MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Year Ended

December 31, 2012

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INTRODUCTION

The following discussion of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements of Manabi S.A. and its subsidiaries as of December 31, 2012 and the related notes included thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar figures are in U.S. dollars. Manabi S.A. was incorporated on March 10, 2011, thus the comparative information for the year 2011 covers the period from March 10, 2011 to December 31, 2011 only. The effective date of this MD&A is March 28th 2013.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. Such statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indicators of whether or not such results will be achieved. We do not assume any obligation to update or revise the forward-looking statements contained herein to reflect events or circumstances occurring after the date of this MD&A.

This MD&A also contains references to estimates of mineral resources. The estimation of mineral resources is inherently uncertain and involves subjective judgments about many relevant factors. Mineral resources that are not mineral reserves do not have demonstrated economic viability. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgments used in engineering and geological interpretation (including estimated future production from our projects, the anticipated tonnages and grades that will be mined and the estimated level of recovery that will be realized), which may prove to be unreliable and depend, to a certain extent, upon the analysis of drilling results and statistical inferences that may ultimately prove to be inaccurate.

Technical information relating to the mineral exploration project at *Morro do Pilar* (**the "Pilar Hill Project"**) and the mineral exploration project at *Morro Escuro* (**the "Dark Hill Project"**) contained in this Report is derived from, and in some instances is extracted from, the Pilar Hill Resource Report and the Dark Hill Resource Report prepared by SRK (each as defined herein and collectively, the **"Pilar Hill and the Dark Hill Reports"**).

Reference should be made to the full text of the Pilar Hill and the Dark Hill March 2012 Resource Reports, which have been filed with Canadian securities regulatory authorities pursuant to National Instrument 43-101 – Standards of Disclosure for Mineral Projects (**"NI 43-101"**) and are available for review under our profile on the System for Electronic Document Analysis and Retrieval (**"SEDAR"**) at www.sedar.com.

OVERVIEW

Manabi S.A. (the "Company" or "we", "us", "our" or "our company"), previously denominated Manabi Holding S.A., was incorporated on March 10, 2011 and is a publicly-held company with its main office in Rio de Janeiro, Brazil.

We are a preoperational mining company focused on the exploitation of high-grade iron ore in Brazil and integrated logistics for sale of iron ore both in Brazil and abroad, either directly or indirectly through our subsidiaries. As of the date of this MD&A, we hold all of the outstanding equity capital of (i) Morro do Pilar Minerais S.A. ("Pilar Hill" or "MOPI"); (ii) Morro Escuro Minerais S.A. ("Dark Hill" or "MOES"); and (iii) Manabi Logística S.A. ("Manabi Logística").

Manabi collectively holds 78 mineral rights for the exploitation of iron ore in areas contiguous to the Iron Quadrangle (*Quadrilátero Ferrífero*) in the center of the state of Minas Gerais, a well-known mining area in Brazil. We are currently developing two mining projects: Pilar Hill (*Morro do Pilar*) and Dark Hill (*Morro Escuro*). Both projects are located in the State of Minas Gerais and are estimated to contain approximately 1.5 billion tons of inferred resources and between 1.0 to 2.25 billion tons of exploratory potential according to SRK NI 43-101 March 2012 Resource Report.

The table below summarizes certain resource, drilling and grade information of our Pilar Hill project.

Project[1]	Inferred Mineral Resources [2][3]		Exploration Potential [4]	
	Tonnes (Mt)	Grade (%Fe)	Mineralization Range (Mt)	Grade Range (%Fe)
Pilar Hill	1,165	29.93	750 – 1,800	25 – 29%

The table below summarizes certain resource, drilling and grade information of our Dark Hill project.

Project[5]	Inferred Mineral Resources		Exploration Potential	
	Tonnes (Mt)	Grade (%Fe)	Mineralization Range (Mt)	Grade Range (%Fe)
Dark Hill	389	27.22	250 – 450	24 – 29%

The final product we intend to produce in our Pilar Hill and Dark Hill projects is considered to be of premium quality in the iron ore market due to the favorable chemical composition demonstrated below:

Preliminary Specifications of the
Chemical Characteristics of the Premium Pellet Feed
from Pilar Hill and Dark Hill

Mineral	Content (%)
Fe (Iron)	68.5
SiO_2 (Silica)	1.0
Al_2O_3 (Aluminum oxide)	0.6
Mn (Manganese)	0.05
P (Phosphorus)	0.03
LOI (Loss on ignition)	0.7

Source: Manabi's internal research

The particularly high concentration of iron and low concentration of contaminants of our pellet feed should distinguish Manabi in the global market given the scarcity of high quality pellet feed. Recent increases in the steel industry's demand for higher quality raw material should grant us a competitive edge and enable us to create a captive demand for our product.

As a complement to our mining activities, Manabi Logística will be responsible for the integrated logistics necessary to transport the pellet feed to our customers from the Pilar Hill mine. Manabi

[1] The mineral resources and exploration potential estimates presented in this table are derived from the Pilar Hill Resource Report.
[2] Mineral resources are classified as inferred, indicated or measured, in accordance with the degree of certainty relating to both the amount and quality of iron ore they contain, with the classification "inferred" corresponding to the least degree of certainty, and "measured" the greatest.
[3] This table of mineral resources at the Pilar Hill Project does not include an additional approximately 30Mt of indicated mineral resources grading approximately 49% Fe.
[4] This represents exploration potential, and not mineral resources. The potential quantity and grade are conceptual in nature, there has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource.
[5] The mineral resources and exploration potential estimates presented in this table are derived from the Dark Hill Resource Report.

Logística shall coordinate the distribution of the pellet feed from our Pilar Hill project to export mainly to Asia, the Middle East and Europe, through an integrated and independent system, with a dedicated slurry pipeline connecting the mine to our port terminal on the north coast of the State of Espírito Santo (the "North Port"). Dark Hill´s pellet feed shall be distributed in the domestic market to steel mills and other mining companies through the use of trucks or railways.

The North Port, at one end of the pipeline, is being developed on an area of approximately 3,000 acres and almost four miles of seafront. We intend to export our entire expected pellet feed production from Pilar Hill project through the North Port. We also believe that the North Port has significant potential for expansion and could move in the future additional volumes of iron ore from third parties, as well as other bulk cargoes such as coal, grains and fertilizers, generating extra revenue for Manabi Logística.

OVERALL PERFORMANCE

General

On April 16, 2012, our shareholders approved at an extraordinary general meeting the change of our corporate name from "Manabi Holding S.A." to "Manabi S.A.," as well as approved the broadening of our corporate purpose to include activities related to the mining sector that are currently carried out by our subsidiaries.

Because we are in a preoperational stage, we currently have no operating revenues. Pursuant to our business plan, we anticipate that we will incur capital expenditures totaling approximately US$3.4 billion with respect to our Pilar Hill project and US$721 million with respect to our Dark Hill project. We believe that funds currently held in cash are sufficient for the next 15 months of operations and expect to obtain additional funding for the exploration and development activities through debt and equity financing until operating revenues commence.

In October 2012, we raised R$611.3 million through a private placement of 240,000 class B preferred shares. Regarding debt, we are currently analysing financing alternatives made available by governmental and multilateral agencies, including by the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or "BNDES"), and by a group of commercial banks.

Pilar Hill Project

A. Mine

During 2012, we have taken significant steps towards the development of our Pilar Hill Project, particularly on geology and engineering studies, as described below.

In March 2012, SRK concluded Manabi´s certified resource report in accordance with the NI 43-101, confirming approximately 1.5 billion tonnes of inferred resources. The report does not reflect a pre-feasibility or feasibility study, within the meaning of NI 43-101.

For the collection of more extensive data, we continued our drilling campaign in the Pilar Hill project during 2012 and contracted Geosol – Geologia e Sondagens Ltda. ("Geosol"), the Brazilian leading drilling company, which performed a 42,000-meter drilling program on the mining site. The new set of data collected in 2012 is expected to substantiate a new report to be released during the first half of 2013 and should result in an upgrade of the inferred resources into measured and indicated category.

The conceptual engineering of the beneficiation plant, the drained stacking and the filtering systems of our Pilar Hill mine was completed in 2012. We have used and will continue to take advantage of the 3-D technology for the engineering, which we believe will make the design more accurate. Over this past year, we also advanced in the geotechnical survey needed for the implementation of the drained stacking we plan to adopt, a more eco-friendly tailings disposal technique.

Other significant steps taken during the year 2012 relate to the project's environmental licensing. On March 29, 2012 we filed before the State Secretary for the Environment and Sustainable Development of Minas Gerais an Environmental Impact Assessment ("EIA") and its related Environmental Impact Report ("RIMA" and, together with EIA, "EIA-RIMA"). The EIA is a comprehensive environmental study on the impacts of the projects and the EIA-RIMA is the most important report required by the governmental authorities during the licensing process. After such filing, the environmental authority has called the mandatory public hearing, which took place in October 22, 2012 and was attended by approximately 700 people. We expect to receive the preliminary license during the first half of 2013.

We anticipate that we will incur capital expenditures totaling approximately US$2.5 billion with respect to the Pilar Hill mine. Out of this total, US$26 million has been invested prior to December 31, 2012, mostly on the drilling campaign, environmental licensing process, engineering studies and land acquisition.

B. Pipeline

We plan to contract the construction of the slurry pipeline project on the basis of a 'Build, Operate, Transfer' ("BOT") agreement pursuant to which the contractor will be responsible for capital expenditures in relation to the pipeline. Under the BOT arrangement, we would be charged a fee for the transportation of our pellet feed along the slurry pipeline in accordance with a long-term ship-or-pay agreement.

We have contracted Banco BTG Pactual S.A. ("BTG") to act as a financial advisor for the pipeline BOT. The Company and BTG are engaged in negotiations with large domestic and international contractors.

In 2012, we advanced in the pipeline feasibility studies, by concluding the aerial topography on the full extent of the pipeline route. We also moved forward in the licensing process of the pipeline before the national environmental agency responsible for such licenses, the Brazilian Environmental and Natural Resources Institute ("IBAMA"). We officially started the licensing process in November 2012 by filling the "term of reference" before IBAMA and then filing the EIA-RIMA on March 13, 2013. Also in order to obtain the necessary environmental license, we have been gathering the support of most of the municipalities on the proposed route of the pipeline. As of this date, 20 out of 23 of such municipalities have already granted us their consent letters to the pipeline. We expect to obtain the last three consent letters in the first half of 2013.

C. North Port

On March 26, 2012, Manabi Logística acquired for approximately US$8.7 million, 760 hectares (1,900 acres), on the coast of the State of Espírito Santo, where the North Port will be located. This land adds up to a contiguous area of 380 hectares (1,000 acres) that was acquired during 2011.

We have continued our engineering developments for the construction of the North Port and, during the second half of 2012, we concluded the bathymetry and topographic surveys, and the mathematical and physical models for the breakwater project.

To obtain the necessary environmental license, we filed the "term of reference" for the North Port before IBAMA in November 2012 and filed the EIA-RIMA on March 13, 2013.

We anticipate that we will incur capital expenditures of approximately US$844 million to develop the North Port. Out of this total, US$13 million has been invested prior to December 31, 2012, mostly on land acquisitions, engineering studies and environmental licensing process.

Besides handling the 25Mtpy iron ore originated from Pilar Hill that will reach the North Port through the dedicated 531km pipeline, a rail connection to the North Port is also being considered. This connection would require the construction of a 100km rail spur between the North Port and the main

rail line, Estrada de Ferro Vitória-Minas ("EFVM"), which is a federal railway concession operated by Vale S.A.

Dark Hill Project

At the beginning of 2012, we concluded the project's resource report on the area's geology, which indicated significant reserves of iron ore, with the physical, chemical, mineralogical and technological characteristics of a major deposit, capable of supporting the deployment of a future mining venture.

We have submitted such final survey report to the National Department of Mineral Production (*Departamento Nacional de Produção* Mineral, or "DNPM"), which approved the report in March 2012. This approval came as an important milestone for obtaining the mining concession over the mining rights we have in the area. Continuing this process, in February 2013 we filed the economic feasibility plan for Dark Hill, the most important document for the granting of the mining concession. Once we are granted the mining concession, we plan to commence a 30,000-meter drilling campaign to obtain in-depth knowledge of the iron ore deposit.

On the environmental licensing of this project, on December 22, 2012, we filed before the Secretary for the Environment and Sustainable Development of Minas Gerais the report on the studies of environmental impacts, the EIA-RIMA.

We anticipate that we will incur capital expenditures of approximately US$721 million to develop the Dark Hill mine. Out of this total, approximately US$4 million has been invested prior to December 31 2012, mostly on engineering and environmental studies.

SELECTED ANNUAL INFORMATION

The following financial information is derived from our financial statements for the fiscal years ended December 31, 2012 and 2011, prepared under IFRS. The financial information related to the fiscal year ended December 31, 2011 refers to information from our incorporation, on March 10, 2011.

	Manabi S.A.		**Consolidated**	
(in thousands of *reais*, except if otherwise specified)	**12/31/2012**	**12/31/2011**	**12/31/2012**	**12/31/2011**
Total Revenue	-	-	-	-
Operating losses before financial results	(53,517)	(13,307)	(53,507)	(13,307)
Operating losses before financial results per common share (basic and diluted) (in *reais*)	(63.65)	(22.75)	-	-
Operating losses before financial results per preferred share (basic and diluted) (in *reais*)	(63.65)	(22.75)	-	-
Financial income and expenses	18,894	13,243	18,884	13,243
Loss for the year	(34,623)	(64)	(34,623)	(64)
Loss per common share (basic and diluted)(in *reais*)	(41.18)	(0.10)	-	-
Loss per preferred share (basic and diluted) (in *reais*)	(41.18)	(0.10)	-	-
Total Assets	1,368,127	789,349	1,368,937	792,277
Total non-current financial liabilities	-	-	-	-
Distributions or cash dividends declared per common share or preferred share	-	-	-	-

Our total losses for the period increased to R$34.6 million for the year ended December 31, 2012 from a loss of R$64 thousand in 2011. This increase in expenses was expected as we are a pre-operational company and it relates mostly to (i) in 2011, such expenses were incurred mostly during the

second semester, while for 2012, such expenses reflect a whole year period; (ii) a R$21.0 million increase of personnel expenses due to hiring of personnel; (iii) a R$14.0 million increase of outsourced services, such as technical consultancy related to the pipeline and rail spur; and (iv) a R$4.5 million increase on our general and administrative expenses.

Our total assets increased 72.8% or R$576.7 million, to R$1,368.9 million as of December 31, 2012 from R$792.3 million as of December 31, 2011, mainly as a result of the allocation of a total amount of R$611.3 million raised from our private placement of preferred B shares to investments in marketable securities (government bonds). Government bonds are highly liquid, have low credit risk (sovereign risk) and are available for use in Manabi and its subsidiaries' operations when needed.

SUMMARY OF QUARTERLY RESULTS (unaudited)

The following table highlights our consolidated quarterly results for the last eight quarters.

	2012				2011			
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenue	-	-	-	-	-	-	-	-
Income (loss) for the period (in thousands of *reais*)	(4,753)	(8,983)	(16,016)	(4,871)	(28)	909	2,524	(3,469)
Income (loss) per common share (basic and diluted) (in *reais*)	(5.94)	(11.23)	(20.02)	(5.07)	(280.00)	1.62	3.16	(4.34)
Income (loss) per preferred share (basic and diluted) (in *reais*)	(5.94)	(11.23)	(20.02)	(5.07)	-	4.64	3.16	(4.34)

REVIEW OF FINANCIAL RESULTS

The following discussion of our results of operations should be read together with our consolidated financial statements as of December 31, 2012 and for the year ended on December 31, 2011. The main factor that affected our operating results for the periods discussed below was our pre-operational expenses. The table below sets forth our consolidated results of operations for the period from January 1, 2012 to December 31, 2012 and for the period from March 11, 2011 to December 31, 2011.

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(in thousands of *reais*, except if otherwise specified)	Manabi S.A. 12/31/2012	Manabi S.A. 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	**(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	**-**	-	**-**	-
Loss for the year	**(34,623)**	(64)	**(34,623)**	(64)
Loss per common share (basic and diluted)(in *reais*)	**(41.18)**	(0.10)	-	-
Loss per preferred share (basic and diluted) (in *reais*)	**(41.18)**	(0.10)	-	-

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Operational expenses. We are currently in pre-operational phase of development and therefore have not generated operating revenue. We incurred consolidated operating expenses of R$53.5 million in the year ended on December 31, 2012, an increase of R$40.2 million, from R$13.3 million in the year ended December 31, 2011. The increase is mainly related to (i) in 2011, such expenses were incurred mostly during the second semester, while for 2012, such expenses reflect a whole-year period; (ii) a R$21.0 million increase of personnel expenses due to hiring of new personnel; (iii) a R$14.0 million increase of outsourced services, such as technical consultancy related to the pipeline and rail spur; and (iv) a R$4.5 million increase in our general and administrative expenses.

Financial results. Our consolidated financial results for the year ended December 31, 2012 increased to R$18.9 million, or a 42.6% increase when compared to the financial results of R$13.2 million from the year ended December 31, 2011. The increase is primarily caused by the increase in 2012 average balance of cash equivalents and marketable securities, due to the R$611.3 million raised through the private placement in October 2012.

Loss before income and social contribution taxes. As a result of the foregoing, we recorded R$34.6 million as loss before income and social contribution taxes for the year ended December 31, 2012, as compared to a loss of R$64 thousand for the year ended December 31, 2011.

Income and social contribution taxes. For the year ended December 31, 2012, the Company´s accumulated tax loss carry-on and negative social contribution basis amounted to R$59,537 (R$19,107 as of December 31, 2011). Management opted not to record deferred taxes assets at this stage of the project. Tax loss carry-on generated in Brazil do not expire and are offset with future taxable profit, limited to 30% of the taxable profit in each year.

Loss for the period. As a result of the foregoing, our loss for the year ended December 31, 2012 was of R$34.6 million, compared to a loss of R$64 thousand for the year ended December 31, 2011.

Cash Flows

The table below presents our cash flows for the year ended December 31, 2012 and 2011.

	Manabi S.A.		**Consolidated**	
(in thousands of *reais)*	**12/31/2012**	**12/31/2011**	**12/31/2012**	**12/31/2011**
Net cash from operating activities	**(33,725)**	2,106	**(34,182)**	5,019
Net cash used in investing activities	**(684,801)**	(595,907)	**(684,344)**	(598,820)
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

Net cash from operating activities. Our consolidated net cash from operating activities has decreased from R$5.0 million for the period ending December 31, 2011 to a negative R$34.2 million for the period ending December 31, 2012. The decrease relates mainly to the loss before income tax and social contribution of R$34.6 million in 2012, as opposed to a loss of R$64 thousand in 2011, as described above.

Net cash used in investing activities. Our consolidated net cash utilized in financing activities has increased 14.3% to R$684.3 million for the period ending December 31, 2012, as compared to the amount of R$595.9 million for the period ending December 31, 2011. The increase relates mainly to (i) the acquisition of property in Pilar Hill and North Port in 2012; (ii) to costs of construction of the port terminal related to the environmental licensing process; (iii) and to the capitalized costs corresponding to the development of the mines.

Net cash from financing activities. Our consolidated net cash from financing activities has decreased 24.1% to R$597.1 million for the period ending December 31, 2012, as compared to the amount of R$786.7 million for the period ending December 31, 2011. The decrease was a result of a lesser amount raised in the 2012 private placement of class B preferred shares (R$611.3 million) compared to the 2011 private placement of class A preferred shares (R$806.8 million).

Cash and cash equivalents. Our consolidated cash and cash equivalents decreased R$121.4 million from R$192.9 million as of December 31, 2011 to R$71.5 million as of December 31, 2012. The decrease was a result of higher capital expenditures performed at Pilar Hill and Dark Hill Projects.

CAPITAL STRUCTURE

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.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2012, we have not incurred any material financial obligations and no long-term liabilities. All of our liabilities at that date are related to (i) contractual obligations to our service providers totaling an aggregate of R$9.9 million, primarily for technical services, such as drilling and engineering. We believe that we have sufficient financial resources to meet our financial obligations as we stand and plan our future raising of funds as disclosed below.

SOURCES OF FUNDS

Through the date of this MD&A, Manabi´s balance of cash, cash equivalents and marketable securities originated from the private placement of its preferred shares (classes A and B), which have funded its working capital needs as well as its initial long-term investments.

In order to execute our business plan, we will depend upon further equity and debt raise from our shareholders, third parties and banks. Pursuant to our business plan, we anticipate that we will incur capital expenditures totaling approximately US$3.4 billion with respect to our Pilar Hill project and US$721 million with respect to our Dark Hill project. The estimated capital expenditures for our Pilar Hill project do not include the capital expenditures necessary for the construction of a slurry pipeline, as we intend to construct the pipeline pursuant to a BOT arrangement whereby those expenditures would be incurred by a third party and not by us. Our business plan assumption for leverage has been a Debt/Equity ratio of 60/40. Management has been monitoring both equity and debt markets in order to structure an optimal funding package including governmental and multilateral agencies (such as BNDES) and Brazilian and international banks.

INDEBTEDNESS AND CONTRACTUAL LIABILITIES

As of December 31, 2012, liabilities are primarily represented by balances with trade accounts payable.

The following table sets forth our contractual liabilities as of December 31, 2012 (deriving from accounts payable to suppliers, purchases of fixed assets and administrative expenses) and as of December 31, 2011:

	As of December 31, 2012				
	< 1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Type of liability			*(in R$)*		
Secured by real property	0	0	0	0	0
Floating	0	0	0	0	0
Unsecured	9,861,000	0	0	0	9,861,000
Total	**9,861,000**	**0**	**0**	**0**	**9,861,000**

	As of December 31, 2011				
	< 1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Type of liability			*(in R$)*		
Secured by real property	0	0	0	0	0
Floating	0	0	0	0	0
Unsecured	3,135,000	0	0	0	3,135,000
Total	**3,135,000**	**0**	**0**	**0**	**3,135,000**

In addition, as of December 31, 2012 and December 31, 2011, our liability ratio (defined as our current and non-current liabilities divided by our net equity) was 1.01% and 0.60%, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements for the periods under review.

RELATED PARTY TRANSACTIONS

We had no related party transactions for the periods under review, other than the (i) compensation of board members and officers; and (ii) the granting of stock options to board members, officers and employees under our stock option plan.

CHANGES TO CORPORATE MANAGEMENT AND BOARD OF DIRECTORS

In November 2012, Mr. Marcos Ludwig has resigned from his position as a member of our Board of Directors and subsequently was appointed to become our Chief Legal Officer. Mr. Ludwig took office as our Chief Legal Officer on November 30th, 2012.

On November 30th 2012, Mr. John Sheedy has resigned from his position as a member of our Board of Directors and Mr. Guy Bentinck was appointed by our shareholders as Mr. Sheedy's replacement. Finally, Mr. Andy Zhmurovsky and Mrs. Hanh Disch-Lê were appointed members of our Board of Directors on November 30th 2012, taking office on the same day.

CRITICAL ACCOUNTING POLICIES

Certain judgments, estimates and assumptions are inherent in the measurement and recognition of certain assets and liabilities in our financial statements. These estimates take into account past and present experiences, assumptions concerning future events and other objective and subjective factors.

Significant items subject to estimation that we considered, or that will affect us once production has begun, include: (1) the determination of the useful lives of property, plant and equipment; (2) estimates of reserves used to calculate depreciation by the unit production method; (3) the recoverable amount of each cash-generating unit; (4) the impairment of property, plant and equipment; (5) deferred income tax and social contribution; and (6) provisions for contingencies, among others.

The settlement of transactions involving these estimates could result in values different from those presented in our financial statements given the inherent imprecision in determining the estimates. We revise our estimates and assumptions on at least an annual basis.

In addition, we have identified the following critical accounting policies: (1) consolidation of results; (2) financial instruments; (3) cash and cash equivalents and marketable securities; (4) investments in subsidiaries and (5) intangible assets, as described below:

Consolidation of Results

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

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.

Financial Instruments

Our 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. 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.

Currently, the Company's only financial liability is the balance with suppliers and services providers. 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.

Cash and Cash Equivalents and Marketable Securities

Cash equivalents are held to meet short-term cash commitments and not for investment or other purposes. We consider investments that are immediately redeemable at a known amount and that are subject to an insignificant risk of change in value to be cash equivalents. 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.

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. 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.

Intangible Assets

Our intangible assets mainly comprise mineral rights and are valued at cost, with amortization calculated over the estimated period during which the corresponding benefits of the intangible assets accrue, and will begin to be realized at the moment in which the assets corresponding to the mineral rights enter into operation. Intangible assets are only recognized if it is likely that they will generate economic benefits for us and that their respective value can be reliably measured.

The intangible assets acquired in a business combination are recorded for accounting purposes by their fair value on the acquisition date, and are subsequently deducted from amortization and impairment losses, if applicable.

Our initial estimate is that mineral reserves will be exhausted approximately 20 years from the commencement of operations.

FINANCIAL INSTRUMENTS - HEDGING TRANSACTIONS

We did not operate with derivatives in 2011 or 2012. Nonetheless, we may enter into hedging transactions. Our instruments will be managed through operating strategies and internal controls, seeking liquidity and asset security in accordance with our treasury and hedging policy, which includes the management of risks for financial instruments. We will not enter into derivative transactions for speculative purposes. Rather, we will enter into these transactions to reduce the risks associated with currency or interest rate mismatches, or any other source of exposure we identify. Our Board of Directors approved a hedging policy intended to guide management´s adequate use of financial hedging instruments to mitigate our risk exposure and any imminent expenses that our management seeks to hedge. Individual hedging strategies will be formulated utilizing the guidelines established and approved by our Board of Directors and monitored by our Audit Committee.

INTERNAL CONTROLS

We believe that the accounting systems and internal controls that we have adopted are adequate for our current activities and the volume of our transactions, and that all of the transactions conducted in the periods covered by our financial statements were duly registered in our accounting books.

Our Audit Committee currently in operation advises and makes recommendations to our Board of Directors with relation to (1) analysis of our annual and quarterly reports and our financial statements, and (2) assessments of corporate and financial risks and related policies and our internal financial control systems. Our board of directors resolved that our auditors should report directly to the audit committee and not to our board of executive officers.

QUALITATIVE DISCLOSURE ON MARKET RISK

With regard to operating results, we did not generate operating revenues through December 31, 2012. Our principal operating costs include personnel, services rendered, and management and administrative costs, and we anticipate that the impact of inflation could increase our operational expenditures once the leases for our headquarters in Rio de Janeiro and our subsidiary in Belo Horizonte are indexed to the IGP-M. The impact of changes in the price of our principal raw materials and products and in exchange and interest rates should not materially increase our operating costs based upon the obligations we have incurred through this date.

With regard to our financial results, given that our investments are indexed to the interbank rate (CDI), an increase in the basic interest rate will result in an increase of our financial results.

Brazilian and World Economic Environment

The performance of the Brazilian economy and global economic conditions may significantly affect our operating results.

We anticipate that our costs, including labor, will be subject to inflation adjustments and that the inflation rates provided for in our agreements will be revised annually to reflect increases or decreases in certain Brazilian inflation indices.

The availability of financing in local credit markets could have a significant impact on our business, financial condition and results of operation given that we intend to secure part of our financing locally to implement our business plan. In the past few years, the Central Bank has developed policies designed to, among other effects, increase access to credit and control the increase in inflation, which has historically been volatile in Brazil. In 2010, the Central Bank established the SELIC rate (the official interest rate for overnight lending) at 10.75%. Inflation, as measured by IPCA, was 5.91%; and the *real* increased in value by 4.3% in relation to the U.S. dollar, reaching R$1.67 per US$1.00 on December 31, 2010, when compared to 2009.

Throughout 2011, the Brazilian economy was characterized by continued inflation, but fears of a global economic slowdown led the Central Bank to begin reducing the SELIC rate, which stood at 11% on December 31, 2011. Inflation for the year ended December 31, 2011, as measured by IPCA, was 6.5%. In the first months of 2011, the *real* increased in value against the U.S. dollar, but began to depreciate in August, reaching R$1.88 per US$1.00 on December 31, 2011. In 2011, the *real* depreciated 12.6% against the U.S. dollar.

In 2012, the Central Bank continued to reduce the SELIC rate, reaching an all-time low rate in October 2012 when it was reduced to 7.25%. Inflation for the year ended December 31, 2012, as measured by IPCA, was 5.84%. As it happened in 2011, in 2012, the *real* increased in value against the U.S. dollar at the beginning of the year, peaking at R$1.70 per US$1.00 on late February, but began to depreciate reaching R$2.045 per US$1.00 on December 31, 2012. The depreciation in 2012 of the *real* depreciated 9% against the U.S. dollar.

The table below sets forth certain Brazilian economic indicators as of and for the periods indicated:

	December 31,		
Economic indicator	**2012**	**2011**	**2010**
GDP growth [1]	0.9%	2.7%	7.5%
Inflation (IGP-M) [2]	7.8%	5.1%	11.3%
Inflation (IPCA) [1]	5.8%	6.5%	5.9%
Interbank rate – CDI (average) [3]	8.4%	11.6%	9.8%
Long-term interest rates (average) [4]	5.8%	6.0%	6.0%
Exchange rate at the end of the period per US $1.00	R$2.045	R$1.876	R$1.666
Average exchange rate per US $1.00	R$1.953	R$1.675	R$1.759
Appreciation of the *real* against the U.S. dollar [5]	(9.0)%	(12.6)%	4.3%

(1) *Source*: IBGE.
(2) IGP-M refers to the General Market Price Index measured by FGV, São Paulo.
(3) CDI refers to the average overnight interbank loan rates in Brazil.
(4) The Brazilian long-term interest rate (*taxa de juros de longo prazo*), or TJLP, is the rate applicable to long-term loans by BNDES. *Source*: Brazilian Central Bank.
(5) Comparing the PTAX exchange rate (the rate calculated by the Brazilian Central Bank) at the end of the period's last day with the period's first day. PTAX is the exchange rate calculated at the end of each day by the Central Bank of Brazil. It is the average rate of all business conducted in U.S. dollars on the determined date in the interbank exchange market.

KEY FACTORS AFFECTING OUR FUTURE RESULTS OF OPERATIONS

Demand

The demand for iron ore fluctuates according to global demand for steel, which in turn is strongly influenced by global economic activity. A decrease in global economic activity may reduce demand for our pellet feed.

Industrialization in Asia, as well as in other regions of the world such as India and the Middle East, has driven a strong increase in global demand for commodities, particularly iron ore. In 2012, China imported approximately 740 Mt of iron ore, representing approximately 65% of total transoceanic market in iron ore. CRU Group estimates that China will increase its imports given its growing industrialization, a reduction in Chinese reserves and the low quality of Chinese iron ore. According to the CRU Group, and in light of the above, there will be a substantial increase in transoceanic global demand for iron ore, which could reach up to 1.7 billion tonnes in 2020. To the extent that demand for iron ore does not increase to the levels predicted, or to the extent demand decreases, our operating results may be adversely affected.

Production Capacity

According to our studies, our Pilar Hill project will produce approximately 25 Mt of premium pellet feed per year for at least 20 years. We expect that our production will begin in 2016 with 6 Mt, increasing to 25 Mt the following year. Any change in production capacity may influence our revenues and there can be no guarantee that we will achieve our anticipated production.

Prices

We expect that we will export most of our pellet feed pursuant to long-term contracts and that these contracts will provide for annual price adjustments. Cyclical changes in global demand for steel products affect sales volumes of iron ore globally. Different factors, including the iron present in specific mineral deposits, the various processing and concentration processes required for the production of the desired final product, the size of the particles, the moisture content and the type and concentration of contaminating agents in the ore affect the price of the iron ore. We expect to negotiate prices annually using as our reference the results of the negotiations of important producers in the iron ore industry.

Currency volatility

We estimate that a significant part of our revenues will be denominated in U.S. dollars, while most of our costs will be denominated in Brazilian *reais*. As a result, a relatively strong *real* against the U.S. dollar will negatively affect our reported operating results and vice versa. On the other hand, we expect that a substantial part of our debt will be denominated in U.S. dollars. Consequently, a decrease in the value of the *real* against the U.S. dollar will likely result in foreign exchange rate losses.

Inflation rates in Brazil

Based on the IPCA index, the inflation rate in Brazil was 5.9% in 2010, 6.5% in 2011 and 5.8% in 2012. Most of our costs will be incurred in Brazil in *reais*, while most of our revenues will be obtained outside of Brazil in U.S. dollars. An increase in inflation will have a negative impact on operating margins, in spite of the fact that inflation may be compensated for by any devaluation of the *real* against the dollar.

Operating Costs

Our principal operating costs will comprise the costs related to our mines, processing plants and transportation logistics. We forecast the following operating costs for our Pilar Hill and Dark Hill Projects:

Pilar Hill: US$39.3/t FOB Port – average

Dark Hill: US$21.2/t ex Mine – average

Brazilian Taxes

Once we begin production, we will be subject to various Brazilian taxes. A description of the two main taxes is set forth below:

- ICMS and Tax on Revenues. Our gross revenues will comprise the total revenue from pellet feed sales, less discounts, returns and allowances, in addition to ICMS tax amounts payable. Our net operating revenues will comprise revenues less ICMS taxes payable to Brazilian states. We will also pay other taxes on our revenues related to social programs (PIS and COFINS). Currently, exports are not subject to ICMS and social contribution, and we intend to export most of our pellet feed.

- Income tax and Social Contribution. We will pay income tax and social contribution on our net income. The current rate for social contribution on net income is 9%, while the current rate for income tax is approximately 25%, totaling 34%.

Changes in Brazilian tax legislation and regulation, which may be frequent, may have a material impact on our results of operations.