BRAZILIAN METALS GROUP LIMITED

ACN 107 118 673

Consolidated Interim Financial Report
For the Half Year Ended
31 December 2011

CONTENTS

CORPORATE DIRECTORY

DIRECTORS	Peter O'Connor (Chairman) Bruce McCracken (Chief Executive Officer) Malcolm Castle (Executive Technical Director) Anthony Trevisan (Non-Executive Director) Robert Pett (Non-Executive Director)
COMPANY SECRETARY	Fleur Hudson
REGISTERED AND PRINCIPAL OFFICE	Level 14, 191 St George's Tce Perth, WA 6000 Telephone: +61 8 9424 9390 Facsimile: +61 8 9321 5932 Website: www.bmgl.com.au Email: info@bmgl.com.au
AUDITORS	BDO Audit (WA) Pty Ltd 38 Station Street SUBIACO WA 6008 Telephone: +61 8 6382 4600 Facsimile: +61 8 6382 4601
SHARE REGISTRY	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross 6153 Western Australia Telephone: +61 8 9315 2333 Fax: +61 8 93152233
HOME EXCHANGE	Australian Securities Exchange Ltd Exchange Plaza 1 the Esplanade, Perth WA 6000 **ASX Code: BMG; BMGO**
SOLICITOR	Squire Sanders (AU) Level 49, Central Park 152-158 St Georges Terrace Perth WA 6000
BANKER	St. George Bank Limited Level 2, Westralia Plaza 167 St Georges Terrace Perth WA 6000

DIRECTORS REPORT

The Directors present their report together with the consolidated financial report of Brazilian Metals Group Limited (Company), being the Company and its subsidiaries (Consolidated Entity), for the half year ended 31 December 2011 and the auditor's review report thereon.

DIRECTORS

The names and details of the Directors in office during the half year and until the date of this report are set out below.

- Peter O'Connor (Chairman)
- Bruce McCracken (Chief Executive Officer)
- Malcolm Castle (Executive Technical Director)
- Anthony Trevisan (Non-Executive Director)
- Robert Pett (Non-Executive Director)

Directors have been in office for the entire period unless otherwise stated.

OPERATIONS REPORT

During the half year the Company continued to progress towards its goal of developing a large scale iron ore export mining operation at its two core projects - the Rio Pardo and Gema Verde projects - in northern Minas Gerais State, in Brazil.

The highlight of the half year was a maiden 458.5Mt Mineral Resource at the Gema Verde project. At the Rio Pardo (Josilene-Scorpion prospect) infill drilling was ongoing and is anticipated to deliver a maiden Resource estimate during 2012. Pre-feasibility work at both projects is now underway and the Company expects to complete the pre-feasibility study on both projects in 2012.

Consistent with our strategy, we are continuing to evaluate new opportunities in the region to complement our existing large scale projects. We are particularly focused on securing a smaller scale, high grade opportunity close to existing infrastructure which can generate near term cash-flow, and are currently reviewing some promising opportunities in the 'iron quadrilateral' region around Belo Horizonte.

MAIDEN 458.5Mt MINERAL RESOURCE AT GEMA VERDE PROJECT

During the half year, the Company announced a maiden Mineral Resource estimate in accordance with the JORC code for its Gema Verde Iron Ore Project in northern Minas Gerais, Brazil. The Resource statement was;

458.5Mt @ average grade of 18.0% Iron (Fe) with 50% in the measured category and 36% in the Indicated category, at a 14% Fe cut-off.

The Mineral Resource estimated includes:

- 230.0Mt @ 19.0% Fe in the Measured Category;
- 166.5Mt @ 16.7% Fe in the Indicated Category; and
- 62.0Mt @ 17.5% Fe in the Inferred Category.

The Resource was based on 41 diamond drill holes for 6,828 metres and 22 reverse circulation drill holes for 2,487 metres. Metallurgical test work is underway on the diamond core. The Company expects that the Gema Verde project will have a low strip ratio as the mineralisation outcrops at surface and has a gentle dip to the east.

Gema Verde Resource Estimate

The Gema Verde Resource has been classified as a Measured, Indicated and Inferred Mineral Resources in accordance with the JORC code based on the assessment of the input data, geological interpretation and grade estimate quality.

A total Mineral Resource of 782Mt at 15.54% Fe with no grade cut-off applied, has been estimated for the enriched mineralised horizons of the Gema Verde deposit. The estimate of resource is quoted below at a cut-off grade of 14% Fe.

Brazilian Metals Group Ltd
Gema Verde Deposit
Mineral Resource Table
Grade Tonnage – Total Mineralised Zones – 14% Cutoff Applied

Resource	Tonnes (Mt)	Fe%	SiO_2%	Al_2O_3%	P%	LOI%
Measured	230.0	18.97	63.46	4.01	0.140	1.99
Indicated	166.5	16.73	65.39	4.83	0.160	2.10
Measured + Indicated	396.5	18.03	64.27	4.35	0.148	2.04
Inferred	62.0	17.52	63.24	4.79	0.180	2.09
Total	**458.5**	**17.96**	**64.13**	**4.41**	**0.153**	**2.04**

The information in this report that relates to Exploration Results, Mineral Resource or Ore Reserves is based on information compiled by Phillip Fox, who is a Member of the Australian Institute of Geoscientists. Phillip Fox is a full time employee of Brazilian Metals Group Ltd.

Phillip Fox has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity in which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australia Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Phillip Fox consents to the inclusion in the statement of the Mineral Resource in the form context in which it appears.

Exploration Results and Mineral Resources

The information in this report that relates to Exploration Results and Exploration Targets is based on information compiled by Malcolm Castle, who is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM"). Mr Castle is the principal consultant geologist with Agricola Mining Consultants Pty Ltd and is the Executive Technical Director of Brazilian Metals Group Limited. He has sufficient experience relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Castle consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Exploration Targets

The exploration targets at Josilene-Scorpion are estimated from geological information including drill holes, outcrops and geological information and are shown as a range. The potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

Gema Verde Project Characteristics

Several large iron deposits in the northern Minas Gerais province are currently being studied at definitive feasibility level. Iron ore deposits in south east Brazil are substantially different from equivalent deposits in Australia or West Africa. Generally operating costs in Brazil are lower than before beneficiated ore deposits in Australia, and the barriers to reaching production are significantly lower than in west or central Africa due to the better infrastructure in Brazil.

Low operating costs are possible because of the favourable metallurgical characteristics of the mineralisation allowing beneficiation to pellet feed grades - as has been demonstrated by Honbridge at its Block 8 deposit (which is contiguous with the Gema Verde deposit). Strip ratios at Honbridge's Block 8 deposit range from 0.2:1 to 0.6:1 with an outcropping ore-body with a gentle dip. The Gema Verde deposit is the southern extension of Block 8 with similar characteristics.

EXPLORATION PROGRESS

Rio Pardo Project

In addition to the new Resource estimate at Gema Verde, the Company continued its exploration programs at the Josilene-Scorpion prospect, at its Rio Pardo project.

The Exploration Target at the Josilene-Scorpion prospect is 2-3Bt @ 16.2%-18.5% Fe. This is based on surface mapping and drilling over a 13km strike length, plus 28 RC holes to date. The potential quantity and grade is conceptual in nature. There has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

Metallurgical test work is ongoing at the Josilene-Scorpion prospect and further infill drilling is planned in 2012 prior to the anticipated confirmation of a JORC Resource at the project later in the year.

PROJECT ASSESSMENT AND OPTIMISATION

Consistent with BMG's strategy to develop a substantial iron ore mining operation in northern Minas Gerais, in Brazil, the Company has continued to assess potential new project opportunities in the region and to actively manage its tenement holdings.

In September 2011, the Company announced it had entered into an option agreement to acquire the Catuti block of tenements in the region, subject to assessment during an evaluation period. BMG has now completed its evaluation process over the block, which included a technical assessment of the tenements, and has elected not to proceed with the acquisition.

During the period the Company also elected to relinquish tenements associated with the Dacal 1 and Vargem Grande packages to bring its core focus in the region around the Rio Pardo (Josilene – Scorpion) and Gema Verde projects.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the half year comprised of Iron Ore exploration and development in Northern Minas Gerais, Brazil.

There is no other significant change in the nature of the Consolidated Entity's activities during the half year.

OPERATING RESULTS

The Consolidated Entity's loss after providing for income tax for the half year ended 31 December 2011 amounted to $3,373,501 (2010: $1,410,741). The significant loss was attributable to the written off exploration expenditure of $2,060,310 for the project in Dacal1, Catuti and Vargam Grande and the employee option expenses of $194,571 at the end of the half year ended 31 December 2011.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

All significant changes in the state of affairs of the Company during the half year are discussed in detail in the Operations Report.

EVENTS SUBSEQUENT TO REPORTING DATE

There are no post balance date events at the reporting date.

AUDITORS INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9 for the half year ended 31 December 2011.

Signed in accordance with a resolution of the Board of Directors

B. A. McC

Bruce McCracken
Chief Executive Officer
Dated at Perth, Western Australia, this 6th March 2012

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

6 March 2012

Brazilian Metals Group Limited
The Board of Directors
Level 14, 191 St Georges Terrace
PERTH WA 6000

Dear Sirs,

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF BRAZILIAN METALS GROUP LIMITED

As lead auditor for the review of Brazilian Metals Group Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Brazilian Metals Group Limited and the entities it controlled during the period.

C Burton

Chris Burton
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Notes	HALF YEAR 31 December 2011 $	31 December 2010 $
Revenue		81,558	88,738
Employee benefits expense		(402,840)	(76,685)
Employee option expenses		(194,571)	-
Loss on Sale of Investments		-	(661,567)
Depreciation and amortisation expense		(18,622)	(5,413)
Accounting & audit fee		(60,046)	(35,432)
Corporate and administration expenses		(361,012)	(367,437)
Exploration expenditure write off	3	(2,060,310)	-
Financial asset impairment		-	(153,599)
Other expenses from ordinary activities		(357,658)	(199,346)
Loss before income tax		**(3,373,501)**	**(1,410,741)**
Income tax expense		-	-
NET LOSS FOR THE PERIOD		**(3,373,501)**	**(1,410,741)**
Other Comprehensive Loss			
Changes in fair value of available for sale assets		-	(198,999)
Exchange differences on translation of foreign operations		786,012	(967,515)
		786,012	**(1,166,514)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(2,587,489)**	**(2,577,255)**
Basic loss per share (cents per share)	8	2.31	2.28

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Notes	31 December 2011 $	30 June 2011 $
CURRENT ASSETS			
Cash and cash equivalents		1,494,399	4,466,452
Prepayments		110,483	229,465
Trade and other receivables		155,729	114,728
TOTAL CURRENT ASSETS		1,760,611	4,810,645
NON-CURRENT ASSETS			
Trade and other receivables		63,347	60,990
Property, plant and equipment		137,389	118,121
Exploration and evaluation expenditure	3	18,597,793	17,929,610
TOTAL NON-CURRENT ASSETS		18,798,529	18,108,721
TOTAL ASSETS		20,559,140	22,919,366
CURRENT LIABILITIES			
Trade and other payables		213,792	181,100
TOTAL CURRENT LIABILITIES		213,792	181,100
TOTAL LIABILITIES		213,792	181,100
NET ASSETS		**20,345,348**	**22,738,266**
EQUITY			
Contributed equity	7	35,406,374	35,406,374
Reserves	11	(1,076,543)	(2,057,125)
Retained earnings		(13,984,484)	(10,610,983)
TOTAL EQUITY		**20,345,348**	**22,738,266**

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Issued Capital Ordinary $	Accumulated Losses $	Option Reserve $	Financial Assets Reserve $	Foreign Currency Reserve $	Total $
BALANCE AT 1 JULY 2011	35,406,374	(10,610,983)	100,782	-	(2,157,907)	22,738,266
Total comprehensive income for the half year	-	(3,373,501)	-	-	-	(3,373,501)
Foreign exchange movement	-	-	-	-	786,012	786,012
Transactions with owners in their capacity as owners:						
Share issued to raise capital	-	-	-	-	-	-
Share issued Cost	-	-	-	-	-	-
Employee share options	-	-	194,571	-	-	194,571
BALANCE AT 31 DECEMBER 2011	**35,406,374**	**(13,984,484)**	**295,353**	**-**	**(1,371,895)**	**20,345,348**
BALANCE AT 1 JULY 2010	13,686,885	(6,331,497)	100,782	198,999	(22,300)	7,632,869
Total comprehensive income for the half year	-	(1, 410,741)	-	-	-	(1,410,741)
Changes in fair value of available for sale financial assets	-	-	-	(198,999)	-	(198,999)
Foreign exchange movement	-	-	-	-	(967,515)	(967,515)
Transactions with owners in their capacity as owners:						
Share issued to raise capital	7,000,000	-	-	-	-	7,000,000
Share issued on acquisition	14,439,700					14,439,700
Share issued Cost	(358,806)	-	-	-	-	(358,806)
BALANCE AT 31 DECEMBER 2010	**34,767,779**	**(7,742,238)**	**100,782**	**-**	**(989,815)**	**26,136,508**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

		HALF YEAR	
		31 December 2011	31 December 2010
	Notes	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(970,213)	(464,007)
Interest received		81,558	41,527
NET CASH USED IN OPERATING ACTIVITIES		**(888,655)**	**(422,480)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments		-	633,029
Purchase of property, plant and equipment		(37,890)	(47,836)
Payments for exploration and evaluation		(2,043,103)	(2,286,403)
NET CASH USED IN INVESTING ACTIVITIES		**(2,080,993)**	**(1,701,210)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of equity (net of costs)		-	6,641,194
NET CASH USED IN FINANCING ACTIVITIES		**-**	**6,641,194**
NET DECREASE IN CASH HELD		**(2,969,648)**	**4,517,504**
Cash and cash equivalents at beginning of period		**4,466,452**	**3,101,941**
Effect of exchange rates on cash holdings in foreign currencies		**(2,405)**	**3,333**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**1,494,399**	**7,622,778**

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretation and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Company and its subsidiaries (Consolidated Entity). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the consolidated entity. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the consolidated entity for the year ended 30 June 2011, together with any public announcements made during the half year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the June 2011 financial statements and corresponding interim reporting period. All amounts are presented in Australia dollars, unless otherwise noted.

This half-year financial report was approved by the Board of Directors on 05 March 2012.

For the purpose of preparing the interim financial report, the half-year has been treated as a discrete reporting period.

(b) Significant accounting judgements and key estimates

The preparation of the half-year financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this half-year financial report, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended 30 June 2011.

(c) Adoption of new and revised accounting standards

In the half-year ended 31 December 2011, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

Going Concern

The financial report has been prepared on the going concern basis. For the half year ended 31 December 2011, the Group recorded a net loss of $3,373,501 (2010: $1,410,741) and incurred cash outflows from operating activities for the half year ended 31 December 2011 of $888,655. The Group had net assets of $20,345,348 and continues to incur expenditure on its exploration tenements drawing on its cash balances. At 31 December 2011, the Group has $1,494,390 (2010: $7,622,778) in cash and cash equivalents.

The accounts have been prepared on a going concern basis. The Directors have determined that future capital raisings will be required in order to continue the Group's exploration and development of its mining tenements.

The Directors have prepared a cash flow forecast for the next 12 month period reflecting the above mentioned expectations and their effect upon Brazilian Metals Group Limited. The success and timing of any future capital raising is currently uncertain.

In the unlikely event that sufficient capital raising at an amount and timing necessary to meet the future budget operational and investing activities of the Group is unfavourable the Directors believe that they will be able to contain the operating and investment activities sufficiently to ensure that Brazilian Metals Group Limited can meet their debts as and when they become due and payable.

In the event that the events referred to above results in a negative outcome, then the going concern basis of accounting may not be appropriate with the result that the Group may have to realise its assets and extinguish its liabilities other than in the normal course of business and in amount different from that stated in the financial report.

The financial report does not include any adjustment relating to the recoverability or classification of the recorded amounts or classification of liabilities that might be necessary should Brazilian Metals Group Limited not be able to continue as a going concern.

2. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of components of the consolidated entity that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and to assess its performance. The consolidated entity has identified the following segments:

Exploration (Chile and Brazil) – consists of the exploration expenditure involved in the search and discovery of minerals.

Investment (Australia) – consists of financial investments made in Australia

Corporate (Australia) – includes corporate and other costs incurred by the parent entity

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

The consolidated entity's principal activities continue to be in mineral exploration and projects are managed on a project-by-project basis.

(i) Segment Performance

Six months ended 31 December 2011

	Exploration (Chile)	Exploration (Brazil)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
External revenues	-	-	81,558	-	81,558
Inter-segment revenue	-	-	-	-	-
Corporate and administration	-	(19,574)	-	(341,438)	(361,012)
Depreciation and amortisation expense	(98)	(4,264)	-	(14,260)	(18,622)
Exploration expenditure write off	-	(2,060,310)	-	-	(2,060,310)
Employee option expenses	-	-	-	(194,571)	(194,571)
Other expenses	(29,340)	(282,426)	-	(508,778)	(820,544)
Reportable segment profit before income tax	**(29,438)**	**(2,366,574)**	**81,558**	**(1,059,047)**	**(3,373,501)**

Six months ended 31 December 2010

	Exploration (Chile)	Exploration (Brazil)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
External revenues	-	-	88,738	-	88,738
Inter-segment revenue	-	-	-	-	-
Corporate and administration	(9,300)	-	-	(358,137)	(367,437)
Depreciation and amortisation expense	(5,123)	-	-	(290)	(5,413)
Exploration expenditure write off	-	-	-	-	-
Other expenses	19,702	-	-	(1,146,331)	(1,126,629)
Reportable segment profit before income tax	**5,279**	**-**	**88,738**	**(1,504,758)**	**(1,410,741)**

(ii) Segment Assets and Liabilities

Six months ended 31 December 2011

	Exploration (Chile)	Exploration (Brazil)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
Assets					
Current assets	232,743	104,416	1,339,072	84,380	1,760,611
Property, plant and equipment	11,363	36,332	-	89,694	137,389
Exploration and evaluation expenditure	-	18,597,793	-	-	18,597,793
Other non-current assets	1,532	61,815	-	-	63,347
Total Segment Assets	**245,638**	**18,800,356**	**1,339,072**	**174,074**	**20,559,140**
Total Segment Liabilities	**(2,103)**	**-**	**-**	**(211,689)**	**(213,792)**
Net Assets Employed	**243,535**	**18,800,356**	**1,339,072**	**(37,615)**	**20,345,348**

Six months ended 31 December 2010

	Exploration (Chile)	Exploration (Brazil)	Investment (Australia)	Corporate (Australia)	Total Consolidated Entity
Assets					
Current assets	13,836	-	7,570,304	403,755	7,987,895
Property, plant and equipment	87,951	-	-	1,986	89,937
Investment and financial assets	-	-	34,000	-	34,000
Exploration and evaluation expenditure	2,351,436	15,861,647	-	-	18,213,083
Other non-current assets	1,757	-	-	-	1,757
Total Segment Assets	**2,454,980**	**15,861,647**	**7,604,304**	**405,741**	**26,326,672**
Total Segment Liabilities	**(568)**	**-**	**-**	**(190,732)**	**(190,164)**
Net Assets Employed	**2,454,412**	**15,861,647**	**7,604,304**	**215,009**	**26,136,508**

(iii) Major Customers

The consolidated entity continues to carry out exploration activities in Northern Minas Gerais, Brazil and at this time does not provide product or services.

3. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2011	30 June 2011
	$	$
Opening balance	17,929,610	2,631,263
Exchange movement	516,453	(1,312,908)
Exploration expenditure capitalised	1,611,349	4,729,312
Exploration capitalised on acquisition	600,691	14,284,444
Exploration expenditure written off (Brazil)	(2,060,310)	-
Exploration expenditure write off (Chile)	-	(2,402,501)
Exploration and evaluation expenditure	**18,597,793**	**17,929,610**

4. CONTINGENT LIABILITIES

In April 2011 Brazilian Metals Group Ltd, through its subsidiary, Minas Norte Mineracao Ltda, entered into an arrangement with Mineracao Granduvale Ltda and others for the acquisition of Mineral Rights. The consideration for this acquisition is US$60,000,000 payable in instalments over a 6 year period. US$1,000,000 was paid upon signing, with the instalments for the balance commencing 12 months after the grant of all relevant special licences for the performance of exploration works relating to a number of Mineral Rights. As at the date of this report a number of the special licences are still to be granted, and the initial 12 month period for the first instalment has not yet commenced.

The Company intends to fund payments associated with the acquisition of Mineral Rights predominantly via capital raising in the equity markets, however debt financing may be considered if available on terms favourable to the Company.

In November 2011 Brazilian Metals Group Ltd elected to withdraw from its arrangement with Dacal Minercao Ltda and others, thus removing any contingent liabilities associated with that arrangement.

5. DIVIDENDS

The Company has not paid or provided for dividends during this period.

6. SHARE BASED PAYMENTS

The primary purpose of the Director Options is to provide incentive to the participating directors to drive the Company's assets forward.

All options granted to key management personnel are over ordinary shares in Brazilian Metals Group Limited, which confer a right of one ordinary share for every option held.

<u>Options Granted</u>

During the half year ended 31 December 2011, the Company granted 8,500,000 options issued to the directors on 09 December 2011. The table below are summaries of options granted to the directors:

Name	Expiry Date	Exercise Price	Date Granted	Number of Options
Peter O'Connor	9 December 2015	$0.20	9 December 2011	3,000,000
Bruce McCracken	1 July 2016	$0.20	9 December 2011	1,400,000
	1 July 2016	$0.22		2,600,000
Malcolm Castle	9 December 2014	$0.22	9 December 2011	1,500,000

<u>Options Expensed</u>

Option expenses related to options issued to Directors in prior periods, with the expenses being recognised over the vesting period.

The fair value of option at grant date is independently determined using a Black Scholes option valuation methodology that takes into account the exercise price.

The following share based payment was made through the issue of equity:

	Number of Options	Value of options issued	Options expensed during the half year **
Issue of Tranche A.1. management options exercisable at $0.20, vesting immediately and expiring four years from issue	3,000,000	120,442	120,442
Issue of Tranche A.2. management options exercisable at $0.20, vesting immediately and expiring four years from issue	1,400,000	56,206	56,206
Issue of Tranche B management options exercisable at $0.22, vesting upon the first anniversary of the commencement 01 July 2011and expiring five years from issue	1,300,000	50,731	5,664
Issue of Tranche C.1. management options exercisable at $0.22, vesting 6 months from issue and expiring five years from issue	1,300,000	50,731	5,692
Issue of Tranche C.2. management options exercisable at $0.22, vesting 6 months from issue and expiring five years from issue	1,500,000	58535	6,567
Total	**8,500,000**	**336,645**	**194,571**

** - Options calculated on a per day ratio

The following inputs were used:

Input	**Tranche A.1.**	**Tranche A.2.**	**Tranche B**	**Tranche C.1.**	**Tranche C.2.**
Underlying share price	$0.20	$0.20	$0.20	$0.20	$0.20
Exercise price	$0.20	$0.20	$0.22	$0.22	$0.22
Expected volatility	100%	100%	100%	100%	100%
Expiry date	9 December 2015	1 July 2016	1 July 2016	9 December 2014	1 July 2016
Expected dividends	-	-	-	-	-
Risk free interest rate	3.29%	3.29%	3.29%	3.29%	3.29%

The options will be expensed over their vesting period in accordance with AASB 2. In the Statement of financial position all of the Tranche A.1 and A.2 and proportional amounts from Tranche B and Tranche C.1 and C.2 have been expensed.

7. ISSUED CAPITAL

Ordinary Shares

A reconciliation of the movement in capital and reserves for the Company can be found in the Statement of Changes in Equity

	Consolidated
	$
Balance at 1 July 2010 – 72,198,501 fully paid ordinary shares (June 2009: 72,198,501)	13,686,885
35,000,000 ordinary shares issued @ 20 cents per share	7,000,000
Shares issued on exercise of options	551,834
136,759,914 loyalty option issued @ 1 cents per options	136,761
Share Issue Cost	(408,806)
	20,966,674
Issue of 72,198,501 shares at $0.20 each for acquisition of the Holdings Companies	14,439,700
Balance as at 30 June 2011	**35,406,374**
Balance at 1 July 2011	35,406,374
Movement during the half year	-
Balance as at 31 December 2011	**35,406,374**

Options

At the end of the reporting period, the unissued ordinary shares of the Company under option were as follows:

Date of Expiry	Exercise Price	Options issued during period	Number Exercised	Balance
30/11/2012	$0.20	750,000	-	750,000
31/03/2014	$0.20	136,756,414	-	136,756,414
09/12/2014	$0.22	1,500,000	-	1,500,000
09/12/2015	$0.20	3,000,000	-	3,000,000
01/07/2016	$0.20	1,400,000	-	1,400,000
01/07/2016	$0.22	2,600,000	-	2,600,000
		146,006,414	**-**	**146,006,414**

8. LOSS PER SHARE

The following reflects the income and share data used in the calculations of basic loss per share:

	31 December 2011 $	31 December 2010 $
(a) Reconciliation of earnings to profit or loss		
Net loss used in calculating basic loss per share	(3,373,501)	(1,410,741)
(b) Weighted average number of ordinary shares outstanding during the half year		
Weighted average number of ordinary shares used in calculating basic loss per share	146,056,193	61,822,879

Effect of dilutive securities: Share options are not considered dilutive as the conversion of options to ordinary shares will result in a decrease in the net loss per share.

9. RELATED PARTY INFORAMTION

There are no material related party transaction changes since or during the half year except options issued to directors are set out in Note 6.

10. EXPENDITURE COMMITMENTS

Mineral Tenement Lease

Financial commitments for subsequent periods are contingent upon future exploration results and cannot be estimated.

Management Fees Commitment

Brazilian Metals Group Limited has entered into an agreement with Transcontinental Investments, under which the Company agreed to retain Transcontinental Investments to provide corporate administration services to the Company. The agreement states that the Company must pay a monthly fee of $20,000 (plus GST) to Transcontinental Investments plus reimbursement each month for certain costs, expenses and liabilities incurred and/or paid by Transcontinental Investments on behalf of the Company during the month. The initial term of the agreement is two years from the date of Official Quotation and thereafter the agreement continues on the same terms until it is terminated.

	31 December 2011	30 June 2011
	$	$
Not later than one year	240,000	240,000
Later than one year but not Later than five years	240,000	240,000
Later than five years	-	-
TOTAL	480,000	480,000

11. Reserves

Option Reserve

The option reserve is used to record the value of the share based payments provided to employees, consultants and for options issued pursuant to any acquisitions or in exchange for services.

Financial Asset Reserve

The financial assets reserve records the revaluation of available-for-sale financial assets.

Foreign Currency Reserve

The foreign currency reserve records foreign currency differences arising from the translation of financial statements of all foreign controlled subsidiaries.

	31 December 2011	30 June 2011
	$	$
Opening Balance	(2,057,125)	78,482
Movement during the half year		
Share Based Payment	194,571	-
Foreign Currency Translation	786,011	(2,135,607)
	(1,076,543)	**(2,057,125)**

12. EVENTS SUBSEQUENT TO REPORTING DATE

There are no post balance date events at the reporting date.

DIRECTORS DECLARATION

In the opinion of the Directors of Brazilian Metals Group Limited ("the Company"):

1. The financial statements and notes set out on pages 10 to 22, are in accordance with the Corporations Act 2001, including:

   a) giving a true and fair view of the consolidated financial position as at 31 December 2011 and the performance for the half year ended on that date; and

   b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

On behalf of the Board

Bruce McCracken
Chief Executive Officer
Dated at Perth, Western Australia, this 6th March 2012

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF BRAZILIAN METALS GROUP LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Brazilian Metals Group Limited, which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Brazilian Metals Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Brazilian Metals Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Brazilian Metals Group Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1(c) in the half-year financial report which indicates that Brazilian Metals Group Limited incurred a net loss of $3,373,501 during the half-year ended 31 December 2011 and the company will seek additional funding in order to progress its exploration and evaluation activities. These conditions, along with other matters as set forth in Note 1(c), indicate the existence of a material uncertainty which may cast significant doubt about the entity's ability to continue as a going concern and therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business at amounts stated in the half year financial report.

BDO Audit (WA) Pty Ltd

BDO

C Burton

Chris Burton
Director

Perth, Western Australia
Dated this 6th day of March 2012