendimentos Ltda. ("IMS").

Other investments in which the Company does not exert significant influence are accounted for by the cost method.

(b) Cash and cash equivalents:

The Company considers deposits in banks, certificates of deposit and short-term investments with maturities of three months or less at the time of acquisition to be cash and cash equivalents.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

4. Significant Accounting Policies (continued):

(c) Foreign currency translation:

The U.S. dollar is considered to be the functional currency of the Company and its subsidiaries. Monetary assets and liabilities of the Company's Brazilian operations are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date, and non-monetary assets and liabilities are translated at the historical rate of exchange. Transactions in foreign currencies are translated at the actual rates of exchange. Gains and losses on translation are included in the statement of operations.

(d) Impairment of long-lived assets:

Long-lived assets, including property, plant, equipment and mineral properties are reviewed for impairment when significant events or circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment exists when the carrying value of the asset is greater than the future undiscounted cash flows expected to be provided by the asset. To the extent that the Company has insufficient information about a mineral property to estimate future cash flows to test the recoverability of the capitalized costs for that property, the Company tests the exploration property for impairment by comparing the fair value to the carrying amount without first performing a recoverability test. The amount of impairment loss, if any, which is the excess of net carrying value over fair value, is charged to income for the period. Fair value is measured equal to the estimated future discounted net cash flows from the asset or another appropriate methodology to determine fair value, depending on the nature of the related asset.

(e) Property, plant and equipment:

Property, plant and equipment are recorded at cost and depreciated on a straight-line basis at annual rates which will amortize the cost of the assets over their estimated useful lives as follows:

Asset	Rate
Building and improvements	10 – 40 years
Equipment	2.5 – 10 years
Vehicles	2.5 – 7.5 years
Furniture, fixtures and installations	7 – 25 years
Computer hardware and software	5 years

(f) Mineral properties and exploration:

The Company considers its exploration costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production. During production, they are amortized on a unit-of-production basis based upon their estimated economic life or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

The recoverability of the amounts shown for mineral properties is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet its obligations under various agreements and the success of future operations or dispositions.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

4. Significant Accounting Policies (continued):

(g) Income taxes:

The Company accounts for income taxes under the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(h) Reclamation costs:

The Company recognizes liabilities arising from legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The fair value of a liability for an asset retirement obligation is recorded in the period incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. The Company amortizes the amount added to the asset using the depreciation method established for the related asset. The depreciation expense is included in the statement of operations and accounted for in accumulated depreciation, depletion and amortization. An accretion expense in relation with the discounted liability over the remaining life of the mining properties is accounted for in the statement of operations and added to the asset retirement obligation. The liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flow underlying the obligation. Upon settlement of the liability, a gain or loss is recorded.

(i) Stock-based compensation:

The Company has a stock-based compensation plan, described in Note 17(c). The Company accounts for all stock-based payments using the fair value based method. Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized on a straight line basis over the vesting period. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

When option holders exercise their stock options, the capital stock is credited by the sum of the consideration paid by employees, and the related portion previously credited to paid-in capital options when compensation costs were charged against income.

(j) Income/Loss per share:

Basic income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The treasury stock method is used to calculate diluted income (loss) per share. Diluted income (loss) per share is similar to basic income (loss) per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the period greater than their exercise price are exercised and the proceeds used to repurchase common shares. The dilutive effect of convertible debentures is determined using the "if-converted" method.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

4. Significant Accounting Policies (continued):

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, particularly mineral properties, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods. Actual results could differ from those estimates.

5. Significant Accounting Policies – Discontinued Operations of PML:

(a) Inventory:

Zinc and copper in process, ore in stockpiles and finished zinc and copper concentrate are recorded at the lower of average production cost or net realizable value. Production costs include direct labour, benefits, direct material and other direct production costs including amortization and depletion. Raw materials are recorded at the lower of cost, on a first-in first-out basis, or replacement cost.

(b) Revenue recognition:

The Company produced zinc and copper concentrate. Revenue is recognized when legal title is transferred to the purchaser. Title is typically transferred when delivered or, in some cases, when it is shipped.

6. Discontinued Operations:

On August 11, 2008 PML filed for Judicial Restructuring in Brazil. On September 5, 2008, the Company received the court decision ordering commencement of the proceedings. Management agreed to shut down the operations of PML effective September 3, 2008. Subsequent to the filing and operational shut down; it became apparent to management that PML was insolvent.

The Company is not responsible for PML's debts other than those for unpaid salaries or unremitted taxes. Based on the current restructuring plan presented to the court, the Company currently believes that PML should have sufficient resources to be able to pay these liabilities as they are the highest priority on the creditor list. In addition, the Company and the 50% joint owner, IMS have guaranteed the payment of the Net Smelter Royalty ("NSR") to Mineração Serras do Oeste Ltda. ("MSOL") in the event of non-payment by PML. At December 31, 2008 the Company's proportional share of the NSR is \$581,746. This amount is included in the statement of operations, deficit and comprehensive income and in accounts payable on the consolidated balance sheet.

As a result of the Judicial Restructuring, the Company no longer exerts control or has significant influence over PML. The financial results of PML have been deconsolidated effective August 31, 2008. Therefore, the Company will no longer use the proportional consolidation method to include the 49% interest in PML in the consolidated financial statements. The Company's investment in PML was classified as held-for-trading and its carrying value was valued at zero. PML's activities are also considered as "Discontinued Operations" in the consolidated financial statements of the Company.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

6. Discontinued Operations (continued):

The results of PML were reclassified and disclosed in the consolidated statements of operations as "Loss from discontinued operations", while cash flows related to these operations were reclassified and disclosed in the consolidated statements of cash flows as "Cash flows (used in) provided by discontinued operations." In addition, assets and liabilities of PML as of December 31, 2007 were reclassified and disclosed in the consolidated balance sheet as "assets or liabilities related to discontinued operations."

As of August 31, 2008, the Company's consolidated balance sheet included a net assets deficiency of \$5,135,216 represented by the excess of the Company's proportionate share of the liabilities related to PML over PML's assets, resulting in a gain on deconsolidation on August 31, 2008.

The following table provides results from discontinued operations as of August 31, 2008:

	August 31, 2008	December 31, 2007
Sales	\$ 7,787,926	\$ 13,054,445
Cost of sales	(7,652,893)	(8,708,651)
	135,033	4,345,794
Expenses	4,482,445	8,950,979
Loss before income taxes	(4,347,412)	(4,605,185)
Income tax recovery	(73,394)	(1,022,823)
	(4,274,018)	(3,582,362)
Loan and interest write-off	(1,540,042)	-
Net gain on net assets deficiency	5,135,217	-
Net loss from discontinued operation of PML	\$ (678,843)	\$ (3,582,362)
Net assets deficiency, December 31, 2007		\$ (861,199)
Net loss of PML from January 1, 2008 to August 31, 2008		(4,274,018)
Net assets deficiency, August 31, 2008		\$ (5,135,217)

The loan and interest write-off relates to an intercompany loan that the Company made to PML and represents the amount due from IMS (related party) determined to be uncollectible as a result of the PML Judicial Restructuring. The amount due from IMS represents the Company's funded portion of the IMS' share of the loan in PML.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

6. Discontinued Operations (continued):

The following table provides a reconciliation of the net assets deficiency related to discontinued operations as of December 31, 2007:

Assets	
Current Assets	
Cash and cash equivalents	\$ 13,305
Accounts receivable	972,914
Inventory	3,763,561
Related party receivables	2,341,560
Prepaid expenses and sundry receivables	122,645
	<hr/>
	7,213,985
Property, plant and equipment	6,330,561
Mineral properties and exploration	4,353,063
Future tax asset	1,582,735
	<hr/>
	\$ 19,480,344
<hr/>	
Liabilities and Shareholders' Equity	
Current Liabilities:	
Accounts payable	\$ 7,675,977
Income taxes payable	450,273
Deferred revenue	1,043,469
Due to related parties	3,354,573
Loans payable	7,673,232
Asset retirement obligations	144,019
	<hr/>
	20,341,543
Net assets deficiency	(861,199)
	<hr/>
	\$ 19,480,344

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements
(Expressed in U.S. dollars)

Years Ended December 31, 2008 and 2007

7. Prepaid Expenses and Sundry Receivables:

Prepaid expenses and sundry receivables are comprised of the following:

	December 31, 2008	December 31, 2007
Prepaid expenses (a)	\$ 63,309	\$ 22,507
CEMAT payments (b)	417,941	-
GEOMIN advances (c)	24,954	-
Interest receivable (Note 8(a) and (b))	-	187,275
Other sundry receivables (Note 20(b))	38,612	-
	\$ 544,816	\$ 209,782

(a) Prepaid expenses consist of prepaid insurance, subscriptions, information technology services, legal fees and other expenses.

(b) The Company, through BrasAgro Fertilizantes Minerais Ltda. ("BrasAgro"), acquired a limestone mineral property through the purchase of 80% of the quota shares of Petrocal Indústria e Comércio de Cal S.A. ("Petrocal") (Note 10). On August 15, 2008 Petrocal signed a contract with Centrais Elétricas Matogrossenses S.A. ("CEMAT"), the electric utility in the state of Mato Grosso, Brazil, for CEMAT to provide power to the Petrocal mine site and required an advance deposit before construction of the power lines begins.

(c) GEOMIN prepaid expenses are related to advances for geological services at the Petrocal site.

8. Related Party Receivables:

Related party receivables are comprised of the following:

	December 31, 2008	December 31, 2007
(a) IMS	\$ -	\$ 200,000
(b) IMS proportional share of PML Loan	-	1,236,750
	-	1,436,750
Less current portion	-	(694,700)
	\$ -	\$ 742,050

(a) The loan bears interest at U.S. prime plus 2% per annum (9.25% at December 31, 2007). The original due date of November 15, 2006 was extended to May 15, 2007. The loan and accrued interest were determined to be uncollectible. The entire loan (\$200,000) and was written off during 2008 with the related interest income recorded (\$46,129). The Company and IMS are joint venture partners in PML.

(b) The loan bears interest at U.S. 3 month LIBOR plus 4% per annum (9.23% at December 31, 2007) and is payable over 10 quarters commencing January 2008. No payments were made through September 30, 2008, and the loan and accrued interest were determined to be uncollectible due to the PML Judicial Restructuring. The loan and related interest income are reflected in the results of discontinued operations (note 6).

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

9. Property, Plant & Equipment:

2008	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 235,020	\$ -	\$ 235,020
Building and improvements	790,067	79,659	710,408
Equipment	137,604	83,731	53,873
Vehicles	40,093	1,219	38,874
Furniture and fixtures	83,378	45,499	37,879
Computer equipment	37,509	13,399	24,110
	\$ 1,323,671	\$ 223,507	\$ 1,100,164

2007	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 235,020	\$ -	\$ 235,020
Building and improvements	731,454	62,683	668,771
Equipment	115,449	88,658	26,791
Vehicles	39,729	21,046	18,683
Furniture and fixtures	65,818	49,586	16,232
Computer equipment	24,548	7,475	17,073
	\$ 1,212,018	\$ 229,448	\$ 982,570

10. Acquisition of Petrocal Indústria e Comércio de Cal S.A.:

On April 2, 2008, the Company, through BrasAgro, acquired a limestone mineral property through the purchase of 80% of the quota shares of Petrocal. The purchase price of \$5,684,618 (R\$9,819,040) was originally to be paid as follows: \$199,943 was due upon signing of the contract, \$4,000,000 was due 30 days after receiving the required environmental permits and contract for sufficient power to operate; \$800,000 was due eight months after receiving the required environmental permits and contract for sufficient power to operate; and \$684,675 was due 30 days after the third payment. The payable is due to the non-controlling shareholders of Petrocal and security is provided by the quota shares acquired. The amount is non-interest bearing.

During the year, the Company renegotiated its payment schedule with Petrocal. The balance due at December 31, 2008, \$4,415,330 (R\$8,468,360), was initially due on September 17, 2008. This was later extended to February 27, 2009. Subsequent to December 31, 2008 the Company did not pay the remaining balance due. On April 30, 2009 the terms of the agreement were renegotiated to retain the Company's 80% ownership and set new payment terms. The renegotiated payment terms are as follows: the first installment of \$200,000 was due on signing of the April 30, 2009 amendment and was paid on May 11, 2009; the second installment of \$150,000 is due on May 30, 2009, the third installment of \$65,330 is due 10 days after the after the documentation confirming the renovation for the environmental installation license has been received and the remaining balance of \$4,000,000 is due March 2010. The parties agreed on a fixed exchange rate of R\$2.00 per US\$1.00 which will be used if the exchange rate on the date of the any payment is lower than R\$2.00.

Under the terms of a mineral rights agreement, Petrocal is required to pay the property owner 3% of the gross mineral revenue payable per annum until the end of the mine reserve. If there is no production, royalties are due annually based on estimates and assumptions of price per tonne. The minimum payment due is based on 3,000 tonnes of limestone at an agreed price based on market conditions at the time of payment.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

10. Acquisition of Petrocal Indústria e Comércio de Cal S.A. (continued):

The transaction was accounted for as an asset acquisition. As the tax basis of the asset is lower than its cost, future income tax has been recognized at the time of acquisition and added to the cost of the asset.

The purchase price of \$5,684,618 (R\$9,819,040) was allocated as follows:

	December 31, 2008
Current assets	\$ 11,073
Mineral property	8,597,512
Current liabilities	(813)
Future income taxes	(2,923,154)
	\$ 5,684,618

11. Investment in Jaguar Mining Inc. and Other Comprehensive Income:

During the first quarter of 2007, Jaguar issued common shares resulting in a reduction of the Company's ownership interest from 8.0% at December 31, 2006 to 6.9% at March 31, 2007. This change prompted the Company to review the accounting for its investment in Jaguar; based on this review, the Company determined that it no longer exerted significant influence and therefore began to account for its investment in Jaguar using the cost method, classifying the investment as an available-for-sale investment.

At December 31, 2008 the Company held 1,613,692 (3,582,105 -December 31, 2007) shares of Jaguar. Of these, 322,000 shares (note 20 (a)) (3,528,666 -December 31, 2007) have been pledged as security for debt. The remaining 1,291,692 Jaguar shares are on deposit as security for the Company's credit facility (note 15(b)).

During the year ended December 31, 2008, the Company received 5,692 shares of Jaguar as consideration for the exercise of stock options and disposed of 1,974,105 shares of Jaguar (935,345 shares for settlement of outstanding debt, 891,412 shares for cash and 147,348 for repurchase of common shares) resulting in a gain of \$15,773,537 (253,062 shares sold for a gain of \$1,342,120 for the year ended December 31, 2007).

Accumulated Other Comprehensive Income is comprised of the following:

	Investment in Jaguar	Future income taxes	Accum. other comprehensive income
Balance, January 1, 2007	\$ -	\$ -	\$ -
Unrealized gain on investment in Jaguar	37,577,092	(14,884,286)	22,692,806
Balance, December 31, 2007	37,577,092	(14,884,286)	22,692,806
Unrealized loss on investment in Jaguar	(11,521,317)	4,563,594	(6,957,723)
Recycling of gain on disposal through income	(20,675,954)	8,189,745	(12,486,209)
Balance, December 31, 2008	\$ 5,379,821	\$ (2,130,947)	\$ 3,248,874

Jaguar and the Company continue to have certain directors and officers in common.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

12. Income Taxes:

The Company is subject to income taxes in both the United States and Brazil.

The recovery of income taxes to loss varies from the amounts that would be computed by applying the combined US federal tax rate and the New Hampshire state rate of approximately 39.61% (39.61% -2007) as follows:

	December 31, 2008	December 31, 2007
Expected tax expense (recovery) using the statutory US income tax rate	\$ 820,224	\$ (1,793,773)
Current year permanent differences		
Other entity expenses	539,810	275,410
Accretion expense	378,332	-
Other permanent differences	(347,045)	(91,498)
Non-deductible foreign exchange translation loss	(490,495)	-
Change in valuation allowance	3,587,884	(4,933,213)
Income tax expense (recovery)	\$ 4,488,710	\$ (6,543,074)

The tax effects of temporary differences that give rise to significant portions of future tax assets and liabilities as follows:

	December 31, 2008	December 31, 2007
Future Tax Assets		
United States future tax assets		
Non-capital losses	\$ 4,754,734	\$ 7,081,229
Stock options not exercised	156,743	190,288
Amounts not deductible until operational	730,406	-
Amounts not deductible until paid	540,101	598,738
Brazil future tax assets		
Amounts not deductible until paid	802,653	-
	6,984,637	7,870,255
Valuation allowance	(4,242,625)	-
	2,742,012	7,870,255
Future Tax Liabilities		
United States future tax liabilities		
Amounts not taxable until realized	\$ (2,742,012)	\$ (16,211,467)
Brazil future tax liabilities		
Acquisition of limestone property	(2,160,534)	-
	(4,902,546)	(16,211,467)
Net Brazil tax asset (liability)	\$ (2,160,534)	\$ (8,341,212)

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

12. Income Taxes (continued):

United States

The Company has non-capital losses carried forward of approximately \$12 million available for tax purposes. The losses expire as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 596,408
2022	4,158,585
2023	909,766
2024	493,344
2025	2,408,725
2026	1,798,477
2027	1,638,567
	<u>\$ 12,003,872</u>

Brazil

The Company, through its wholly owned subsidiaries, has non-capital loss carry-forwards of approximately \$3.6 million which may be carried forward indefinitely. However, only 30% of the taxable income in any one year can be applied against the loss carry-forward balance.

13. Due to Related Parties:

Due to related parties is comprised of the following:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
(a) MSOL/MTL labor claim	\$ 161,814	\$ -
Other related party payables (Note 20(b))	-	101,255
	<u>\$ 161,814</u>	<u>\$ 101,255</u>

- (a) This payable is due to MSOL and Mineração Turmalina Ltda. ("MTL") in relation to a court-ordered settlement of a labor case. At the time the services were performed for MSOL and other subsidiaries of the Company, the Company owned MSOL. At the time of the court order, MSOL, MTL and the Company's wholly-owned subsidiary, BW Mineração Ltda., had a director in common. As a result, the Brazilian labor court considered the companies to be an economic group and ordered payment from each company. The Company has guaranteed the \$162,000 owed to MSOL and MTL. The amount is denominated in R\$ (R\$378,158), bears interest at US LIBOR payable quarterly, and is due September 30, 2011.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

14. Convertible Debentures:

	December 31, 2008	December 31, 2007
(a) August 2005	\$ -	\$ 3,036,130
(b) November 2005	-	627,467
		3,663,597
Less: unamortized discount	-	(195,671)
	\$ -	\$ 3,467,926

- (a) During August 2005, the Company issued, Cdn.\$3,000,000 (\$2,475,819) of convertible debentures (the "Debentures"). The Debentures bore interest at a rate of 10% per annum, payable annually commencing August 2006 and matured in August 2008.

The Debentures were secured by a security interest in 857,143 common shares of Jaguar owned by the Company. Fifty percent (50%) of the principal amount of the Debentures were convertible, at the option of the holder, at any time prior to maturity into common shares of the Company at a price of Cdn.\$0.20 per common share.

The Company allocated \$261,222 to the equity component of the Debentures which was included in equity component of convertible debentures on the consolidated balance sheet. The difference between the gross proceeds received and the amount allocated to the equity component of \$2,214,597 has been allocated to the debt component and was accreted to their face values through periodic charges to income and included in interest expense over the life of the Debenture.

During the year ended December 31, 2008, the Debentures were retired, without conversion.

- (b) On November 9, 2005, the Company issued Cdn.\$620,000 (\$522,765) of convertible debentures. The Debentures bore interest at a rate of 10% per annum, payable annually commencing November 8, 2006 and matured in November 2008.

The Debentures were secured by a security interest in 206,666 common shares of Jaguar owned by the Company. Fifty percent (50%) of the principal amount of the Debentures were convertible, at any time prior to maturity into common shares of the Company at a price of Cdn.\$0.20 per common share.

As the Company's common shares were not listed on the TSX Venture Exchange before May 7, 2006, the Debenture holders received a total of 155,000 common shares of the Company.

The Company allocated \$65,083 to the equity component of the Debenture which was included in equity component of convertible debentures on the consolidated balance sheet. The difference between the gross proceeds received and the amount allocated to the equity components of \$457,683 was allocated to the debt component and was accreted to their face value through periodic charges to income included in interest expense over the life of the debenture.

During the year ended December 31, 2008, the Debentures were retired early, without conversion, resulting in a \$15,079 adjustment to contributed surplus.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

15. Loans Payable:

	December 31, 2008	December 31, 2007
(a) Auto loan	\$ 25,457	\$ 11,978
(b) Credit line	935,876	510,332
(c) Bridge loan net of unamortized discount	-	1,150,740
(d) Bridge loan net of unamortized discount	-	5,988,588
	961,333	7,661,638
Less current portion	(940,533)	(7,658,528)
	\$ 20,800	\$ 3,110

- (a) In November 2008, the Company purchased a vehicle financed by a loan. The loan payable bears interest at 7.49% per annum and is repayable over 60 months. The loan is secured by the related vehicle. The vehicle related to the 2007 balance was sold during 2008.
- (b) In July 2005, the Company obtained a credit facility. The demand credit facility bears interest at U.S. LIBOR plus 1% per annum, 1.4% at December 31, 2008 (5.6% -December 31, 2007). The amount of the credit line varies with the value of the security, with available borrowing power of 50% of the market value of the Jaguar shares less any outstanding balances. The Company had 1,291,692 shares of Jaguar on deposit as security at December 31, 2008, resulting in an available credit facility of \$3,290,935 (100,000 shares at December 31, 2007 for an available credit facility of \$611,780).
- (c) In December 2007, the Company obtained a bridge loan. The bridge loan bore interest at 12% per annum with interest payable monthly commencing January 2008. The loan was due on January 31, 2008; however the Company paid an extension fee whereby the due date was extended to March 31, 2008. The loan was secured by the first \$1,200,000 of a related party loan owed to the Company from PML. The loan included closing fees of 1% of the proceeds and \$65,000 of legal and administrative fees. On March 31, 2008, this loan was repaid.
- (d) In December 2007, the Company obtained a bridge loan. The bridge loan bore interest at 8% per annum with interest payable monthly commencing January 2008. The loan was due on March 17, 2008 and was secured by 1,900,000 shares of Jaguar owned by the Company. On March 17, 2008, the maturity date was extended to June 17, 2008 and the number of Jaguar shares held as security was reduced to 1,800,000. On June 17, 2008, the Company and the lender agreed to sell a portion of the Jaguar shares held in escrow. On July 2 and 3, 2008, the share settlement dates, the loan was repaid with the proceeds and the remaining cash and Jaguar shares were returned to the Company.

During the year ended December 31, 2008 the Company obtained and repaid a bridge loan. The loan included options to acquire 50,000 Jaguar shares owned by the Company at \$15 per share for a period of two years from the closing date. In the event that option is not exercised by its expiration date, the Company will pay an expiration fee of \$50,000 (prorated in the event of any partial option exercise). This amount is included in accounts payable on the consolidated balance sheet.

The principal payments over the next five years are as follows:

2009	\$ 940,533
2010	5,019
2011	5,408
2012	5,828
2013	4,545
	\$ 961,333

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

16. Other Payables:

The amount represents the balance of a negotiated settlement of other Brazilian taxes which are due beyond the next fiscal year.

17. Capital Stock:

(a) Common shares:

The Company is authorized to issue 320,000,000 common shares and 160,000,000 preferred shares.

During the year ended December 31, 2008, the Company repurchased and returned to treasury 10 million common shares for consideration of 147,348 of the Company's Jaguar shares at an imputed price of Cdn.\$10.18 plus warrants to purchase 5,750,000 common shares of the Company at a price of Cdn.\$0.20 until August 20, 2010. The fair value of the new warrants issued was calculated on the date of grant using the Black Scholes pricing model with the following assumptions: risk-free interest rate of 3.05%; expected volatility of 55%; and expected life of 2 years.

(b) Warrants:

At December 31, 2008, the following share purchase warrants were outstanding:

Number of share purchase warrants	Exercise price	Expiring
3,000,000	\$0.40 CAD	June 2009
5,750,000	\$0.20 CAD	August 2010

Each share purchase warrant entitles the holder to acquire one common share of the Company at the price specified.

(c) Stock Options:

Under the stock option plan, eligible directors, officers, employees and consultants may be granted options to acquire common shares at an exercise price which is equal to the 10-day weighted average trading price of the Company's common shares on the TSX Venture Exchange (the "Exchange") prior to the grant date less any discounts permitted by the rules of the Exchange. Options granted since the Company's voluntary delisting have an exercise price based on the Board of Directors valuation of the Company's assets and liabilities. Options vest 40% on the date of grant, 40% six months after the date of grant and 20% eighteen months after the date of grant, unless otherwise determined by the Board of Directors. The options are not transferable and may be subject to any vesting the Board of Directors determines and may not exceed a term of five years. The maximum number of shares that have been reserved under the plan is 15,600,000.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

17. Capital Stock (continued):

(c) Stock Options (continued):

Common Share Options	Number	Weighted Average Exercise Price USD	Weighted Average Exercise Price CAD
Balance, December 31, 2006	10,912,139	\$ -	\$ 0.14
Expired, unvested	(400,000)	0.30	-
Expired, vested	(200,000)	0.30	-
Exercised	(2,319,982)	-	0.10
Granted	1,695,000	-	0.40
Balance, December 31, 2007	9,687,157	-	0.18
Expired, unvested	(18,000)	-	0.40
Expired, vested	(824,540)	-	0.20
Exercised	(3,013,408)	-	0.10
Granted	175,000	-	0.25
Balance, December 31, 2008	6,006,209	\$ -	\$ 0.21

The value assigned to vested expired options was allocated to contributed surplus.

The value assigned to unvested expired options was allocated to stock based compensation.

Exercise Price	Outstanding December 31, 2008	Weighted Average Remaining Life in Years	Number Exercisable
\$ 0.155 CAD	900,000	0.28	900,000
\$ 0.150 CAD	3,506,209	2.30	3,506,209
\$ 0.400 CAD	700,000	3.53	700,000
\$ 0.400 CAD	725,000	3.55	580,000
\$ 0.250 CAD	175,000	4.05	87,500
Total	6,006,209		5,773,709

The fair value of the options granted in 2008 and 2007 was calculated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5%; dividend yield of nil; expected volatility of 50%; and expected life of 60 months. The weighted-average grant date fair value of these options was \$0.03 in 2008 and \$0.09 in 2007 per option.

(d) Contributed surplus:

Balance, December 31, 2006	\$ 31,500
Stock options expired (Note 17(c))	15,200
Balance, December 31, 2007	\$ 46,700
Stock options expired (Note 17(c))	37,784
Warrants expired (Note 17(b))	214,571
Equity component of August and November 2005 convertible debentures (Note 14(a) and (b))	(12,193)
Share repurchase (Note 17(a))	833,736
Balance, December 31, 2008	\$ 1,120,598

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

18. Income (Loss) Per Share:

Income per share related to continuing operations:

	December 31, 2008	December 31, 2007
Numerator:		
Net income from continuing operations	\$ 5,299,563	\$ 2,640,262
Denominator:		
Weighted average number of shares outstanding	106,789,667	106,313,631
Basic net income per share from continuing operations	\$ 0.05	\$ 0.02
Diluted net income per share from continuing operations	\$ 0.05	\$ 0.02

Excluded from the determination for the weighted average number of shares outstanding is 1,744,484 (20,906,294 -December 31, 2007) as to do so would be anti-dilutive.

Loss per share related to discontinued operations (note 6):

	December 31, 2008	December 31, 2007
Numerator:		
Net loss from discontinued operations	\$ (678,843)	\$ (3,582,362)
Denominator:		
Weighted average number of shares outstanding	106,789,667	106,313,631
Basic net loss per share from discontinued operations	\$ (0.01)	\$ (0.03)
Diluted net loss per share discontinued operations	\$ (0.01)	\$ (0.03)

Income (loss) per share related to all operations:

	December 31, 2008	December 31, 2007
Numerator:		
Net income (loss) from all operations	\$ 4,620,720	\$ (942,100)
Denominator:		
Weighted average number of shares outstanding	106,789,667	106,313,631
Basic net income (loss) per share from all operations	\$ 0.04	\$ (0.01)
Diluted net income (loss) per share from all operations	\$ 0.04	\$ (0.01)

Excluded from the determination of the weighted average number of shares outstanding is 1,744,484 as to do so would be anti-dilutive. The Company has excluded all potentially dilutive securities in 2007 due to the net loss from all operations.

19. Commitments and Contingencies:

The Company is involved in certain claims arising out of the ordinary course and conduct of its business, which in the opinion of management will not have a material impact on the financial position of the Company.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

20. Related Party Transactions:

In addition to other transactions disclosed elsewhere in these consolidated financial statements related to Jaguar and IMS, the following are the remaining related party transactions entered in to by the Company:

- (a) On January 31, 2006 the Company, along with IMS, entered into a Pledge Agreement whereby the Company pledged 322,000 of its Jaguar shares, and IMS pledged 1,078,000 of its Jaguar shares as security for a financing agreement between Prometalica Centro Oeste Ltda. ("PMCO") and certain creditors.
- (b) The Company provides administrative services and use of administrative offices to Jaguar. As a result, the Company recorded occupancy income of \$180,000 (\$120,000 -December 30, 2007) and administrative service income of \$350,731 (\$449,926 -December 31, 2007). The occupancy income and administrative service income is included in the statement of operations, deficit and other comprehensive income. At December 31, 2008 accounts receivable included \$38,612 due from Jaguar (\$101,255 accounts payable at December 31, 2007).

All related party transactions are in the normal course of operations and have been recorded at the exchange amount, which the parties believe to be fair value.

21. Consolidated Statements of Cash Flows:

- (a) Change in non-cash operating working capital:

	December 31, 2008	December 31, 2007
Accounts receivable	\$ -	\$ 13,749
Prepaid expenses and sundry receivables	(323,097)	23,117
Accounts payable	492,483	19,660
Accrued interest	168,191	444,904
Income taxes payable	61,646	6,818
	\$ 399,223	\$ 508,248

- (b) Supplemental cash flow information and non-cash transactions:

	December 31, 2008	December 31, 2007
Interest paid	\$ 821,098	\$ 919,220
Interest paid with shares of Jaguar	\$ (285,713)	\$ -
Convertible Debentures repaid with shares of Jaguar	\$ (1,432,667)	\$ -
Common shares repurchased with shares of Jaguar	\$ (2,270,000)	\$ -
Common shares repurchased with issuance of warrants	\$ 292,100	\$ -
Acquisition of vehicle financed by loan payable	\$ (25,457)	\$ -

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

22. Financial Instruments and Capital Disclosures:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, and cash equivalents, accounts receivable, related parties receivable, investment in Jaguar, accounts payable, accrued interest, due to related parties, loans payable, and other payables.

(a) Credit Risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk is limited to the carrying amount on the balance sheet and arises from the Company's cash and cash equivalents, sundry receivables, and related party receivables.

The Company's cash and cash equivalents are held through large financial institutions in Brazil and the United States.

(b) Liquidity Risk:

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the maintenance of its credit facilities, the issuance of convertible debentures, and issuance of capital stock. It also manages liquidity risk by continuously monitoring accrual and projected cash flows. The Board of Directors reviews and approved the Company's budgets, as well as any transactions out of the ordinary course of business.

The Company's commitments and related interest at December 31, 2008 are summarized as follows:

	Payments due in \$ 000's				
	1 Year	2-3 Years	4-5 Years	5 + Years	Total Due
Accounts payable and accrued liabilities	\$ 1,948	\$ -	\$ -	\$ -	\$ 1,948
Current taxes payable	37	-	-	-	37
Due to related parties	-	-	162	-	162
Due to non-controlling shareholders	4,415	-	-	-	4,415
Loans payable	942	10	10	-	962
Total	\$ 7,342	\$ 10	\$ 172	\$ -	\$ 7,524

(c) Currency Risk:

The Company is exposed to currency risk on sales, interest and loans that are denominated in a currency other than the respective functional currencies of the Company's foreign and domestic operations, primarily the R\$, the U.S. Dollar (USD) and the Canadian Dollar (CAD).

The Company operates in Brazil and the United States. Monetary assets and liabilities denominated financial instruments that impact the Company's net income due to currency fluctuations include: Brazilian reais and Canadian dollar denominated cash and cash equivalents, related party receivables, accounts payable, accrued interest, income taxes payable, related party payables, and other payables.

A 10% strengthening (weakening) of the USD against the BRL at December 31, 2008 would have increased (decreased) equity and net income by \$1,280,429.

A 10% strengthening (weakening) of the USD against the CAD at December 31, 2008 would have increased (decreased) equity and net income by \$5,793.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

22. Financial Instruments and Capital Disclosures (continued):

(d) Interest Rate Risk:

The Company is exposed to interest rate risk on its interest bearing financial instruments. Interest on the Company's short-term and long-term debt is based on both fixed and variable interest rates. The Company managed its risk by substantially entering into debt agreements with fixed interest rates ranging from 0% to 13% per annum. During the year ended December 31, 2008 most of these debts were repaid (note 15).

A 10% decrease (increase) in the variable rate component of variable interest on debt would have increased (decreased) equity and net income by \$1,449.

(e) Price Risk:

The Company is exposed to equity price risk arising from available-for-sale securities, such as the Company's investment in Jaguar, which is used to provide security for various debt instruments.

A 10% increase or decrease in the equity price of Jaguar impacts investment in Jaguar and other comprehensive income, after tax by \$608,093.

(f) Fair Values:

The following summarizes the significant methods and assumptions used in estimating the fair value of the Company's financial instruments:

- (i) Cash and cash equivalents, accounts receivable, accounts payable and accrued interest approximate their fair values due to their immediate or short terms of maturity.
- (ii) Convertible debentures were initially recognized at their fair value and then were carried at amortized cost net of unamortized discount until repaid. Discounts were being amortized to expense using the effective interest method.
- (iii) The fair value of Investment in Jaguar is determined by reference to the quoted bid price at the reporting date.
- (iv) The carrying amount of loans payable approximate fair value as the interest rates on these financial instruments are not materially different from the current market rate of interest available to the Company for similar financial instruments.
- (v) The fair value of advances to related parties receivable and due to related parties are not determinable because the terms of these financial instruments are not comparable to similar loans with non-related parties.

BRAZILIAN RESOURCES, INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2008 and 2007

22. Financial Instruments and Capital Disclosures (continued):

(g) Capital Management:

The Company considers its capital structure to consist of all of the components of shareholders' equity, loans payable and convertible debentures. The Company manages its capital structure and makes adjustments to it in order to have the funds available to support the acquisition, exploration and development of mining interests and other business ventures which the Board of Directors intends to pursue in addition to maximizing the return to shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in a feasibility study stage or are in the process of obtaining licensing and funding to begin commercial operation and are currently incurring losses or have ceased operations; as such, the Company is dependent on external financing to fund its activities. In order to carry out current operations and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008, other than the changes in the loans payable as outlined in note 15.

The Petrocal purchase included a capital dilution restriction regarding the non-controlling shareholders who sold their quota shares to BrasAgro. Those shareholders will always have the option to maintain 6.25% of BrasAgro's interest in Petrocal.

The Company and its subsidiaries are not subject to externally imposed capital requirements.