

Unaudited Consolidated Financial Statements of  
**BRAZMIN CORP.**  
For the three and nine months ended  
September 30, 2006 and 2005

These unaudited consolidated financial statements of BrazMin Corp. ("the Company") have not been reviewed by the auditors of the Company. This notice is being provided in accordance with section 4.3(3)(a) of National Instrument 51-102 Continuous Disclosure Obligations.

# BRAZMIN CORP.

(Incorporated Under the Laws of The British Virgin Islands)

## Consolidated Balance Sheets Expressed in Canadian Dollars

	September 30, <u>2006</u> <u>(Unaudited)</u>	December 31, <u>2005</u> <u>(Audited)</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 12,713,878	\$ 5,886,806
Accounts receivable and other assets	66,279	71,427
	<u>12,780,157</u>	<u>5,958,233</u>
Equipment (note 4)	86,507	41,256
Mineral properties and deferred expenditures (note 5)	7,401,435	4,711,503
	<u>\$ 20,268,099</u>	<u>\$ 10,710,992</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 70,440	\$ 486,926
Mining obligations (note 6)	167,130	291,505
	<u>237,570</u>	<u>778,431</u>
<b>Shareholders' equity</b>		
Share capital and warrants (note 7)	24,715,033	13,399,767
Contributed surplus (note 7)	1,730,079	931,827
Deficit	(6,414,583)	(4,399,033)
	<u>20,030,529</u>	<u>9,932,561</u>
	<u>\$ 20,268,099</u>	<u>\$ 10,710,992</u>

See accompanying notes to the consolidated financial statements.

## BRAZMIN CORP.

### Unaudited, Consolidated Statements of Operations and Deficit Expressed in Canadian Dollars

	Three months ended Sept. 30,		Nine months ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Interest income	\$ 111,512	\$ 69,635	\$ 303,037	\$ 87,664
Expenses				
Exploration expenses written off	-	387,264	-	387,264
Stock based compensation	6,417	-	304,160	931,827
Professional fees	93,087	51,390	283,305	92,183
Office and general	73,358	78,366	282,212	294,474
Consulting fees	63,898	25,949	197,024	166,960
Management fees	67,500	67,500	202,500	195,000
Travel	31,331	17,778	129,961	126,673
Listing and filing expense	7,897	6,259	99,840	166,240
Interest and bank charges	22,914	7,411	50,759	16,370
Amortization of capital assets	1,500	913	4,500	2,277
	<u>367,902</u>	<u>642,830</u>	<u>1,554,261</u>	<u>2,379,268</u>
Loss for the period before the following:	(256,390)	(573,195)	(1,251,224)	(2,291,604)
Foreign currency translation adjustment	<u>42,248</u>	<u>120,161</u>	<u>68,519</u>	<u>84,678</u>
Loss for the period	(214,142)	(453,034)	(1,182,705)	(2,206,926)
Deficit, beginning of period	(6,200,441)	(3,194,778)	(4,399,033)	(297,536)
Share issue cost	-		(832,845)	(1,143,350)
Deficit, end of period	<u>\$ (6,414,583)</u>	<u>\$ (3,647,812)</u>	<u>\$ (6,414,583)</u>	<u>\$ (3,647,812)</u>
Basic and diluted loss per share (note 8)	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.14)</u>

See accompanying notes to the consolidated financial statements.

## BRAZMIN CORP.

### Unaudited, Consolidated Statements of Cash Flows Expressed in Canadian Dollars

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2006	2005	2006	2005
<b>Cash flows from operating activities</b>				
Loss for the period	\$ (214,142)	\$ (453,034)	\$ (1,182,705)	\$ (2,206,926)
Items not affecting cash:				
Gain on foreign exchange	42,248	120,161	68,519	84,678
Stock based compensation	6,417	-	304,160	931,827
Amortization	1,500	913	4,500	2,277
	<u>(163,977)</u>	<u>(331,960)</u>	<u>(805,526)</u>	<u>(1,188,144)</u>
Changes in non-cash working capital balances:				
Accounts receivable and other assets	83,865	(54,409)	5,148	(76,089)
Accounts payable and accrued liabilities	(43,392)	(212,979)	(416,486)	(64,372)
	<u>(123,504)</u>	<u>(599,348)</u>	<u>(1,216,864)</u>	<u>(1,328,605)</u>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of shares and warrants	14,992	-	11,641,816	7,000,002
Share issue cost	-	-	(665,303)	(1,007,064)
Decrease in loan payable	-	-	-	(120,200)
Increase (decrease) in mining obligations	(885)	371,192	(124,375)	279,788
	<u>14,107</u>	<u>371,192</u>	<u>10,852,138</u>	<u>6,152,526</u>
<b>Cash flows from investing activities</b>				
Acquisition of equipment	(18,667)	(19,753)	(49,751)	(29,933)
Mineral properties and deferred exploration expenses	(1,704,294)	(1,135,505)	(2,689,932)	(1,533,400)
	<u>(1,722,961)</u>	<u>(1,155,258)</u>	<u>(2,739,683)</u>	<u>(1,563,333)</u>
Foreign exchange gain on cash held in foreign currency	<u>(42,248)</u>	<u>(120,161)</u>	<u>(68,519)</u>	<u>(84,678)</u>
Increase in cash and cash equivalents	(1,874,606)	(1,503,575)	6,827,072	3,175,910
Cash and cash equivalents, beginning of period	14,588,484	5,636,994	5,886,806	957,509
Cash and cash equivalents, end of period	<u>\$12,713,878</u>	<u>\$ 4,133,419</u>	<u>\$ 12,713,878</u>	<u>\$ 4,133,419</u>

See accompanying notes to consolidated financial statements.

# **BRAZMIN CORP.**

Notes to the Unaudited, Consolidated Financial Statements  
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## **1. Incorporation and Operations**

Resource Holdings & Investments Inc. ("RHI") was incorporated on July 8, 2004 under the International Business Companies Act in the Territory of The British Virgin Islands to engage in the acquisition, exploration, development and operations of mineral properties in Brazil. On April 5, 2005 RHI amalgamated with Ventures Resource Corporation ("VRC"), a publicly traded company, to form BrazMin Corp. (the "Company").

Under the amalgamation, 93% of the shares of the Company were distributed to the shareholders of RHI and the balance were distributed to the shareholders of VRC. The amalgamation has been treated as a purchase by RHI of VRC. VRC had no net assets or business at amalgamation date, and accordingly, no value has been attached to the shares issued to the VRC shareholders (note 3).

The Company has a wholly-owned subsidiary, Resource Holdings 2004 Inc. ("RH2004"), which was incorporated on July 8, 2004. The Company together with RH2004 own 100% of the subsidiaries, Brazilian Resources Mineracao Ltda. ("BRM"), Brazmin Ltda. ("BRAZ LTDA"), and EIMB - Empresa Internacional De Mineracao Brasil Ltda. ("EIMB"). The Company, through its subsidiaries, has acquired rights ranging from a 65% to 100% interest in a number of prospective gold mining projects situated in Brazil.

These consolidated financial statements include the accounts of the Company's subsidiaries. The operating results of all subsidiaries are included from the dates of acquisition and the acquisitions are accounted for as purchases. All intercompany balances have been eliminated.

# BRAZMIN CORP.

Notes to the Unaudited, Consolidated Financial Statements  
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## 2. Summary of significant accounting policies

### (a) General -

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of assets and liabilities depends on future events, the preparation of financial statements for a period necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the period. Actual amounts could differ from these estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

### (b) Cash and cash equivalents -

Cash and cash equivalents include cash and term deposits with original maturities less than three months from the date of acquisition.

### (c) Equipment -

Equipment is stated at cost and amortized at 20% per annum on a declining balance. One-half of the above rate is applied in the year of acquisition.

### (d) Mineral properties and deferred exploration costs -

Interest in mineral exploration properties are recorded at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

The cost of mineral properties includes the cash consideration and the negotiated value of shares issued on the acquisition of properties. Properties acquired under option agreements, whereby option payments are made at the discretion of the company, are recorded in the financial statements at the time payments are made. Certain option payments that management have determined are likely to be made, have been accrued in the financial statements. The proceeds from options granted on properties are credited to the cost of the related property.

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### **2. continued**

#### (d) Mineral properties and deferred exploration costs -

Once the feasibility of a project has been established, deferred exploration expenses and other costs are segregated as deferred development expenditures. These costs are amortized over the estimated useful life of the related mineral property as commercial production commences. If the net carrying amount of the deferred development expenditures are not recoverable, these costs are written down to net recoverable amount of the deferred development expenditures.

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties in which it has an interest, there is no guarantee that title to any of its mineral properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

The amounts shown for mineral properties and deferred exploration costs represents cost to date, and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of future reserves.

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

#### (e) Stock-based compensation -

The Company uses the accounting standard for stock-based compensation which requires the use of the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

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Notes to the Unaudited, Consolidated Financial Statements  
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## 2. Continued

### (f) Asset Retirement Obligation

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred, when a reasonable estimate of the fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations for the years presented.

### (g) Income taxes -

Income taxes are accounted for using the liability method under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. In assessing future tax assets, the Company considers whether it is more likely than not some portion or all of the future income tax asset will be realized and whether a valuation allowance is required.

### (h) Foreign currency translation -

The functional currency of the company is Canadian dollars. A portion of the Company's transactions are denominated in United States dollars and Brazilian Reals. The Company's foreign subsidiaries are integrated operations and financial statements stated in foreign currencies are translated using the temporal method. Monetary assets and liabilities denominated in United States dollars or Brazilian Reals are translated to Canadian dollars at the rate in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenue and expenses are translated at average rates prevailing in effect during the period. The resulting gain or loss is included in the statement of operations.

### (i) Financial instruments -

The Company's financial instruments include cash and cash equivalents, accounts receivable and other assets, accounts payable and accrued liabilities and mining obligations. The fair value of these financial instruments approximates carrying value.

### (j) Basic and diluted loss per share -

The Company uses the treasury stock method to determine the dilutive effect of the share purchase warrants and the stock options. Per share amounts have been computed based on the weighted average number of common shares outstanding for the period presented. Diluted loss per share is calculated by adjusting outstanding shares to take into account the dilutive effect of stock options and share purchase warrants.

### (k) Risks -

The exploration and development of mineral deposits involves significant financial risks. The success of the Company will be impacted by a number of factors including financing, currency, exploration and extraction risks, political uncertainty, regulatory issues and environmental and other regulations. The Company's mining obligations are denominated in US Dollars.

## BRAZMIN CORP.

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(l) Share issue costs -

Share issue costs are charged directly to deficit.

(m) Revenue recognition -

Revenue comprises interest income and is recognized when earned.

### 3. Amalgamation

Effective April 5, 2005, RHI amalgamated with VRC to form BrazMin ("the Company"). As consideration, BrazMin issued 901,858 common shares (note 7) on the basis of 1 BrazMin share for every 51 VRC shares. VRC had no assets at the date of amalgamation, and accordingly, no value has been attached to the shares issued to the VRC shareholders.

### 4. Equipment

	Sept. 30, 2006 (unaudited)	December 31, 2005 (audited)
Cost	\$95,232	\$45,481
Accumulated Depreciation	8,725	4,225
Net Book Value	<u>\$86,507</u>	<u>\$41,256</u>

### 5. Mineral properties and deferred expenditures

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. The mineral properties and deferred exploration expenditures are comprised as follows:

<u>Name of Project</u>		December 31, 2005 (audited)	Additions	Sept. 30, 2006 (unaudited)
<b>BRM</b>				
São Jorge	100%	\$ 2,937,929	\$ 2,252,699	\$ 5,190,628
Agua Branca	100%	58,141	172,148	230,289
<b>BRAZ LTDA</b>				
Tartarugalzinho	100%	469,309	42,829	512,138
Campo Grande	100%	337,950	-	337,950
Serrita and Serrita Norte	65%	333,536	11,012	344,548
Other	100%	50,915	73,498	124,413
<b>EIMB</b>				
Tocantinzinho	100%	523,723	137,746	661,469
		<u>\$ 4,711,503</u>	<u>\$ 2,689,932</u>	<u>\$ 7,401,435</u>

Included in the Sao Jorge amount above, is an accrued amount of \$167,130 (see Note 6).

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### **5. continued**

#### **(a) São Jorge project -**

On July 16, 2004 the Company entered into an agreement with Centaurus whereby BRM acquired a 100% interest in São Jorge exploration license and mineral rights located in Pará State, Brazil, within the Tapajós Gold District, from Centaurus Brazil. The license has an initial term of three years from the date of publication of the license on March 2, 2003. An application for the extension of the license for a second term of three years was submitted to the DNPM in December 2005.

On April 22, 2005 the Company entered into an agreement with Jaguar Resources B Ltda whereby BrazMin acquired a 100% interest in 3 adjacent claims in the São Jorge area. On May 13, 2005 an agreement was made with Tapajós Mineração and a Mr. Pacheco whereby BrazMin acquired a 100% interest in certain adjacent claims within the São Jorge area. One of the vendors of the latter claims is entitled to receive a bonus at the time the project reaches development stage. The bonus amount corresponds to 1% of the proven minable reserves as demonstrated by a feasibility study relating to the São Jorge area. This study should be prepared in accordance with internationally accepted practices and be compliant with NI 43-101. This 1% bonus is purchasable by the Company on or before September 30, 2006 for an amount of US \$2,500,000. BrazMin has elected not to exercise the purchase of this bonus. In addition, one of the newly acquired properties has a residual royalty amounting to 2% of gross proceeds from any mining operation, 1.5% of which is purchaseable at any time for US \$1,500,000. The total area constituting São Jorge including all the above is 57,420 hectares.

#### **(b) Agua Branca Project -**

On July 16, 2004 the Company acquired through BRM, a 100% interest in the underlying mineral rights of Agua Branca 13,100 hectare property, located in Pará State, Brazil within the Tapajós Gold Camp, from an independent vendor & Centaurus Brazil (see note 6). An application to transfer these rights from the vendor to BRM, and to convert them into exploration licenses, has been submitted to the DNPM. BrazMin has received notification from the DNPM that the conversion process has been completed, and the transfer of the licences into the name of BRM was published in the official Government Gazette. The purchase price includes US\$5,000 upon registration of the project; US\$20,000 within 6 months of the initial payment; US\$40,000 within 18 months of the initial payment; US\$80,000 within 30 months of the initial payment; and US\$150,000 within 42 months of the initial payment. Additionally, the vendor is entitled to a net smelter royalty ("NSR") of 2%, which the Company has the right to buy out for US\$2,000,000.

#### **(c) Tartarugalzinho ("Little Turtle") Project -**

During 2005 the Company acquired a 100% interest in the 9,602 Ha Tartarugalzinho property, located along the paved highway north from Macapá, capital of Amapá State, Brazil. Annual payments amounting to US\$100,000 will be made until the commencement of mine production. The property is subject to a 1.2% NSR royalty, with a buyout option in BrazMin's favour of US\$1 million. In the 1980's, a major mining Company did extensive work in the area, including some 88 diamond drill holes. During 2005, BrazMin performed surface work on the property and completed a 1,504m diamond drilling program consisting of 13 holes. The cost of the drilling program and related expenses to date, amounted to \$512,138. Gold assay results from all the holes have been received and published. The generally confirm the results obtained during the 1980's by a previous operator. During the nine month period under review, BrazMin made the first annual payment to the vendor amounting to \$100,000, with total other expenses for the nine month period amounting to \$42,829. The Company is attempting to farm-out Tartarugalzinho to a third party.

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Notes to the Unaudited, Consolidated Financial Statements  
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## 5. Continued

### (d) Campo Grande Project -

The Campo Grande project is located in the Iron Quadrangle gold camp, approximately 100 km west of Belo Horizonte, the capital of Minas Gerais State, Brazil. This project consists of three exploration areas covering 2,611 hectares, of which the Company owns two claims (1,850 hectares) with respect of the three areas and has an option to acquire with respect to the third area. No option payments are payable by the Company with respect to the third claim which is subject to a 1.5% NSR on reaching commercial production. The Company has the right to buy out the NSR for US\$750,000.

### (e) Serrita Projects -

The Serrita and Serrita Norte Project are two adjoining parcels located in Pernambuco State, Brazil (together the "Serrita Project"). The eleven Serrita Project exploration licenses cover 19,363 hectares. BRAZ LTDA currently owns a 65% interest in the Serrita Project exploration licenses. The Company has decided to farm-out this project as it does not constitute a core asset. On February 8, 2006, the Company entered into an option agreement with Troy Resources of Australia ("Troy"). Troy has the right to up to a 75% interest in the Serrita project by spending US\$700,000 over 4 years and making certain cash payments to the Company and its partners. Should Troy earn its 75% interest, BrazMin may retain a 16.25% interest or elect to convert to a NSR royalty.

### (f) Tocantinzinho Project -

The Tocantinzinho project, located in Pará state, Brazil consists of a number of permit applications totalling approximately 13,900 hectares. Applications have been submitted to the DNPM to transfer the rights and convert them to exploration permits in EIMB's name. The property is subject to a 0.5% NSR to the vendor, a director of the Company. A single option payment of US\$8,000 (US\$3,000 of which has been made) is payable by EIMB to a related party with respect to this project. The balance on the option is due upon confirmation of the applications by the Brazilian Department of Mineral Production (DNPM).

On September 13, 2006, BrazMin announced that an agreement had been reached whereby Brazauro Resources Corporation ("Brazauro") would acquire all of BrazMin's interests in the Tocantinzinho gold project area ("Toc") in exchange for 13,150,000 treasury shares of Brazauro. Toc is located in the Tapajos Gold District of Brazil, approximately 90 kilometres northwest of the Company's Sao Jorge project.

The acquisition is subject to confirmation from the Departamento Nacional de Producao Mineral ("DNPM") in Brazil, regulatory approval and certain other conditions. The agreement will result in BrazMin owning approximately 19.9% of the issued shares of Brazauro. BrazMin does not currently own beneficially, directly or indirectly, any shares of Brazauro. For a limited period of time Brazauro will have the right to direct the voting of the shares to be issued to BrazMin except in certain conditions. The acquisition would be accomplished by the purchase of a wholly owned subsidiary of BrazMin which indirectly holds BrazMin's Toc interests.

The agreement would consolidate BrazMin's mineral interests with Brazauro's and extend the mineral land holdings of Brazauro in the area.

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## 6. Mining obligations

The mining obligations bear no interest and are the costs of acquisition from Centaurus Brazil, Tapajós Mineração and Jaguar Resources for the transfer of the mineral rights for the São Jorge Project (see note 5). Future obligations are \$167,130 payable during the year ending December 31, 2006. (\$291,505 at December 31, 2005)

## 7. Share capital and warrants

The Company has an unlimited number of authorized voting common shares.

	Number of shares	Number of warrants	Amount
Issue of shares for cash -incorp.	2,000,000	-	\$200
Issue of shares for São Jorge	500,000	-	75,000
Issue of shares for BRAZMIN	5,500,000	-	825,000
Issue of shares for cash	2,720,000	-	1,360,000
Issue of shares for Tocantinzinho	1,000,000	-	500,000
Balance, December 31, 2004	11,720,000	-	2,760,200
Issue of shares- amalgamation	901,858	-	-
Issue of shares and warrants	5,600,000	2,800,000	7,000,000
Warrants issued to broker	-	588,000	136,286
Warrants exercised	2,625	(2,625)	3,281
Issue of shares and warrants	2,592,591	1,296,296	3,500,000
Balance, December 31, 2005	20,817,074	4,681,671	13,399,767
Issue of shares and warrants	5,000,000	2,500,000	10,000,000
Warrants expired	-	(2,148,227)	(494,092)
Warrants issued to broker	-	300,000	167,542
Warrants exercised	1,237,148	(1,237,148)	1,641,816
Balance, September 30, 2006	27,054,222	4,096,296	\$ 24,715,033

The fully diluted share capital of the Company is 33,403,018 common shares.

This is made up of the shares and warrants as above as well as the options mentioned below.

### Stock Options

During the second quarter of fiscal 2006, the Company issued a total of 437,500 stock options to its director's, officers, employees and consultants. The options expire on May 31, 2011 and are exercisable at any time, except for 50,000 options which vest over a period of 18 months. The exercise price is \$2 per share. All these options are outstanding as at September 30, 2006.

### Estimated fair value of stock options

The Company determined the fair value of the 437,500 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Weighted average fair value (\$/option)	\$0.77
Risk-free interest rate	3.50%
Volatility	37%
Dividends	0%

Based on the 395,833 options which have vested, \$304,160 is included in the Consolidated Statement of Operations and Deficit and Contributed Surplus on the Consolidated Balance Sheet. A further \$32,083 will be included in the Consolidated statement of Operations and Deficit and Contributed Surplus in respect of the other 41,667 options over their 18 month vesting period.

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During the previous year, the Company issued a total of 1,815,000 stock options to its directors, officers and employees. The options expire on April 18, 2010 and are exercisable at any time. The exercise price is \$1.25 per share. All the stock options are still outstanding as at September 30, 2006.

### Estimated fair value of stock options

The Company determined the fair value of the 1,815,000 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Weighted average fair value (\$/option)	\$0.51
Risk-free interest rate	3.59%
Volatility	41%
Dividends	0%

As all of these options have vested, \$931,827 is included in the Consolidated Statement of Operations and Deficit and Contributed Surplus on the Consolidated Balance Sheet.

### Warrants

During the previous year, the Company issued 2,800,000 warrants as part of a private placement. These warrants entitled the holder to purchase one half-share per warrant at an exercise price of \$1.35 and the unexercised balance of these warrants expired on September 3, 2006. An amount of \$498,467 has been taken to Contributed Surplus in respect of these unexercised warrants. During the previous year, the Company also issued a total of 588,000 warrants to the broker/agents who arranged the acquisition and the private placement of April 5, 2005. The warrants entitled the holder to purchase one common share per warrant at the exercise price of \$1.35, the unexercised balance of these warrants expired on September 3, 2006. An amount of \$69,472 has been taken to Contributed Surplus in respect of these unexercised warrants. The value of both sets of unexercised warrants referred to above, was calculated at \$0.23 per option using a Black-scholes calculation. The assumptions used for this was a volatility of 41%, dividends of 0%, a risk-free interest rate of 3.1% and an expected life of 1.5 years.

The Company also issued a total of 1,296,296 warrants as part of the private placement on December 15, 2005. The warrants entitle the holder to purchase one half share per warrant at an exercise price of \$1.70, and expire on December 15, 2006.

On Feb 10, 2006, the Company issued 5,000,000 units at \$2 per unit by way of private placement. Each unit consists of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$2.75 until Feb 10, 2008. Warrants were also issued to the private placement brokers at a rate of 6% of the total number of units issued. These warrants are exercisable within 12 months at a price of \$2.13, or an amount agreed by the Exchange. Should the Company's shares close above \$3.50 per Share for ten (10) consecutive trading days, the Company shall have the right to require the holder to exercise the Compensation Warrants within thirty (30) days after the Company providing notice to the holder after which time all unexercised Compensation Warrants will expire.

### Estimated fair value of warrants

The Company determined the value of \$167,542 for the Feb 10, 2006 warrants issued to the brokers using the Black-Scholes option pricing model under the following assumptions:

Weighted average fair value (\$/option)	\$0.56
Risk-free interest rate	3.10%
Expected life	1
Volatility	66%
Dividends	0%

The fair value of the warrants is included in share issue costs on the Consolidated Statement of Operations and Deficit and Share Capital on the Consolidated Balance Sheet.

### Contributed surplus

The contributed surplus is comprised of the stock based compensation owing to the vesting of the stock options issued to directors, officers, consultants and employees of the Company.



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Notes to the Unaudited, Consolidated Financial Statements  
For the three and nine months ended September 30, 2006 and 2005

8. Loss per share	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2006	2005	2006	2005
The following table sets forth the computing of basic and diluted loss per share:				
Numerator for basic and diluted loss per share available to common shareholders	\$ (214,142)	\$ (453,034)	\$ (1,182,705)	\$ (2,206,926)
Denominator for basic and diluted loss per share - weighted average number of common shares outstanding	27,054,222	18,221,858	25,730,204	15,974,892
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.14)

### 9. Income taxes

The Company is subject to tax in various jurisdictions including The British Virgin Islands and Brazil. The Company and its subsidiary have a future tax asset in respect of operating losses approximating \$3,000,708 which are available to shelter future taxable income in those jurisdictions.

The Company has taken a full valuation allowance against the future tax asset, and accordingly, no future income tax asset has been recognized in these financial statements.

The difference between the expected tax recovery at statutory rates and the actual tax recovery of nil, is due to the tax effect of losses not booked.

### 10. Related party transactions and balances

On August 1, 2004, the Company entered into an administrative service agreement (the "Agreement") with Tau Capital Corp. ("Tau"). The controlling shareholder of Tau is a 6% shareholder of the Company. The Agreement has an initial term of three years, terminating on July 31, 2007, subject to further renewal by the parties to the agreement. The terms of the Agreement require the Company to pay Tau a monthly service fee of \$22,500. For the three month period ended September 30, 2006 fees paid to Tau for these services were \$67,500 (2005: \$67,500). For the nine month period ended September 30, 2006 fees paid to Tau was \$202,500 (2005: \$195,000).

Consulting fees paid to officers of the Company for the three month period were \$63,898 (2005: \$25,949). For the nine month period ended September 30, 2006 these fees were \$197,024 (2005: \$166,960).

Accounts receivable and other assets include \$22,500 paid to Tau for management fees for October 2006 (December 31, 2005: \$22,500).

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 11. Geographic information

Revenue of the Company is attributable to the British Virgin Islands. All of the Company's equipment and mining properties are located in Brazil.