Financial Statements

Manabi S.A.

December 31, 2012
with Independent Auditor's Report on the Financial Statements

Manabi S.A.

Audited financial statements

December 31, 2012

Contents

ERNST & YOUNG TERCO

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Independent auditor's report on the financial statements

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

We have audited the accompanying individual and consolidated financial statements of Manabi S.A. ("Company"), identified as Parent company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2012, and the related statements of operations, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of 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 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 the 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 in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the 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 S.A. as at December 31, 2012, its financial performance and its cash flows for the year then ended, in accordance with 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 S.A. as at December 31, 2012, its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

ERNST & YOUNG TERCO

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 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 qualified in this respect.

Other matters

Supplementary information - Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2012, prepared under the Company's management responsibility, the presentation of which is required by Brazilian corporate 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, March 14th, 2013.

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6-F-RJ

Wilson J. O. Moraes
Accountant CRC - 1RJ 107.211/O-1

Paulo José Machado
Accountant CRC - 1RJ 061.469/O-4

Manabi S.A.

Balance sheets
December 31, 2012 and 2011
(In thousands of reais)

	Note	Parent company		Consolidated	
		12/31/2012	12/31/2011	12/31/2012	12/31/2011
Assets					
Current assets					
Cash and cash equivalents	6	71,487	192,906	71,487	192,906
Marketable securities	6	617,663	-	617,663	-
Recoverable taxes		3,062	432	3,062	432
Other		643	148	655	148
Total current assets		692,855	193,486	692,867	193,486
Non-current assets					
Advances for future capital increase	7	27,505	8,941	-	-
Investments	7	75,130	585,329	-	-
Property, plant and equipment	8	3,061	1,593	37,967	7,638
Intangible assets	9	569,576	-	638,103	591,153
Total non-current assets		675,272	595,863	676,070	598,791
Total assets		1,368,127	789,349	1,368,937	792,277
Liabilities and equity					
Current liabilities					
Trade accounts payable	12	9,270	341	9,861	3,135
Employee-related accruals		1,882	821	1,882	821
Tax liabilities		1,203	543	1,422	738
Provision for losses on investments	7	-	62	-	-
Other		554	-	554	1
Total current liabilities		12,909	1,767	13,719	4,695
Equity	13				
Capital stock		1,381,666	786,706	1,381,666	786,706
Capital reserve		1	1	1	1
Share-based payment reserve	11	8,238	939	8,238	939
Accumulated losses		(34,687)	(64)	(34,687)	(64)
Total equity		1,355,218	787,582	1,355,218	787,582
Total liabilities and equity		1,368,127	789,349	1,368,937	792,277

See accompanying notes.

Manabi S.A.

Statements of operations
Year ended December 31, 2012
(In thousands of reais, except for loss per share in reais)

	Note	Parent company 12/31/2012	Parent company 12/31/2011	Consolidated 12/31/2012	Consolidated 12/31/2011
Operating expenses					
Personnel		**(28,159)**	(7,181)	**(28,159)**	(7,181)
Services rendered		**(17,695)**	(3,898)	**(18,026)**	(3,971)
General and administrative expenses		**(6,491)**	(2,021)	**(6,566)**	(2,025)
Depreciation		**(345)**	(29)	**(345)**	(29)
Taxes		**(389)**	(101)	**(411)**	(101)
		(53,079)	(13,230)	**(53,507)**	(13,307)
Other operating expenses					
Equity results and provision for losses on investments	7	**(438)**	(77)	**-**	-
		(438)	(77)	**-**	-
Operating losses before financial results		**(53,517)**	(13,307)	**(53,507)**	(13,307)
Financial income and expenses					
Financial income		**19,035**	13,332	**19,035**	13,332
Financial expenses		**(141)**	(89)	**(151)**	(89)
		18,894	13,243	**18,884**	13,243
Loss before income tax and social contribution		**(34,623)**	(64)	**(34,623)**	(64)
Income tax and social contribution	10	**-**	-	**-**	-
Loss for the year		**(34,623)**	(64)	**(34,623)**	(64)
Loss per common share (basic and diluted)	13	**(41.18)**	(0.10)		
Loss per preferred share (basic and diluted)	13	**(41.18)**	(0.10)		

See accompanying notes.

Manabi S.A.

Statements of comprehensive income
Year ended December 31, 2012
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Loss for the year	(34,623)	(64)	(34,623)	(64)
Other comprehensive income	-	-	-	-
Comprehensive loss for the year	(34,623)	(64)	(34,623)	(64)

See accompanying notes.

Manabi S.A.

Statements of changes in equity
Year ended December 31, 2012
(In thousands of reais)

	Capital stock			Capital reserves			
	Subscribed	Unpaid capital	Equity issuance costs	Subscription warrant	Share-based payment reserve	Accumulated losses	Total
Subscribed capital – March 10, 2011	1	(1)	-	-	-	-	-
Payment of previously subscribed capital	-	1	-	-	-	-	1
Capital increases	806,789	-	(20,084)	-	-	-	786,705
Subscription warrant (Note 13)	-	-	-	1	-	-	1
Stock options (Note 11)	-	-	-	-	939	-	939
Loss for the year	-	-	-	-	-	(64)	(64)
At December 31, 2011	806,790	-	(20,084)	1	939	(64)	787,582
Capital increases (Note 13)	**611,340**	-	**(16,380)**	-	-	-	**594,960**
Stock options (Note 11)	-	-	-	-	**7,299**	-	**7,299**
Loss for the year	-	-	-	-	-	**(34,623)**	**(34,623)**
At December 31, 2012	**1,418,130**	-	**(36,464)**	**1**	**8,238**	**(34,687)**	**1,355,218**

See accompanying notes.

Manabi S.A.

Statements of cash flows
Year ended December 31, 2012
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Cash flows from operating activities				
Loss before income tax and social contribution	(34,623)	(64)	(34,623)	(64)
Adjustments to reconcile the loss for the year to cash from operating activities				
Depreciation and amortization	345	29	345	29
Stock options	7,299	939	7,299	939
Marketable securities income	(6,323)	-	(6,323)	-
Equity results and provision for losses on investments	438	77	-	-
Changes in assets and liabilities				
Recoverable taxes	(2,630)	-	(2,630)	-
Other assets	(495)	(580)	(507)	(580)
Trade accounts payable	511	340	533	3,135
Employee-related accruals	1,061	821	1,061	821
Tax liabilities	660	543	631	738
Other liabilities	32	1	32	1
Net cash from operating activities	(33,725)	2,106	(34,182)	5,019
Cash flows from investing activities				
Advances for future capital increase	(18,564)	(8,941)	-	-
Acquisition of marketable securities	(611,340)	-	(611,340)	-
Acquisition of property, plant & equipment	(366)	(1,622)	(30,550)	(7,667)
Additions to intangible assets	(1,912)	-	(42,454)	(5,809)
Capital increase in subsidiaries	(52,619)	(38,476)	-	-
Acquisition of mining rights	-	(546,868)	-	(585,344)
Net cash used in investing activities	(684,801)	(595,907)	(684,344)	(598,820)
Cash flows from financing activities				
Capital increase	611,340	806,790	611,340	806,790
Equity issuance costs	(14,233)	(20,084)	(14,233)	(20,084)
Subscription warrant	-	1	-	1
Net cash from financing activities	597,107	786,707	597,107	786,707
Increase (decrease) in cash and cash equivalents	(121,419)	192,906	(121,419)	192,906
Cash and cash equivalents at the beginning of the year	192,906	-	192,906	-
Cash and cash equivalents at the end of the year	71,487	192,906	71,487	192,906

See accompanying notes.

Manabi S.A.

Statements of added value (supplementary information for IFRS purposes)
Year ended December 31, 2012
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Inputs acquired from third parties				
Services rendered by third parties	(17,695)	(3,898)	(18,026)	(3,971)
Gross added value	(17,695)	(3,898)	(18,026)	(3,971)
Depreciation and amortization	(345)	(29)	(345)	(29)
Net added value	(18,040)	(3,927)	(18,371)	(4,000)
Transferred added value received				
Equity results and provision for losses on investments	(438)	(77)	-	-
Financial income	19,035	13,332	19,035	13,332
Total added value to be distributed	557	9,328	664	9,332
Distribution of added value				
Personnel				
Direct remuneration	17,772	4,020	17,772	4,020
Benefits	1,026	300	1,026	300
Accrued severance indemnity (FGTS)	829	247	829	247
Management fees	4,730	1,465	4,730	1,465
	24,357	6,032	24,357	6,032
General and administrative expenses	6,491	2,021	6,566	2,025
Tax				
Federal	3,802	1,149	3,802	1,149
Municipal	165	50	187	50
Intra-segment obligations	224	51	224	51
	4,191	1,250	4,213	1,250
Financial expenses	141	89	151	89
Loss for the year	(34,623)	(64)	(34,623)	(64)
Added value distributed	557	9,328	664	9,332

See accompanying notes.

1. Operations

Manabi S.A. ("Manabi" or the "Company"), previously denominated Manabi Holding S.A., was incorporated on March 10, 2011, and is a publicly-held company with head office in the city of Rio de Janeiro.

Manabi is a mining company focused on high-grade iron ore and integrated logistics plan, which as of December 31, 2012, fully controls companies Morro do Pilar Minerais S.A. ("MOPI"), Morro Escuro Minerais S.A. ("MOES") and Manabi Logística S.A. ("Manabi Log"). The business purpose of subsidiaries MOPI and MOES is to: (a) research, explore, mine, process and transport mining goods and products; (b) render geological services; (c) render intermediation services related to the above described activities; (d) hold equity interests 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 efficient port logistics for distribution of the iron ore production, using the area held by this company and on which it intends to build the port terminal, Porto Norte.

On September 10, 2012, the Company's shareholders and Board of Directors approved a capital increase of R$ 611,340 by means of private subscription.

On December 14, 2012, the Company concluded the spin-off of certain assets (mineral rights) of Morro do Pilar Minerais S.A. (MOPI), a wholly-owned subsidiary of the Company, involving the transfer of assets and liabilities relating to the iron ore exploitation activity, and the merger of those spun off assets into the Company in order to transform the latter into an operational entity.

The development and implementation of an integrated iron ore production and distribution project is capital intensive. In this context, Management believes that the funds held in cash are sufficient for, at least, the next 15 months of operation. Management continues to evaluate alternatives to access the capital markets in order to raise the additional funds that will enable the implementation of its business plan.

1. **Operations** (Continued)

The Company intends to invest primarily in (i) deepening its knowledge of the mineral assets with report on exploration and survey, drilling, characterization and modeling, (ii) engineering, (iii) obtaining licenses required for the operation, (iv)logistics infrastructure, and (v) negotiating contracts with potential buyers. The Company began engaging renowned companies to render drilling, chemical analysis of samples, preparation of environmental studies and development of conceptual engineering for the mine, pipeline and port terminal.

2. Basis for preparation 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 include the provisions of the Brazilian Corporation's Law and accounting rules and procedures issued by the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários – CVM) and by the Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis - CPC). These accounting practices differ from the International Financial Reporting Standards (IFRS) applicable to the separate financial statements, solely with respect to the measurement of investments in subsidiaries under the equity method, as required by ICPC 09, while for IFRS purposes such investments would be measured at cost or fair value.

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

These financial statements were prepared based on historical cost, except for certain financial instruments measured at fair value, as described in the accounting practices below and in Note 14.

The Company was incorporated on March 10, 2011and, therefore, the comparative information covers the period from March 10 to December 31, 2011.

The financial statements are presented in Reais (R$), which is the currency used in the economic environment in which the Company operates ("functional currency").

The Company's Management authorized the conclusion of the preparation of these financial statements on March 14th, 2013.

3. Summary of significant accounting practices

Below is a summary of the main accounting practices used by the Company:

3.1. Consolidation

The consolidated financial statements include the financial information of wholly-owned subsidiaries MOPI, MOES and Manabi Log.

The process of consolidating the balance sheet and income statement accounts of the subsidiaries corresponds to the sum of the assets, liabilities, revenues 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 against the related equity of the subsidiary; and (c) elimination of revenues and expenses from transactions between the consolidated companies.

3.2. Business combination

Business combinations are recorded under the acquisition method. The acquisition cost is measured by adding the consideration transferred, which is assessed based on fair value on the date of acquisition, and the value of any non-controlling interest in the acquired company. For each business combination, the acquirer shall measure the non-controlling interest either at fair value or based on its participation in the identifiable net assets. Costs directly attributable to the acquisition are expensed when incurred.

Upon acquiring a business, the Company assesses the assets acquired and liabilities assumed in order to classify and allocate them according to contractual terms, economic circumstances and pertinent conditions as of the date of acquisition. For business combinations achieved in stages, the fair value at the date of acquisition of the equity interest previously held in the acquiree is reassessed at fair value on the date of acquisition and the effects, if any, are recorded in profit or loss.

3. Summary of significant accounting practices (Continued)

3.2. Business combination (Continued)

Any contingent payment to be transferred by the acquirer shall be recognized at fair value on the date of acquisition. 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 (IAS 39) - Financial Instruments: Recognition and Measurement, in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be reassessed until it has been settled in full.

Goodwill, if any, is initially measured as the difference between the consideration transferred and the net assets acquired (identifiable net assets acquired and liabilities assumed). If the consideration is lower than the fair value of the net assets acquired, the difference must be recognized as gain in the income statement. After initial recognition, goodwill is measured at cost, net of any accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies resulting 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 by cash and cash equivalents and marketable securities, classified at fair value through profit or loss.

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

3. Summary of significant accounting practices (Continued)

3.3. Financial instruments (Continued)

Financial assets (Continued)

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

Classification depends on the purpose for which the 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 related to those assets.

Financial liabilities

Currently, the Company's only financial liability is the balance with suppliers. Financial liabilities are recognized initially on the negotiation date on which the Company becomes a party to the provisions of the contract. The Company writes off a financial liability when it is paid or when its contractual obligations are canceled.

Financial liabilities are initially recognized at fair value, plus any attributable transaction costs. After initial recognition, such financial liabilities are measured at 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 statement upon write off of the liabilities, as well as during the process of interest accrual and monetary indexation.

Derivative financial instruments

Derivatives are recognized initially and subsequently measured at fair value. Fair value variations are recorded in profit or loss. The Company did not operate with derivatives in 2012 or 2011.

3. Summary of significant accounting practices (Continued)

3.3. Financial instruments (Continued)

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 to realize the assets and settle the liabilities simultaneously.

3.4. Cash and cash equivalents and marketable securities

Cash equivalents are held to meet short-term cash commitments and not for investment or other purposes. The Company considers as cash equivalents investments that are 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 equivalents only when it has short-term maturity, e.g., three months or less, from the date of acquisition.

Marketable securities are short-term investments held for the purpose of being actively traded. Such investments are measured at fair value through profit or loss, and gains or losses from changes in fair value are recognized in the income statement.

3.5. Investments in subsidiaries

Investments in subsidiaries are recorded by the equity method in the parent company's financial statements and are eliminated for purposes of preparation of the consolidated financial statements.

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

Based on the equity method, investments in subsidiaries are recorded at cost in the parent company's balance sheet, plus any changes after acquisition of the shareholding interest.

3. Summary of significant accounting practices (Continued)

3.6. Property, plant and equipment

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

3.7. Intangible assets

Intangible assets comprise mainly mining rights and are recorded at the cost of acquisition. Amortization is calculated taking into account the estimated period in which the corresponding benefits of the intangible assets are earned and will begin to be calculated when the related asset starts operating. Intangible assets are recognized only if it is probable that they 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 and are subsequently deducted from amortization and impairment, if applicable. Management's initial estimate is that mining reserves will be depleted in approximately 20 years from the beginning of the operations.

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 may be made. 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 value relating to any provision is usually recorded in the income statement net of any reimbursement. The Company and its subsidiaries are currently not party to any judicial or administrative proceedings.

3. Summary of significant accounting practices (Continued)

3.9. Other assets and liabilities

An asset is recognized in the balance sheet when it is probable that future economic benefits be generated in favor the Company and its cost or value can be measured reliably.

Assets and liabilities are classified as current when these items are likely to be settled or realized within 12 months. Otherwise, such items are classified as non-current.

3.10. Determination of profit or loss

Revenues and expenses are recorded on an accrual basis.

3.11. Income tax and social contribution

Income tax and social contribution are calculated based on taxable profit. The tax calculation basis takes into account additions and exclusions provided for in applicable legislation. At this stage of research and development of resources , Management does not record deferred income tax and social contribution assets on tax losses, negative social contribution basis, and temporary differences.

3.12. Significant accounting judgment, estimates and assumptions

The Company uses significant accounting judgments, estimates and assumptions to measure and recognize certain assets and liabilities in its financial statements. The determination of these estimates takes into account past and current events, assumptions relating to future events, as well as other objective and subjective factors.

Significant items subject to estimates, which were taken into consideration, or which will affect the Company after start-up, include: selection of the useful life of property, plant and equipment; the reserves estimate included used in determining depreciation based on the units of production method; the assessment of the recoverable amount of each cash generating unit; analyses of impairment of property, plant and equipment assets; among others. The settlement of transactions involving such estimates may result in amounts different from those recorded in the financial statements due to the uncertainties inherent to the determination process. The Company reviews its estimates and assumptions at least annually.

3. Summary of significant accounting practices (Continued)

3.13. Statements of cash flows

The statements of cash flows were prepared and presented in accordance with Accounting Pronouncement CPC 03 (IAS 7) – Statements of Cash Flow.

3.14. Statements of added value

The statements of added value were prepared and are presented in accordance with Accounting Pronouncement CPC 09 – Statements of Added Value. The presentation of statements of added value is required by the Brazilian Corporate Law applicable to publicly-held corporations and is presented as supplementary information for purposes of IFRS.

3.15. Loss per share

Basic loss per share are calculated by dividing loss for the year attributed to the holders of common and preferred shares of the parent company by the weighted average number of common and preferred shares available in the year.

Dilutive earnings per share are calculated by dividing the loss for the period attributable to holders of common and preferred shares of the parent company, by the 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 diluted potential common and preferred shares into common and preferred shares.

3.16. Segment information

The definition of operating segments is carried out in accordance with the 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 and has been identified as the Chief Executive Officer. Currently, the Company only has the mining segment, which is still in the resource research and development stage.

3. Summary of significant accounting practices (Continued)

3.17. Share based payment (Stock Options)

The executives' share-based compensation is measured and recognized at fair value at the date on which the options were granted, under a specific equity and P&L account, as the contractual conditions are met. The cost of transactions settled with equity instruments is recognized throughout the period in which the performance and/or conditions of service are met, with conclusion on the date in which the employee acquires full right to the bonus (acquisition date). Accumulated expenses recognized up to the date of acquisition reflect the extension to which the acquisition period has expired and the Company's best estimate as to the number of equity securities to be acquired.

4. New accounting pronouncements and interpretations

The following new standards were issued by IASB, but are not in force for the 2012 fiscal year. Below is a summary of the standards and the expected effects on the Company's financial statements, if any:

- IAS 1 (CPC 26 R1) – Presentation of Financial Statements – the major change refers to the separation of the other comprehensive income into two groups: the ones that will be realized against profit and loss and those that will remain in equity. The amendment to the standard is applicable as of January 1, 2013. This amendment should not affect the Company.

- IFRS 9 (CPC 38) - Financial Instruments - covers the classification, measurement and disclosure of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010 and replaces 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 and measured at amortized cost. The determination is made on initial recognition. The basis for classification depends on the entity's business model and on the contractual characteristics of the financial instruments' cash flow. In relation to financial liability, the standard maintains the majority of requirements set forth by IAS 39. The main change 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, originally applicable as of January 1, 2013, was postponed to January 1, 2015.

4. New accounting pronouncements and interpretations (Continued)

The Company's Management believes that the total impact of these changes in the Company's financial statements, if any, will not be significant.

- IFRS 10 (CPC 36 R3) - Consolidated Financial Statements – relies on existing principles and identifies the concept of control as a major factor in determining whether an entity should or should not be included in the consolidated financial statements. The standard expands the concept of control and provides additional guidance for its determination. This standard is applicable as of January 1, 2013. The Company holds 100% equity interest in its investees, and as of December 31, 2012, there are no agreements that result in the Company having control over entities other than the consolidated ones. Therefore, Management understands that this pronouncement should not have any impact on the financial statements.

- IFRS 11 (CPC 19 R2) - Joint Arrangements - the standard defines joint arrangements based on the rights and obligations of the arrangement rather than on its legal form. There are two types of joint arrangements: (i) joint operations – which occur when a party has rights to the assets and obligations for the liabilities and, as a result, will record its portion of the assets, liabilities, revenues and expenses; and (ii) joint ventures – which occurs when a party has rights to the net assets of an agreement and records the investment using the equity method. The proportional consolidation method will no longer be permitted for joint ventures. The Company does not have any joint arrangements as of December 31, 2012 and, thus, this standard will not impact the Company's financial statements. This standard will be effective starting on January 1, 2013.

4. New accounting pronouncements and interpretations (Continued)

- IFRS 12 (CPC 45) - Disclosure of Interests in Other Entities - covers the requirements for disclosures for all forms of interests in other entities, including subsidiaries, affiliates, joint arrangements, associations, interest for specific purposes and others. This standard becomes effective on January 1, 2013. The Company's Management understands that this standard will not significantly impact its financial statements.

- IFRS 13 (CPC 46) - Fair Value Measurement - the purpose of IFRS 13 is to improve consistency and simplify fair value measurement providing a more precise definition and a single source of fair value measurement and disclosure requirements. The requirements do not increase use of fair value accounting but provide guidelines for its application when the use thereof is already required or permitted by other standards. The standard will become effective on January 1, 2013. The Company's Management understands that this standard will not significantly impact its financial statements.

There are no other standards or interpretations not yet in force that could impact the Company's financial statements.

(In thousands of reais, except when otherwise indicated)

5. Business combinations

On June 8, 2011, the Company acquired all of the shares of MOPI and MOES, which hold certain mining rights and have been developing studies and research for 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 assets		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 (Note 9)	(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 estimated discounted cash flow method relating to the mining reserves. The acquired companies had recorded R$ 38,471 in their balance sheets relating to prospecting rights and capitalized costs and, according to the Management's evaluation, the total fair value of intangible assets was approximately R$ 585 million. Accordingly, all the excess paid was allocated to intangible assets.

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

(In thousands of reais, except when otherwise indicated)

6. Cash and cash equivalents and marketable securities

	Parent company		Consolidated	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Cash and banks	**11**	415	**11**	415
Cash equivalents				
Bank Deposit Certificates (CDBs)	**25,395**	95,903	**25,395**	95,903
Debentures with repurchase clauses	**46,081**	96,588	**46,081**	96,588
	71,487	192,906	**71,487**	192,906
Marketable securities				
Government bonds	**617,663**	-	**617,663**	-
	617,663	-	**617,663**	-

CDBs and debentures with repurchase agreements have immediate liquidity, low credit risk and are available for use in the operations of the Company and its subsidiaries. The remuneration is determined by the variation of the Interbank Deposit Certificate (Certificado de Depósito Interbancário - CDI), producing an average yield of 101.3% of CDI.

Investments in CDBs and debentures with repurchase agreements are broken down as follows:

Investment	Bank	Beginning of operation	Maturity of operation	Index CDI	12/31/2012 Parent company and consolidated	12/31/2011 Parent company and consolidated
CDB	Bradesco	03/26/2012	03/17/2014	100.0%	**417**	-
CDB	Itaú BBA	06/08/2011	05/29/2013	101.6%	**13,423**	42,642
CDB	Banco do Brasil	06/08/2011	05/29/2013	100.6%	**11,554**	53,261
Debentures	Itaú BBA	06/08/2011	05/29/2013	101.0%	**-**	54,627
Debentures	Itaú BBA	12/21/2012	01/21/2013	80.0%	**535**	-
Debentures	Bradesco	06/08/2011	05/29/2013	101.7%	**45,547**	41,961
					71,476	192,491

Although these investments mature in over 90 days, the banks guarantee the repurchase of these securities with no loss in value, at any time that the Company's Management wishes .

(In thousands of reais, except when otherwise indicated)

6. Cash and cash equivalents and marketable securities (Continued)

The breakdown of government bonds is as follows:

Security	Number	Beginning	Maturity	Index	12/31/2012 Parent company and consolidated	12/31/2011 Parent company and consolidated
LFT	18,544	11/06/2012	09/07/2015	Selic	**101,032**	-
LFT	27,808	11/07/2012	09/07/2015	Selic	**151,504**	-
LFT	18,534	11/08/2012	09/07/2015	Selic	**100,977**	-
LFT	37,055	11/12/2012	09/07/2013	Selic	**201,859**	-
LFT	712	12/05/2012	03/07/2013	Selic	**3,878**	-
NTN-B	4,000	12/04/2012	08/15/2014	IPCA	**9,735**	-
NTN-B	10,000	12/04/2012	08/15/2014	IPCA	**24,339**	-
NTN-B	10,000	12/04/2012	08/15/2014	IPCA	**24,339**	-
					617,663	-

Government bonds are allocated to an exclusive investment fund and are comprised of securities issued by the National Treasury with yields determined by the variation of Selic (LFT) and by the variation o IPCA + spread (NTN-B). As of the end of 2012, these bonds had generated an average return of 105.7% of CDI.

Government bonds are highly liquid, have low credit risk (sovereign risk) and are available for use in the operations of the Company and of its subsidiaries.

The funds invested in government bonds derive from the private placement carried out by the Company in the second half of 2012.

(In thousands of reais, except when otherwise indicated)

7. Investments in subsidiaries (Parent company)

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

Changes in investments during the period are as follows:

	12/31/2011	Capital increase	Partial spin-off (a)	Equity results/ provision for losses on investments	12/31/2012
Investments					
MOPI	30,651	44,658	(70,891)	(314)	4,104
MOES	7,810	1,365	-	(42)	9,133
Manabi Log	-	6,596	-	(144)	6,452
Excess paid on acquisition of investments					
MOPI	491,427	-	(491,427)	-	-
MOES	55,441	-	-	-	55,441
	585,329	52,619	(562,318)	(500)	75,130
Provision for losses on investments					
Manabi Log	(62)	-	-	62	
				(438)	

(a) On December 14, 2012, the partial spin-off of MOPI was carried out, due to, pursuant to the Protocol and Justification, a corporate restructuring project to streamline the group's activities, which involved the transfer of MOPI's assets and liabilities relating to the iron ore extraction activity to the Company.

With the merger into parent company of the spun-off portion of MOPI, the excess paid on the acquisition of this company, totaling R$ 491,427, which was previously recorded in the investment in the individual financial statements and allocated to intangible assets in the consolidated financial statements, is now recognized directly in the parent company's intangible assets. There were no impacts on the consolidated financial statements arising from this partial spin off.

Spun off net assets totaled R$ 70,891, summarized as follows:

	Value on spin-off date
Property, plant and equipment	1,443
Intangible assets	76,024
Accounts payable	(6,576)
Net assets spun off	70,891

(In thousands of reais, except when otherwise indicated)

7. Investments in subsidiaries (Parent company) (Continued)

Other investment information – December 31, 2012 and 2011

2012	MOPI	MOES	Manabi Log
Total common shares	4,031,860	782,820	659,600
Company's interest	100%	100%	100%
Equity	4,104	9,133	6,452
2011			
Total common shares	3,066,060,942	781,455,405	900
Company's interest	100%	100%	100%
Equity	30,651	7,810	(62)

As of December 31, 2012, the balance of funds remitted by the Parent company to the subsidiaries MOPI, MOES and Manabi Log totaled R$ 2,792, R$ 3,745 and R$ 20,968, respectively, for acquisition of land on the coast of the State of Espírito Santo, drilling, environmental studies, survey, registration, valuation, negotiation and proper documentation of the project areas. Such funds are classified as advances for future capital increase, the capitalization of which should take place within no longer than one year.

(In thousands of reais, except when otherwise indicated)

8. Property, plant and equipment

Parent company balances

	Parent company					
	12/31/2012			12/31/2011		
	Cost	Depreciation	Net amount	Cost	Depreciation	Net amount
Buildings	**285**	**(2)**	**283**	-	-	-
Construction in progress	**1,174**	**-**	**1,174**	-	-	-
Machinery and equipment	**73**	**(3)**	**70**	14	-	14
Furniture and fixtures	**767**	**(74)**	**693**	602	(13)	589
IT equipment	**290**	**(53)**	**237**	273	(13)	260
Communication equipment	**87**	**(16)**	**71**	59	(3)	56
Leasehold improvements	**688**	**(155)**	**533**	674	-	674
	3,364	**(303)**	**3,061**	1,622	(29)	1,593

Changes in the Parent company in the year

	Parent company						
	Depreciation rate	12/31/2011	Net assets*	Acquisitions	Transfer	Depreciation	12/31/2012
Buildings	4%	-	**283**	**-**	**-**	**-**	**283**
Construction in progress	-	-	**1,100**	**74**	**-**	**-**	**1,174**
Machinery and equipment	10%	14	**56**	**2**	**-**	**(2)**	**70**
Furniture and fixtures	10%	589	**2**	**162**	**-**	**(60)**	**693**
IT equipment	20%	260	**2**	**469**	**(453)**	**(41)**	**237**
Communication equipment	20%	56		**28**	**-**	**(13)**	**71**
Leasehold improvements	22%	674		**14**	**-**	**(155)**	**533**
		1,593	**1,443**	**749**	**(453)**	**(271)**	**3,061**

* Amounts from the partial merger of the subsidiary MOPI.

Consolidated balances

	Consolidated					
	12/31/2012			12/31/2011		
	Cost	Depreciation	Net amount	Cost	Depreciation	Net amount
Land	**28,203**	**-**	**28,203**	5,523	-	5,523
Buildings	**285**	**(2)**	**283**	-	-	-
Construction in progress	**7,874**	**-**	**7874**	522	-	522
Machinery and equipment	**73**	**(3)**	**70**	14	-	14
Furniture and fixtures	**770**	**(74)**	**696**	602	(13)	589
IT equipment	**290**	**(53)**	**237**	273	(13)	260
Communication equipment	**87**	**(16)**	**71**	59	(3)	56
Leasehold improvements	**688**	**(155)**	**533**	674	-	674
	38,270	**(303)**	**37,967**	7,667	(29)	7,638

(In thousands of reais, except when otherwise indicated)

8. Property, plant and equipment (Continued)

Changes in the consolidated balances in the year

	Depreciation rate	12/31/2011	Acquisitions	Transfer	Depreciation	12/31/2012
Land	-	5,523	22,680	-	-	28,203
Buildings	4%	-	285	-	(2)	283
Construction in progress	-	522	7,352	-	-	7,874
Machinery and equipment	10%	14	59	-	(3)	70
Furniture and fixtures	10%	589	167	-	(60)	696
IT equipment	20%	260	471	(453)	(41)	237
Communication equipment	20%	56	28	-	(13)	71
Leasehold improvements	22%	674	14	-	(155)	533
		7,638	31,056	(453)	(274)	37,967

On September 14, 2011, through subsidiary Manabi Log, the Company acquired an area of rural land measuring 3,390,034m^2 (three million, three hundred and ninety thousand, thirty four square meters) located in Degredo – Suruaca, in the Regência district, on the coast of the State of Espírito Santo. The fixed and non-adjustable acquisition price for the land, in accordance with the terms of the purchase option agreement, was R$ 5,320.

On March 26, 2012, subsidiary Manabi Log acquired another land area measuring 6,618,430 m^2 (six million, six hundred and eighteen thousand, four hundred and thirty square meters) in the same location. The fixed and non-adjustable acquisition price for this land, in accordance with the agreement, was R$ 15,300.

In addition to such acquisitons of ownership, subsidiary Manabi Log also acquired from each seller certain possession rights of of 430,706 m^2 (four hundred thirty thousand seven hundred and six square meters) and 985,500 m^2 (nine hundred eighty-five thousand five hundred square meters), respectively, subject to formalization.

The acquisitions described above are part of the Company's strategy to develop the project's logistics, which includes transport of mining goods and products and the development of a private mixed use port terminal to export, handle and store iron ore provided by MOPI, as well as other cargo that may be required and authorized by the National Maritime Transport Agency (Agência Nacional de Transportes Aquaviários - ANTAQ), under applicable legislation.

In November 2011, construction of the port terminal was started. Costs incurred up to December 31, 2012 were R$ 6,700, related to the environmental licensing process, oceanographic studies and start of the port's conceptual engineering project, were fully recorded as property, plant and equipment.

(In thousands of reais, except when otherwise indicated)

9. Intangible assets (consolidated)

Intangible assets were acquired mainly through a business combination which took place on June 8, 2011, and are comprised of prospecting rights and existing mining resources of subsidiaries MOPI and MOES.

The intangible assets are represented by over 65 mining rights, related resources and exploration costs, located in the State of Minas Gerais, from which 21 are exploration licenses (autorizações de pesquisa) and the remaining basically in the stage of application for exploration licenses or in availability process, and by capitalized costs corresponding to the development of the mines, as follows:

	Consolidated					
	Amortization rate	12/31/2011	Additions	Transfer	Amortization	12/31/2012
Expenditures related to exploration / valuation of mineral resources and prospecting rights	-	44,285	**46,568**	-	-	**90,853**
Intangible assets acquired in business combination (Note 5)	-	546,868	-	-	-	**546,868**
Software	20%	-	-	**453**	**(71)**	**382**
		591,153	**46,568**	**453**	**(71)**	**638,103**

The Company is taking the necessary steps to fully transfer ownership of those acquired mining rights that are in the stage of application or in availability process before the regulatory agency, as contemplated in the documentation of June 8, 2011.

10. Income tax and social contribution

As of December 31, 2012, the Company's accumulated tax loss carryforward and negative social contribution basis amounted to R$ 59,537 (R$ 19,107 as of December 31, 2011), in relation to which Management opted not to record deferred tax assets in this stage of the project. Tax loss carryforwards generated in Brazil do not expire and are offset with future taxable profit, limited to 30% of the taxable profit in each year.

11. Transactions with related parties

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

Compensation of key management personnel

The Company considers all current officers and board members to be key management personnel. For the fiscal year ended December 31, 2012, the compensation of these officers and board members was R$ 4,631 and R$ 1,714, including salaries, fees and social charges. The Special Shareholders' Meeting established compensation for the officers and board members for the 2012 fiscal year at an aggregate amount of R$ 5,100 and R$ 2,100 respectively.

Share based payment (stock options)

In the Annual Shareholders' Meeting held on July 21, 2011, the Company's shareholders approved a stock option plan for officers, members of the Board of Directors, and employees. The stock options issued by the Company under the plan are primary and, therefore, involve the issuance of new shares.

On December 31, 2012, a total of 23,370 (twenty-three thousand, three hundred and seventy) options had been granted, by means of individual agreements between the Company and each beneficiary. As a condition for entitlement to the stock purchase option, the beneficiary must complete three years of service (vesting period). These options, in the proportion of one third of the total number of shares available for the plan, are exercisable in three annual tranches. The first tranche can be exercised in 12 months from the grant date and the following tranches, pursuant to the same conditions, can be exercised in 24 and 36 months from the grant date. The participants have a maximum term of sixty months from the maturity date to exercise the options.

(In thousands of reais, except when otherwise indicated)

11. Transactions with related parties (Continued)

Share based payment (stock options) (Continued)

The exercise price of the options granted until August 20, 2012 is R$ 1,576.00 (one thousand, five hundred and seventy six reais) per share and, after such date, R$ 2,547.25 (two thousand, five hundred and forty-seven reais and twenty-five cents), which shall remain unchanged until the effective exercise date of the option, subject to adjustment in the event of share grouping or share split. As the Company has not paid dividends to date, the valuation of these options assumes no payment of dividends for the duration of the stock option program.

The stock options were measured and recognized at fair value using the Merton model (1973).

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

Plan	Grant date	Initial maturity date	Vesting date	Number of shares	Annual volatility	Risk free rate	Dilution factor	Fair value options
2011.1	10/15/2011	10/15/2012	2/15/2013	180	40.41%	11,35%	99.41%	**163**
2011.1	10/15/2011	10/15/2012	10/15/2017	4,550	40.41%	11,35%	99.41%	**4,122**
2011.1	10/15/2011	10/15/2013	10/15/2018	4,550	39.47%	11,35%	98.82%	**4,387**
2011.1	10/15/2011	10/15/2014	10/15/2019	4,550	38.95%	11,34%	98.23%	**4,629**
Total 12/31/2011				13,830				**13,301**
Amendments	1/2/2012	10/15/2012	10/15/2017	500	40.86%	11,00%	99.24%	**442**
Amendments	1/2/2012	10/15/2013	10/15/2018	500	39.58%	11,04%	98.33%	**469**
Amendments	1/2/2012	10/15/2014	10/15/2019	500	38.98%	11,06%	97.44%	**495**
2012.1	1/2/2012	10/15/2012	10/15/2017	900	40.86%	11,00%	99.24%	**795**
2012.1	1/2/2012	10/15/2013	10/15/2018	900	39.58%	11,04%	98.33%	**844**
2012.1	1/2/2012	10/15/2014	10/15/2019	900	38.98%	11,06%	97.44%	**890**
2012.2	1/2/2012	12/1/2012	12/1/2017	300	40.67%	10,99%	99.20%	**267**
2012.2	1/2/2012	12/1/2013	12/1/2018	300	39.51%	11,05%	98.30%	**284**
2012.2	1/2/2012	12/1/2014	12/1/2019	300	38.95%	11,06%	97.41%	**299**
2012.3	2/1/2012	1/15/2013	1/15/2018	1,000	40.55%	11,04%	99.08%	**892**
2012.3	2/1/2012	1/15/2014	1/15/2019	1,000	39.47%	11,19%	98.18%	**951**
2012.3	2/1/2012	1/15/2015	1/15/2020	1,000	38.80%	11,23%	97.29%	**1,001**
2012.4	1/13/2012	1/13/2013	1/13/2018	100	40.47%	11,23%	99.20%	**90**
2012.4	1/13/2012	1/13/2014	1/13/2019	100	39.41%	11,31%	98.28%	**96**
2012.4	1/13/2012	1/13/2015	1/13/2020	100	38.88%	11,32%	97.37%	**101**
2012.5	8/20/2012	8/20/2013	8/20/2018	180	39.99%	9,65%	99.05%	**154**
2012.5	8/20/2012	8/20/2014	8/20/2019	180	38.74%	9,78%	98.11%	**164**
2012.5	8/20/2012	8/20/2015	8/20/2020	180	38.05%	9,97%	97.19%	**173**
2012.6	11/19/2012	11/19/2013	11/19/2018	200	39.90%	9,06%	98.68%	**270**
2012.6	11/19/2012	11/19/2014	11/19/2019	200	38.72%	9,20%	97.97%	**288**
2012.6	11/19/2012	11/19/2015	11/19/2020	200	38.04%	9,39%	97.80%	**307**
Total for the year				9,540				**9,272**
Total 12/31/2012				23,370				**22,573**

(In thousands of reais, except when otherwise indicated)

11. Transactions with related parties (Continued)

Share based payment (stock options) (Continued)

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

	1st program	2nd program	3rd program	4th program	5th program	Recorded in statement of operations	Total recorded in equity
2011	939	-	-	-	-	939	939
2012	4,535	2,579	92	60	33	7,299	8,238
2013	4,375	2,666	96	163	289	-	-
2014	3,453	2,344	95	163	288	-	-
2015	-	39	4	105	255	-	-
	13,302	7,628	287	491	865		

In the event the beneficiary resigns, the non-vested options expire with no indemnification or compensation due and the vested options can be exercised within ninety days.

In the event the beneficiary's labor agreement is terminated with due cause, all rights expire immediately, regardless of any notice or indemnification.

12. Trade accounts payable

Trade accounts payable as of December 31, 2012 and 2011 are as follows:

	Parent company		Consolidated	
	12/31/2012	**12/31/2011**	**12/31/2012**	**12/31/2011**
Domestic	**9,219**	341	**9,810**	3,135
Foreign	**51**	-	**51**	-
	9,270	341	**9,861**	3,135

These balances refer mainly to services necessary to perform the exploratory campaign, with an average settlement term of 60 days, not subject to interest and charges.

(In thousands of reais, except when otherwise indicated)

13. Equity

a) Capital stock

As of December 31, 2012, the subscribed and paid-in capital is represented by 1,040,000 shares, of which 250,000 are registered common shares, 550,000 are preferred class "A" shares and 240,000 are preferred class "B" shares, of no par value, as detailed below:

	Number of shares				
Shareholders	Common	Class "A" preferred	Class "B" preferred	Total	%
Fábrica Holding S.A.	150,000	3,000	320	153,320	14.74%
Ontario Teachers' Pension Plan	-	165,000	19,904	184,904	17.78%
Korea Investment Corporation	-	100,000	80,000	180,000	17.31%
EIG – Global Energy Partners	-	-	120,000	120,000	11.54%
Southeastern Asset Management	-	100,000	800	100,800	9.69%
Michael Stephen Vitton	50,000	11,000	360	61,360	5.90%
Mathew Todd Goldsmith	50,000	6,000	160	56,160	5.40%
Other	-	165,000	18,456	183,456	17.64%
	ÿ50,000	550,000	240,000	1,040,000	100.00%

Each common share entitles its holder to 1(one) vote in the Shareholders' Meetings, whereas each preferred share entitles its holder to the number of votes in Shareholders' Meetings based on the number of common shares into which each preferred share is convertible, as applicable, according and subject to the Shareholders' Agreement.

In the Special Shareholders' Meeting held on September 10, 2012, the shareholders and the Board of Directors approved a capital increase in the amount of R$ 611,340 by means of private placement, with an issuance of 240,000 new class "B" preferred shares, of which R$ 305,670 was contributed by EIG Manabi Holdings S.à.r.l. (on behalf of funds administered by EIG Global Energy Partners, "EIG"), a North-American global institutional investor in the energy, mining and infrastructure sectors. The remaining amount was contributed by the Company's existing shareholders. This capital increase was approved by means of creation of new class "B" preferred shares and current preferred shares were reclassified as class "A" preferred shares. Class "B" preferred shares shall have similar characteristics, as provided for in the Shareholders' Agreement.

(In thousands of reais, except when otherwise indicated)

13. Equity (Continued)

b) Capital reserves

Capital reserves are composed of subscription warrants and stock options granted.

On June 8, 2011, the Company issued subscription warrants to shareholders (i) Fábrica Holding S.A., (ii) Mathew Todd Goldsmith and (iii) Michael Stephen Vitton. These warrants entitle the holders to an option to subscribe a maximum of 44,854 common shares for R$ 0.01 (one cent), in accordance with the terms and conditions set forth in the Subscription Warrant Certificate, as amended at the Special Shareholders' Meeting held on September 10, 2012, exercisable, in whole or in part, at the holder's discretion, upon occurrence of the events defined ("Execution Events").

Shareholder Fábrica Holding S.A. has the right to subscribe 60% of such shares the other two shareholders may subscribe 20% each.

The mentioned Execution Events had not occurred by December 31, 2012 and these events are outside the control of the option holders. Therefore, these options did not have any impact on the financial statements.

c) Loss per share

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

	Period from March 10, 2011 (date of the Company's incorporation) through December 31, 2011		
	Common	Preferred	Total
Loss attributable to the equity holders	(23)	(41)	(64)
Weighted average number of outstanding shares	219,700	382,900	602,600
Loss per share – basic and diluted (*) in Reais	(0.10)	(0.10)	

	Year ended December 31, 2012			
	Common	Class "A" preferred	Class "B" preferred	Total
Loss attributable to the equity holders	(10,295)	(22,649)	(1,679)	(34,623)
Weighted average number of outstanding shares	250,000	550,000	40,767	840,767
Loss per share – basic and diluted (*) in Reais	(41.18)	(41.18)	(41.18)	

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

(In thousands of reais, except when otherwise indicated)

14. Financial instruments

Financial instruments as of December 31, 2012 are represented by cash and cash equivalents and marketable securities, classified and measured at fair value through profit or loss.

Financial liabilities are represented by trade accounts payable, recorded at amortized cost. The average maturity period of trade accounts payable is 60 days and there are no relevant differences between carrying amounts and fair values.

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

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

15. Insurance coverage

The Meeting of the Board of Directors held on June 28, 2011, approved the Management's proposal based on a proposal submitted by insurance company Chartis Seguros Brasil S.A., for an insurance policy covering Directors' and Officers' civil liability at an insured amount of US$ 25,000,000 (twenty five million dollars) and an annual premium of approximately US$ 116,000 (one hundred and sixteen thousand dollars).

The policy was renewed on July 4, 2012 in the total insured amount of R$ 50,000, with an annual premium of R$ 146. The purpose of the insurance is to pay for losses due to third parties as a result of a claim.

The Board may review the coverage of this policy from time to time and upon the occurrence a major event.

Ricardo Antunes Carneiro	Antonio Borges Leal Castello Branco
CEO	CFO