Financial Statements

Manabi Holding S.A.

December 31, 2011
with Independent Auditor's Report on the Financial Statements

Manabi Holding S.A.

Audited financial statements

December 31, 2011

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A free translation of the financial statements from Portuguese into English

Independent auditor's report on the financial statements

The Shareholders, Board of Directors and Officers
Manabi Holding S.A.
Rio de Janeiro - RJ

We have audited the accompanying individual and consolidated financial statements of Manabi Holding S.A., identified as Parent company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2011, and the related statements of income, of changes in equity and cash flows for the period from March 10, 2011 (date of the Company's incorporation) through December 31, 2011, and a summary of the significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with the accounting practices adopted in Brazil, and of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and in conformity with the accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Manabi Holding S.A. as at December 31, 2011, and its financial performance and its cash flows for the period from March 10, 2011 (date of Company's incorporation) through December 31, 2011, in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Manabi Holding S.A. as at December 31, 2011, and its consolidated financial performance and consolidated cash flows for the period from March 10, 2011 (date of the Company's incorporation) through December 31, 2011 in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

Emphasis of a matter

As mentioned in Note 1, the Company and its subsidiaries will continue to develop its mining resources and the investments required for the execution of its business plan are significant. Currently, the Company does not have cash generating activities and does not have sufficient resources to fund the planned investments. Therefore, the Company will depend on funds from its shareholders or third parties for the execution of its business plan.

As mentioned in Note 2, the individual financial statements were prepared in accordance with the accounting practices adopted in Brazil. In the case of Manabi Holding S.A., these practices differ from IFRS - applicable to the separate financial statements - solely with respect to the measurement of investments in subsidiaries, under the equity method, while such investments would be measured at cost or fair value for IFRS purposes. Our opinion is not modified for this matter.

Other matters

We have also audited the individual and consolidated statements of value added for the period from March 10, 2011 (date of the Company's incorporation) through December 31, 2011, prepared under the Company's management responsibility, the presentation of which is required by Brazilian corporation law for publicly held companies, and as supplementary information under IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Rio de Janeiro, February 7, 2012

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Auditores Independentes S.S.
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Manabi Holding S.A.

Balance sheets
As at December 31, 2011
(In thousands of reais)

	Notes	Parent company	Consolidated
Assets			
Current assets			
Cash and cash equivalents	6	**192,906**	**192,906**
Recoverable taxes		**432**	**432**
Other		**148**	**148**
Total current assets		**193,486**	**193,486**
Non-current assets			
Advances for future capital increase	11	**8,941**	**-**
Investments	7	**585,329**	**-**
Property, plant and equipment	8	**1,593**	**7,638**
Intangible assets	9	**-**	**591,153**
Total non-current assets		**595,863**	**598,791**
Total assets		**789,349**	**792,277**
Liabilities and equity			
Current liabilities			
Trade accounts payable		**340**	**3,135**
Vacation and related charges		**392**	**392**
Social security obligations		**429**	**429**
Tax liabilities		**543**	**738**
Provision for losses on investments	7	**62**	**-**
Other		**1**	**1**
Total current liabilities		**1,767**	**4,695**
Equity	12		
Capital stock		**786,706**	**786,706**
Capital reserve		**1**	**1**
Share-based payment reserve		**939**	**939**
Accumulated losses		**(64)**	**(64)**
Total equity		**787,582**	**787,582**
Total liabilities and equity		**789,349**	**792,277**

See accompanying notes.

Manabi Holding S.A.

Statements of income
For the period from March 10, 2011 through December 31, 2011
(In thousands of reais), except for the loss per share in reais

	Notes	Parent company	Consolidated
Operating expenses			
Personnel		**(7,181)**	**(7,181)**
Services rendered		**(3,898)**	**(3,971)**
General and administrative expenses		**(2,021)**	**(2,025)**
Depreciation		**(29)**	**(29)**
Taxes		**(101)**	**(101)**
		(13,230)	**(13,307)**
Other operating expenses			
Equity results and provision for losses on investments	7	**(77)**	**-**
Operating losses before financial results		**(13,307)**	**(13,307)**
Financial income and expenses			
Financial income		**13,332**	**13,332**
Financial expenses		**(89)**	**(89)**
		13,243	**13,243**
Loss before income tax and social contribution		**(64)**	**(64)**
Income tax and social contribution	10	**-**	**-**
Loss for the period		**(64)**	**(64)**
Loss per common share (basic and diluted)	12	**(0.10)**	
Loss per preferred share (basic and diluted)	12	**(0.10)**	

See accompanying notes

Manabi Holding S.A.

Statement of changes in equity
For the period from March 10, 2011 through December 31, 2011
(In thousands of reais)

	Capital stock						
	Subscribed	Unpaid capital	Equity issuance costs	Capital reserve - subscription warrant	Stock options reserve	Accumulated losses	Total
Subscribed capital - March 10, 2011	**1**	**(1)**	**-**	**-**	**-**	**-**	**-**
Capital increase	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Capital increases (Note 12)	**806,789**	**-**	**(20,084)**	**-**	**-**	**-**	**786,705**
Subscription warrant (Note 12)	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Stock options (Note 11)	**-**	**-**	**-**	**-**	**939**		**939**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(64)**	**(64)**
At December 31, 2011	**806,790**	**-**	**(20,084)**	**1**	**939**	**(64)**	**787,582**

See accompanying notes.

Manabi Holding S.A.

Statements of cash flows
For the period from March 10, 2011 through December 31, 2011
(In thousands of reais)

	Parent company	Consolidated
Cash flows from operating activities		
Loss before income tax and social contribution	**(64)**	**(64)**
Adjustments to reconcile the loss before income taxes to cash from operating activities		
Depreciation	**29**	**29**
Stock options	**939**	**939**
Equity results	**15**	**-**
Provision for losses on investments	**62**	**-**
Changes in assets and liabilities		
Other assets	**(580)**	**(580)**
Trade accounts payable	**340**	**3,135**
Vacation and related charges	**392**	**392**
Social security obligations	**429**	**429**
Tax liabilities	**543**	**738**
Other liabilities	**1**	**1**
Net cash from operating activities	**2,106**	**5,019**
Cash flows from investing activities		
Advances for future capital increase	**(8,941)**	**-**
Acquisition of property, plant & equipment	**(1,622)**	**(7,667)**
Additions to intangible assets	**-**	**(5,809)**
Capital increase in subsidiaries	**(38,476)**	**-**
Acquisition of mining rights	**(546,868)**	**(585,344)**
Net cash used in investing activities	**(595,907)**	**(598,820)**
Cash flows from financing activities		
Capital increase, net of issuance costs	**786,706**	**786,706**
Subscription warrant	**1**	**1**
Net cash from financing activities	**786,707**	**786,707**
Net increase in cash and cash equivalents	**192,906**	**192,906**
Cash and cash equivalents at the beginning of the period	**-**	**-**
Cash and cash equivalents at the end of the period	**192,906**	**192,906**

See accompanying notes.

Manabi Holding S.A.

Statements of value added
For the period from March 10, 2011 through December 31, 2011
(In thousands of reais)

	Parent company	Consolidated
Inputs acquired from third parties		
Services rendered by third parties	(3,898)	(3,971)
Gross value added	(3,898)	(3,971)
Depreciation	(29)	(29)
Net value added	(3,927)	(4,000)
Transferred value added received		
Equity results	(15)	-
Provision for losses on investments	(62)	-
Financial income	13,332	13,332
Total value added to be distributed	9,328	9,332
Distribution of value added		
Personnel		
Direct remuneration	4,020	4,020
Benefits	300	300
Accrued severance indemnity (FGTS)	247	247
Management fees	1,465	1,465
	6,032	6,032
General and administrative expenses	2,021	2,025
Tax		
Federal	1,149	1,149
Municipal	50	50
Intra-segment obligations	51	51
	1,250	1,250
Financial expenses	89	89
Loss for the period	(64)	(64)
Value added distributed	9,328	9,332

See accompanying notes.

1. Operations

Manabi Holding S.A. ("Manabi" or the "Company"), was incorporated on March 10, 2011, is a public company, with a head office in the city of Rio de Janeiro. The Company's purpose, directly and indirectly through its subsidiaries, is to perform the following activities: (i) prospect, develop and negotiate business opportunities in the exploration, economic exploration, development, mining, extraction, production and sale of iron ore and other mineral reserves in Brazil, and (ii) invest, hold interest and operate assets and companies in the iron ore and other mining reserves exploration industry, including logistics, transport, industrial facilities and other infra-structures related to those business opportunities, assets and companies.

At December 31, 2011, the Company owns 100% of the companies Morro do Pilar Minerais S.A. (“MOPI”), Morro Escuro Minerais S.A. (“MOES”) and Manabi Logística S.A. (“Manabi Log”).

The subsidiaries MOPI and MOES were acquired on June 8, 2011, and their purpose is to (a) research, explore, mining, process and transport of goods and mining products; (b) render geological services; (c) render intermediation services related to the activities described above; (d) hold interest in other companies, in Brazil or abroad; (e) lease vehicles, drills and equipment for drilling and mining; and (f) render drilling services for mining activities.

Manabi Log’s business purpose is to consolidate effective logistics for the production of iron ore, related to the possible development of a port terminal to export. Manabi Log does not currently have any operations; this subsidiary owns an area where said port terminal might be built.

The Company does not have an operational history; therefore, it will face challenges and uncertainties in the financial and operational planning to perform its business plans. However, considering that the mining, logistics, transport and infrastructure markets are increasing the Company expects opportunities to raise funds for the expansion and financing of its investments.

The development and implementation of an integrated production project and transport of iron ore is capital intensive. In this context, the Company’s management believes that the funds held in cash are sufficient for up to 18 months of operations. In the future, the Company’s management will evaluate the different alternatives of capitalization for the Company, according to its needs.

1. Operations (Continued)

According to the Company's current budget approved by its shareholders for the next 12 months, the Company intends to invest mainly in (i) improvement of its knowledge regarding mining assets with exploration and research reports, drilling, characterization and modeling, (ii) own engineering, (iii) obtaining the licenses necessary for operations, (iv) logistic infrastructure, and (v) negotiation of contracts with potential buyers. The Company began engaging renowned companies to render probing, sample analysis, chemical analysis of samples, preparation of environmental studies and development of conceptual engineering for the mine, pipeline, and port terminal.

On September 12, 2011, the Company received the approval of the application to become a public company at CVM (Brazilian Securities Commission) and at BM&FBOVESPA. This request was motivated by the intention to hold a future initial public offering of common shares, according to CVM Instruction No. 400, of December 29, 2003, as amended.

2. Preparation bases and presentation of the financial statements

The individual financial statements were prepared and are presented in accordance with the accounting practices adopted in Brazil, which includes the provisions of Brazilian Corporation Law, the rules and regulations from CVM, and the accounting pronouncements, orientation and interpretations issued by the Accounting Pronouncements Committee (CPC). The accounting practices differ from IFRS - applicable to the separate financial statements - solely with respect to the measurement of investments in subsidiaries, under the equity method, while such investments would be measured at cost or fair value for IFRS purposes.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and in accordance with accounting practices adopted in Brazil

As previously mentioned, the Company was incorporated at March 10, 2011, and therefore the presentation of comparative information for 2010 is not applicable.

The Company's management approved these financial statements on February 7, 2012.

3. Summary of significant accounting practices

We present the main accounting practices used by the Company as follows:

3.1. Consolidation

The consolidated financial statements as at December 31, 2011 include the financial information of the wholly-owned subsidiaries MOPI, MOES and Manabi Log.

The consolidation process involving balance sheet and profit and loss accounts corresponds to the consolidation of assets, liabilities, revenue and expenses accounts, according to their nature, with the following eliminations: (a) elimination of asset and/or liability balances between the consolidated companies; (b) elimination of investments of the parent company and the equity of the subsidiaries; and (c) elimination of revenue and expenses from transactions between the consolidated companies.

3.2. Business combinations

Business combinations are recorded under the acquisition method. Acquisition cost is measured by adding transferred payments, which is assessed based on fair value on the acquisition date, and the amount corresponding to the equity holding of the minority interest in the acquired company. For each business combination, the acquiring party must measure the equity holding of the minority interest in the acquired company at fair value or based on its interests in net assets identified in the acquired company. Costs directly related to the acquisition are recorded as expenses when incurred.

After acquiring a business, the Company must assess the assets acquired and liabilities assumed for the purpose of classifying and allocating them according to contractual terms, economic circumstances and pertinent conditions on the acquisition date. In the event of a business combination in stages, fair value on the acquisition date of interests previously held in the acquired company's capital is reassessed at fair value on the acquisition date, and any impacts are recognized in profit or loss.

3. Summary of significant accounting practices (Continued)

3.2. Business combinations (Continued)

Any contingent payment to be transferred by the acquirer shall be recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration which is deemed to be an asset or liability, will be recorded in accordance with CPC 38 - Financial Instruments: Recognition and Measurements in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remesuared until it is finally settled within equity.

Goodwill is initially measured as the difference between the transferred consideration exceeding the acquired net assets (identifiable net assets acquired and liabilities assumed). If the consideration is lower than the fair value of the acquired net assets, the difference must be recognized as gain in profit or loss. After initial recognition, goodwill is measured at cost, net of any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company’s cash generating unit that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

3.3. Financial instruments

Financial assets

The Company's financial assets are currently represented only by cash and cash equivalents, classified at fair value through profit or loss, with negotiation capacity within a short period of time (e.g. 3 months).

A financial asset is classified at fair value through profit or loss when it is held for trading, i.e., intended for such purpose upon initial recognition. After initial recognition, transaction costs are recognized in the profit or loss as incurred.

Financial assets at fair value through profit or loss are presented in the balance sheet at fair value, with the corresponding profit or loss recognized in the income statement.

The classification depends on the purpose for which financial assets were acquired and is determined upon initial recognition.

Financial assets are written off when the right to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all ownership risks and rights for those assets.

3. Summary of significant accounting practices (Continued)

3.3. Financial instruments (Continued)

Financial liabilities

The Company's financial liabilities are currently represented only by suppliers. Financial liabilities are recognized initially on the date of trade on which the Company became party to the dispositions of the contract. The Company writes off a financial liability when it is paid or when it's contractual obligations are canceled.

Financial liabilities are initially recognized at fair value, plus any attributable transaction costs. After initial recognition, those financial liabilities are measured according to amortized cost, adjusted based on monetary variations and foreign exchange rates, including interest incurred up to the balance sheet date, based on contractual terms. Gains and losses are recognized in the income statements upon write off of liabilities, as well as with the interest accrual and monetary indexation.

Derivative financial instruments

Derivatives are recognized initially and subsequently measured at fair value. The variation of fair value is recorded in profit or loss. The Company did not operate with derivatives in 2011.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the financial position if, and only if, the Company has the enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liabilities simultaneously.

3.4. Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments and not for investment or other purposes. The Company considers as cash and cash equivalents investments immediately redeemable at a known amount and that are subject to an insignificant risk of change in value. Therefore, an investment usually qualifies as cash and cash equivalents when it has short-term maturity, e.g., three months or less, from the date of acquisition.

3. Summary of significant accounting practices (Continued)

3.5. Investments in subsidiaries

Investments in subsidiaries are recorded with the equity method in the parent company's financial statements, which are eliminated in the consolidated financial statements.

A subsidiary is an entity in which the Company holds, directly or through other subsidiaries, interests that may permanently entitle it to give resolutions in Company's meetings and elect the majority of management members.

Based on the equity method, investments in subsidiaries are recorded at cost in the Company's balance sheet, plus any changes after acquisition of the subsidiaries' shares. Goodwill related to subsidiaries is included in the investment book value and it is not amortized.

3.6. Property, plant and equipment

Property, plant and equipment is recorded at acquisition cost, deducting accumulated depreciation according to the straight-line method or according to the produced units method for mining assets (when operational) and the provision for impairment, when applicable. Land is not depreciated and expansion expenses related to leasehold improvements are amortized based on the lease contract period or useful life expected for the asset, whichever the lowest.

3.7. Intangible assets

Intangible assets comprise mainly mining rights and are recorded at the cost of acquisition. Depreciation shall be calculated considering the estimated period in which the corresponding benefits of the intangible assets are earned and they will begin to be calculated from the moment the related asset enters into operation. Intangible assets are recognized only if it is probable that will generate economic benefits for the Company and that their respective value can be measured reliably.

Intangible assets acquired in a business combination are recorded at fair value at the acquisition date. Subsequently, amortization and impairment losses are deducted, when applicable.

Management's initial estimate is that mining reserves shall be extracted over approximately 20 years from the beginning of the operations.

3. Summary of significant accounting practices (Continued)

3.8. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

The Company and its subsidiaries are currently not party to any judicial or administrative proceedings.

3.9. Other assets and liabilities

Assets are recognized in balance sheets when it is likely that their future economic benefits will flow to the Company, and their cost or amount can be reliably measured.

Assets and liabilities are classified as current when these items are likely to be settled or realized within 12 months; otherwise those are classified as non-current.

3.10. Determination of profit or loss

Revenues and expenses are recorded on an accrual basis.

3. Summary of significant accounting practices (Continued)

3.11. Income tax and social contribution

The income tax and social contribution at the Company and its subsidiaries are calculated based on the taxable profit calcutated under the real profit regime. The tax base considers additions and exclusions provided by the legislation in force. Deferred income tax and social contribution is provided on tax losses carryforward or using the liability method for temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, net of the provision for losses, when applicable. These temporary differences are used to reduce future taxable profits.

The Company assesses the deferred income tax and social contribution amounts in relation to taxable profit projections and, if necessary, reduces amounts to their expected value.

3.12. Significant accounting judgment, estimates and assumptions

The Company uses significant accounting judgment, estimates and assumptions to measure and recognize certain assets and liabilities in its financial statements. The determination of these estimates involves past and present events, as well as expectation about future events and other objective and subjective matters.

Significant items subject to estimates, which were considered or will affect the Company after the beginning of production, include: useful lives of property, plant and equipments, reserves estimates included in the unit of production depreciation method, recoverable amount of each cash generating unit, impairment of assets, deferred income tax and social contribution, provision for contingencies and others.

The actual transaction involving estimates can result in different outcomes from what has been recorded in the financial statements due to the assumptions involved in the determination process. The Company review the estimates and assumptions at least annually.

3.13. Functional currency and presentation of financial statements

The items included in the financial statements are measured using the Real (R$) which is the currency in the economic environment in which the Company operates (“functional currency”).

3. Summary of significant accounting practices (Continued)

3.14. Statements of cash flows

The statements of cash flows were prepared and presented in accordance with Accounting Pronouncement CPC 03 – Statements of Cash Flow.

3.15. Statements of value added

The statements of value added were prepared and are presented in accordance with Accounting Pronouncement CPC 09 – Statements of Value Added.

The presentation of statements of value added is required by the Brazilian Corporation Law and is presented as supplementary information for International Financial Reporting Standard.

3.16. Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the period attributable to common and preferred equity holders of the parent by the weighted average number of common and preferred shares outstanding during the period.

Dilutive earnings per share amounts are calculated by dividing the net income (loss) for the period attributable to common and preferred equity holders of the parent by the weighted average number of common and preferred shares outstanding during the period plus the weighted average number of common and preferred shares that would be issued on conversion of all the dilutive potential common and preferred shares into common and preferred shares.

3.17. Segment information

The definition of operating segments is carried out in conjunction with analysis of operations by the Company's main decision maker who is responsible for the allocation of funds and assessment of performance of the operating segments, which have been identified as the Chief Executive Officer. Currently, the Company only has a mining segment which is in research and development stage.

4. New accounting pronouncements and interpretations

The following new interpretations, amendments and interpretations of standards were issued by IASB but are not in force in 2011. Early adoption as allowed by the IASB, was not permitted in Brazil under Accounting Pronouncements from Brazil's FASB (CPC).

- IAS 19 - "Employee Benefits " amended in June 2011. The main impacts of the amendments are: (i) elimination of the corridor approach, (ii) recognition of actuarial gains and losses in other comprehensive income as incurred, (iii) immediate recognition of historic service costs in income and (iv) substitution of contribution costs and expected return on plan assets for the net contribution amount calculated through the application of the asset discount rate (liability) of the net defined benefit. This standard is applicable as from January 1, 2013. The Company did not have any employee benefits subject to IAS 19 as at December 31, 2011, and this standard will not impact the Company's financial statements.

- IFRS 9 - "Financial Instruments: Classification and Measurement", covers the classification, measurement and disclosure of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010 and substituted the wording of IAS 39 relating to the classification and measurement of financial instruments. IFRS 9 requires the classification of financial instruments in two categories: measured at fair value through profit or loss and measured at amortized cost. Calculation is made based on initial recognition. The calculation basis is based on the business model and the contractual cash flow characteristics of the financial instruments. In relation to financial liability, the standard maintains the majority of requirements established by IAS 39. The main alteration is that in cases where the fair value option is adopted for financial liabilities the portion of change in fair value due to the credit risk of the entity itself is recorded in other comprehensive income and not in the income statements except when this results in a mismatch in accounts. The standard is applicable as from January 1, 2013. The Company's Management understands that IFRS 9 will not have significant impact in the Company's financial statements.

- IFRS 10 - "Consolidated Financial Statements" supports existing principles, identifying the concept of control as the predominant factor in determining whether an entity should or should not be included in the company's consolidated financial statements. The standard provides additional guidance for the determination of control. This standard is applicable as from January 1, 2013. The Company's Management understands that this standard will not impact the Company's financial statements.

4. New accounting pronouncements and interpretations (Continued)

- IFRS 11 - "Joint Arrangements", issued in May 2011. The standard provides a more realistic approach for joint agreements in focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: (i) joint operations – that occur when an operator holds right and contractual obligations over assets and as a result records its portion under assets liabilities, revenues and expenses; and (ii) shared control – occurs when an operator holds rights over the net assets of an agreement and records the investment by the equity pickup method. The proportional consolidation method will no longer be permitted under joint control. The Company did not have any joint arrangement up to December 31, 2011 and this standard will not impact the Company's financial statements. This standard will be effective from January 1, 2013.

- IFRS 12 - "Disclosure of Involvement with Other Entities", covers the requirements over disclosure for all forms of interest in joint arrangements, associations, interest for specific purposes and other interest not recorded in accounts. This standard is effective from January 1, 2013. The Company's Management understands that this standard will not impact the Company's financial statements.

- IFRS 13 - "Fair Value Measurement", issued in May 2011. The objective of IFRS 13 is to improve consistency and simplify fair value measurement providing a more precise definition of the sole source of fair value measurement and disclosure requirements for IFRS purposes. The requirements which are closely aligned between IFRS and US GAAP, do not increase use of fair value accounting but provide guidelines on their application when their use is already required or permitted by other IFRS or US GAAP standards. The standard will be applicable from January 1, 2013. The Company's Management understands that this standard will not impact the Company's financial statements.

- IAS 12 "Income Taxes – Recovery of Underlying Assets". This amendment changes some definitions in the tax basis, temporary differences, uncertain tax positions and new concepts of measurement of deferred taxes, depending whether the entity expects to recover the asset through use or selling the asset. This pronouncement is applicable from January 1, 2012. The Company's Management understands that this standard will not impact the Company's financial statements.

(In thousands of reais, except when indicated otherwise)

5. Business combinations

On June 8, 2011, the Company acquired all shares in the companies, MOPI and MOES, which are the holders of certain mining rights and have compiled studies and research into the extraction of iron ore.

A summary of those acquisitions is as follows:

		MOPI	MOES	TOTAL
Book values of the assets acquired and liabilities assumed				
Cash		**2**	**2**	**4**
Intangibles		**30,658**	**7,813**	**38,471**
Accounts payable		**(30,652)**	**(7,811)**	**(38,463)**
Net assets acquired at book value		**8**	**4**	**12**
Excess paid, allocated to intangible assets acquired	(a)	**491,427**	**55,441**	**546,868**
Consideration transferred	(b)	**491,435**	**55,445**	**546,880**

(a) The intangible assets acquired are represented by prospecting rights and existing mining reserves held by the acquired entities. Fair value measurement was carried out by a specialist through the estimated discounted cash flow method relating to mining reserves. The companies acquired had R$ 38,471 on their balance sheets relating to prospecting rights and capitalized costs. According to management evaluation the total fair value of intangible assets was approximately R$ 585 million (Note 7). Accordingly, all the excess paid was allocated to intangible assets.

(b) The consideration transferred was fully paid in cash at the acquisition date on June 8, 2011.

(In thousands of reais, except when indicated otherwise)

6. Cash and cash equivalents

	Parent company	Consolidated
Cash and banks	**415**	**415**
Cash equivalents		
Certificates of Deposit (CDBs)	**95,903**	**95,903**
Debentures with repurchase clauses	**96,588**	**96,588**
	192,491	**192,491**
	192,906	**192,906**

Cash equivalents earnings are linked to Interbank Certificates of Deposit (CDI), generating remuneration between 100.6% to 101.7% of CDI, of a highly liquid nature (redeemable within 3 months), low credit risk, and available for use in the Company's and its subsidiaries operations.

Cash equivalents represented by debentures with repurchase clauses is as follows:

Issuer	Contract date	Maturity date	CDI rate	Parent company and Consolidated
Itaú BBA	06/08/2011	05/29/2013	101%	54,627
Bradesco	06/08/2011	05/29/2013	101.7%	41,961
				96,588

Although final maturity in 2013, the banks guarantee the repurchase of these securities with no loss in value, at any moment by the Company.

(In thousands of reais, except when indicated otherwise)

7. Investments

Investment in the subsidiaries MOPI and MOES were acquired on June 8, 2011, as mentioned in Note 5. On that date, the Company increased the subsidiaries capital by R$ 30,653 and R$ 7,811, respectively. The funds were fully utilized to pay debts of the same amount.

Investments reconciliation during the period is as follows:

	Opening balance	Capital increase	Equity results / Provision for losses	At December 31, 2011
Investments				
MOPI	**8**	**30,653**	**(10)**	**30,651**
MOES	**4**	**7,811**	**(5)**	**7,810**
Excess paid on acquisition				
MOPI	**491,427**	**-**	**-**	**491,427**
MOES	**55,441**	**-**	**-**	**55,441**
	546,880	**-**	**-**	**585,329**
Provision for losses on investments				
Manabi Log	**-**		**(62)**	**(62)**
Equity results and provision for losses on investments			**(77)**	

Other investment information

Breakdown of capital	MOPI	MOES	Manabi Log
Total common shares	3,066,060,942	781,455,405	900
Company's interest	100%	100%	100%
Equity (R$)	30,651	7,810	(62)

(In thousands of reais, except when indicated otherwise)

8. Property, plant and equipment

	Parent company			Consolidated		
	Cost Additions(*)	Accumulated Depreciation(*)	Net amount	Cost Additions(*)	Accumulated Depreciation(*)	Net amount
Land	-	-	-	5,523	-	5,523
Construction in progress	-	-	-	522	-	522
Machinery and equipment	14	-	14	14	-	14
Furniture and fixtures	602	(13)	589	602	(13)	589
IT equipment	163	(11)	152	163	(11)	152
Communication equipment	59	(3)	56	59	(3)	56
Software	110	(2)	108	110	(2)	108
Leasehold improvements	674	-	674	674	-	674
Balance at December 31, 2011	1,622	(29)	1,593	7,667	(29)	7,638

(*) The Company was incorporated on March 10, 2011 and the amounts of cost and accumulated depreciation as at December 31, 2011, presented above in each group of assets represent the additions and depreciation for the period from March 10, 2011 through December 31, 2011.

On September 14, 2011, through the subsidiary Manabi Log, the Company acquired an area of rural land measuring 3,390,034m^2, in Degredo – Suruaca, in the Regência district on the coast of Espírito Santo State, where it is assessing the option of developing a port terminal. This acquisition is part of a Company's strategy to develop a logistical part of a project that includes the transport of mining goods and products and the development of a private port terminal for the export, handling and storage of iron ore from MOPI and MOES, as well as other cargos, if applicable, and as authorized by the Brazilian National Maritime Transport Agency (ANTAQ), under applicable legislation.

The acquisition price for the land, in accordance with the terms of the purchase option agreement was R$ 5,320, fixed and non-adjustable. The Company also incurred in R$ 203 of transaction costs, which have been included in the cost of land.

In November 2011, the construction of the port terminal was started. Costs incurred in 2011 in the amount of R$ 522, from the environmental licensing process, oceanographic studies and a bathymetric study and the beginning of the port's conceptual engineering project, were capitalized.

9. Intangible assets (consolidated)

Intangible assets were acquired mainly through business combinations on June 8, 2011, represented by prospecting rights and existing mining reserves of the subsidiaries MOPI and MOES.

Intangible assets are represented by more than 65 mining rights, respective reserves and exploratory costs. These mining rights are located in the State of Minas Gerais, which are basically in the reasearch authorization, request for authorization or in availability process. The Company is making the necessary actions for the transfer of the ownership of the acquired mining rights with the regulatory agency.

10. Income tax and social contribution

At December 31, 2011, the Company's accumulated tax loss carryforward and negative basis of social contribution amounted to R$ 19,107, which management decided not to register deferred tax assets of R$ 6,496 until the mineral reserves are proved.

Tax losses carryforward generated in Brazil do not expire and can be offset with future taxable profits, limited to 30% of the taxable profit for the year.

11. Transactions with related parties

The Company is currently in the prospection phase and has no operational transactions with related parties.

Remuneration of key management personnel

The Company considers all current directors as key management personnel. Up to December 31, 2011, remuneration of these directors was R$ 2,012, relating to salaries, fees and social charges. Directors fees were fixed in the Shareholder's Meeting at an overall amount of R$ 3,480 for 2011.

Share based payment (stock options)

The Company's shareholders approved in the Annual Shareholders' Meeting held on July 21, 2011, the adoption of a stock option plan for directors, officers and employees. The stock options issued by the Company will be settled with the issuance of new shares.

On October 15, 2011, was approved the stock option to purchase 14,190 shares through individual contracts between the Company and each beneficiary. As a condition for acquisition of the shares the beneficiary should have completed three years of service (vesting period). These options, to the proportion of a third of shares available for the plan, are exercisable in three annual tranches. The first tranche exercisable 12 months from the grant date (10/15/2011) and the following tranches, in accordance with the same conditions, are exercisable 24 and 36 months from the grant date. The participants have a maximum term of sixty months to exercise the options from maturity.

The exercise price of the options granted is R$ 1.576 (one thousand and five hundreds and seventy six *reais*) per share which shall remain at this price until the exercise date. The exercise price is subject to adjustment due to share grouping or share split.

The stock options were measured and recognized at fair value using the Merton model (1973), widely used and accepted in academic circles for stock options measurement.

(In thousands of reais, except when indicated otherwise)

11. Transactions with related parties (Continued)

Share based payment (stock options) (Continued)

The table below shows the result of the fair value measurement of the stock options at the date of these financial statements:

Maturity	Number of shares(*)	Annual Volatility	Risk free Rate	Options fair value (in *Reais*)	Matured
10/15/2017	4,730	40.83%	11.05%	4,189	Not vested
10/15/2018	4,730	39.59%	11.05%	4,460	Not vested
10/15/2019	4,730	38.97%	11.07%	4,717	Not vested
Total	14,190	Average risk free rate	11.06%	13,366	

(*) There was no options exercised or forfeited from October 15, 2011 (grant) through December 31, 2011.

The effects of the stock options granted and outstanding recorded in equity and in the income statements are as follows:

	1st Program	Total recorded in the income statement	Total recorded in equity
2011	939	939	939
2012	4,464	-	-
2013	4,452	-	-
2014	3,511	-	-
	13,366	-	-

In case of the beneficiary resignation, the non-vested options retire with no compensation and the vested options can be exercised within ninety days.

In case of the beneficiary being dismissed with due cause, the vested and non-vested options retire immediately, independently of warning or compensation.

(In thousands of reais, except when indicated otherwise)

11. Transactions with related parties (Continued)

Other transactions

The Company paid the shareholder Fabrica Holding S.A. R$ 128 in fees for consulting services. There are no other commitments or amounts to be paid to Fabrica Holding S.A.

During the period ended in December 31, 2011, the Company remitted resources to the subsidiaries MOPI, MOES and Manabi Log, of R$ 2,429, R$ 723 and R$ 5,789, respectively. These resources were used to fund the acquisition of the property on the Espírito Santo coast, surveys, environmental surveys and studies, registration, assessment, negotiation and document regularization of future areas of the project. These payments are classified as advances for future capital increase and the capital increase should occur within a year.

12. Equity

a) Capital stock

At December 31, 2011, subscribed paid in capital amounts to 800,000 shares, with 250,000 common shares and 550,000 preferred shares, all nominative and without par value, as detailed below:

	Number of shares			
Shareholders	**Common**	**Preferred**	**Total**	**%**
Fábrica Holding Ltda.	150,000	3,000	153,000	19.13%
Ontário Teachers Pension Plan	-	165,000	165,000	20.63%
Korea Investment Corporation	-	100,000	100,000	12.50%
Southeastern Asset Management	-	100,000	100,000	12.50%
Michael Stephen Vitton	50,000	11,000	61,000	7.63%
Mathew Todd Goldsmith	50,000	6,000	56,000	7.00%
Other	-	165,000	165,000	20.63%
	250,000	550,000	800,000	100%

Each common and preferred share awards the holder the right to one vote in the shareholders meetings.

12. Equity (Continued)

a) Capital stock (Continued)

On June 8, 2011, in accordance with the Extraordinary Shareholders' Meeting the following decisions were made:

- Capital increase amounting to R$ 759,114, increasing the capital stock from R$ 1 to R$ 759,115, with the issuance of 99,500 nominative common shares, without par value, and 519,258 nominative preferred shares, without par value, at the fixed issuance price of R$ 1.30 in accordance with Article 170, paragraph 1o, item I, of the Brazilian Corporation Law. Payment of this capital was made by the shareholder IronCo LLC, through funds provided by exchange rate contracts. IronCo LLC represents the following shareholders: Ontario Teachers Pension Plan, Korea Investment Corporation, Southeastern Asset Management and others.

- Additional capital increase amounting to R$ 47,675, increasing the capital stock from R$ 759,115 to R$ 806,790, with the issuance of 30,242 nominative preferred shares without par value which was fully paid in local currency at the fixed issuance price of R$ 1.60, also in accordance with Article 170, paragraph 1o, item I, of the Brazilian Corporation Law.

- Legal fees and taxes on this operation (Tax on Financial Transactions, or IOF), amounting to R$ 2,371 and R$ 17,713, respectively, were paid by the Company and recorded as equity issuance costs in equity.

12. Equity (Continued)

b) Capital reserves

Capital reserves are composed of amounts which were not recorded in the income statement as revenue, as they refer to amounts which do not demand any services or goods from the Company. These reserves are composed of subscription warrants and stock options reserve.

On June 8, 2011, the Company issued subscription warrants to the shareholders (i) Fábrica Holding Ltda., (ii) Mathew Todd Goldsmith and (iii) Michael Stephen Vitton. These warrants grant the holders the right to subscribe 1,000 common shares for R$ 0.01 (one cent) in accordance with the terms and conditions provided in the subscription certificate which are exercisable in whole or in part on occurrence of the 'Execution Events', as defined in the agreement.

The execution events did not happen until December 31, 2011 and these events are not in the control of the holders. Therefore, these options did not have any impact in the December 31, 2011 financial statements.

c) Legal reserve and dividends

The legal reserve is set up on an annual basis at 5% of the net income for the year and it cannot exceed 20% of the capital stock, it is intended to ensure the integrity of capital and may only be used to offset losses or increase the capital.

In accordance with statutory provisions, the minimum mandatory dividend is 0.0001% of the net income for the year as adjusted under the Brazilian Corporation Law limited to the net income for the year in which it was realized. It is submitted to deliberation and approval at the Ordinary Shareholders' Meeting. The distribution of dividends to the Company's shareholders is recognized as a liability in the financial statements at the end of the year and any amount over the mandatory minimum is only recorded when approved by the shareholders in the Shareholders' Meeting.

The Company incurred a loss during the year, therefore did not constitute a legal reserve or distribute dividends.

12. **Equity** (Continued)

d) Loss per share

The table below presents the results and share data used in the basic and dilutive loss per share computations:

	For the period from March 10, 2011 through December 31, 2011		
	Common shares	**Preferred shares**	**Total**
Loss attributable to the equity holders of the parent	(23)	(41)	(64)
Weighted average number of shares (in thousands)	219.7	382.9	602.6
Loss per share – basic and dilutive (*)	(0.10)	(0.10)	

(*) The loss for the period is antidilutive for the holders of stock options and subscription warrants.

13. Financial instruments

Financial instruments at December 31, 2011, are represented by cash and cash equivalents in the amount of R$192,906 and are classified and measured at fair value through profit or loss.

Financial liabilities are represented by trade accounts payable in the amount of R$ 340 and R$ 3,135 at the parent company and consolidated balance sheets, respectively, and they are recorded at amortized cost. Trade accounts payable average payment period is 30 days. At December 31, 2011, there were no relevant differences between the carrying amounts and fair values.

The Company does not carry out hedge, swap or any other operations that involve derivative financial instruments.

The Company holds its cash and cash equivalents with various highly liquid financial institutions and has a policy to limit exposure to each institution.

14. Insurance coverage (unaudited)

In the Board of Directors' meeting on June 28, 2011, the Board analyzed and approved a proposal forwarded by management based on a commercial proposal from the insurance company, Chartis Seguros Brasil S.A., for an insurance policy for Directors and Officers civil liability insurance at an insured amount of US$ 25,000,000 and an annual premium of approximately US$ 116,000. The insurance contracted by the Company includes (i) director and management damages, and (ii) Company reimbursement. At an opportune moment the Board may discuss the expansion of coverage of this policy and/ or increase in the total amount insured.