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

For the Three and Nine Months Ended

September 30, 2013

TABLE OF CONTENTS

INTRODUCTION ... 3
FORWARD-LOOKING STATEMENTS ... 3
OVERVIEW ... 3
OVERALL PERFORMANCE ... 4
SELECTED QUARTERLY FINANCIAL INFORMATION ... 5
SUMMARY OF QUARTERLY RESULTS ... 6
* figures related to the parent company ... 6
REVIEW OF FINANCIAL RESULTS ... 6
CAPITAL STRUCTURE ... 8
LIQUIDITY AND CAPITAL RESOURCES ... 9
SOURCES OF FUNDS ... 9
INDEBTEDNESS AND CONTRACTUAL LIABILITIES ... 9
OFF-BALANCE SHEET ARRANGEMENTS ... 9
RELATED PARTY TRANSACTIONS ... 10
CHANGES TO CORPORATE MANAGEMENT AND BOARD OF DIRECTORS ... 10
CRITICAL ACCOUNTING POLICIES ... 10
FINANCIAL INSTRUMENTS - HEDGING TRANSACTIONS ... 11
INTERNAL CONTROLS ... 12
QUALITATIVE DISCLOSURE ON MARKET RISK ... 12
KEY FACTORS AFFECTING OUR FUTURE RESULTS OF OPERATIONS ... 13

INTRODUCTION

The following discussion of the financial condition and results of operations should be read in conjunction with the unaudited quarterly financial information of Manabi S.A. and its subsidiaries as of September 30, 2013 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. The effective date of this MD&A is November 06 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") is a publicly held company, incorporated on March 10, 2011, 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, either directly or indirectly through our subsidiaries. We currently have no producing properties and no operating revenues. We expect to fund all of our exploration and development activities through debt and equity financing until operating revenues commence.

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) Manabi Logística S.A. ("Manabi Logística"); and (iii) Dutovias do Brasil S.A. ("Dutovias"). On September 17, 2013, the merger of Morro Escuro Minerais S.A. ("Dark Hill"

or "MOES") into the Company was approved by our shareholders, aiming to simplify the corporate and operational structure of the Company.

OVERALL PERFORMANCE

Pilar Hill Project

A. Mine

For the collection of more extensive data, Geosol – Geologia e Sondagens Ltda. ("Geosol"), the Brazilian leading drilling company, performed approximately 50,000 meters of drilling during the first nine months of 2013 (9M2013), and will continue to drill during the last quarter of the current year.

The new set of data collected in the on-going drilling campaign will substantiate a new resource report which is expected to confirm an upgrade of the inferred mineral resources of Pilar Hill into the measured and indicated (M&I) category.

Manabi has hired SRK Consulting, an international leading consulting to the mining industry, to prepare both its updated resource report (following the NI 43-101 standard) and the technical report of its project. The Company expects to release the resource and technical report by the beginning of next year and a full feasibility study during the second half of 2014.

The Capital expenditures (Capex) related to Mine development reached US$58 million by September 30, 2013, with US$32 million spent during the first 9 months of 2013, mostly on the drilling campaign, environmental licensing process, land acquisition and engineering studies.

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 the post feasibility capex of the pipeline. Under the BOT arrangement, we would be charged a fee for the transportation of our pellet feed by the slurry pipeline in accordance with a long-term ship-or-pay agreement.

We have been negotiating this BOT arrangement with large domestic and international contractors. Nonetheless, as part of our negotiation, we plan to secure the rights-of-way for the pipeline through most of its route and obtain its Environmental License (LP) in order to de-risk the BOT project and avoid unnecessary delays. The right of way negotiations should be concluded during the first half of 2014, when we expect the LP to be granted by IBAMA (Federal Environmental Agency).

Manabi´s investment in the pipeline should be counted towards its contribution to the special purpose company´s equity to be funded in cooperation with the BOT contractor.

During the first 9 months of 2013, Manabi invested US$2.7 million in the pipeline project, mostly on engineering, land acquisition and environmental licensing. We have been classifying these capital expenditures as construction in progress, under property, plant and equipment in the balance sheet, starting on April/13.

C. North Port

On September 5, 2013, we filed before ANTAQ, the Brazilian Port Agency, the request for North Port´s authorization in accordance with the new Ports Law and its regulation (Law No. 12,815/2013 and Decree No. 8,033/2013). We expect to receive the required approval from ANTAQ by year end.

We have also concluded three important models for the North Port: (i) 2D model, which is intended to define the breakwater section; (ii) 3D model, which is intended to assist on the breakwater

construction; (iii) interference model, which is intended to measure the residual waves at the pier and verify the vessels mooring. We expect to receive the LP for the combined pipeline-port during 1H14.

The Capex related to the North Port has reached US$18 million by September 30, 2013, with US$5 million during the first 9 months of 2013, mostly on engineering and environmental licensing process.

Dark Hill Project

In March 2012, the National Department for Mining ("DNPM") approved Dark Hill´s survey report which presented the deposit´s main characteristics (chemical, metallurgical, physical) and its inferred resources.

In February 2013, Manabi filed Dark Hill´s economic mining plan with the DNPM which is an important milestone in obtaining the mining concession for this asset. In parallel, in December 2012, Manabi filed its EIA-RIMA (the environmental impact report) before Minas Gerais environmental agency.

In order to proceed with an additional drilling campaign to obtain in-depth knowledge of the iron ore deposit, Manabi has to wait for DNPM to grant Dark Hill its mining concession. Until then the investments at Dark Hill should be minor. The Capex deployed until September 30, 2013 is US$5 million with US$2 million during the first 9 months of 2013, mostly on engineering and environmental studies.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following financial information is derived from our financial statements for the three and nine months periods ended September 30, 2013 and 2012, prepared under IFRS.

(in thousands of *reais*, except if otherwise specified)	**3 months ended Sep 30, 2013**	**3 months ended Sep 30, 2012**	**9 months ended Sep 30, 2013**	**9 months ended Sep 30, 2012**
Total Revenue	-	-	-	-
Operating losses before financial results	**(16,065)**	(18,514)	**(43,469)**	(40,299)
Operating losses before financial results per common share (basic and diluted) (in *reais*)	-	-	-	-
Operating losses before financial results per preferred share (basic and diluted) (in *reais*)	-	-	-	-
Financial income and expenses	**12,416**	2,498	**34,101**	10,547
Loss for the period	**(3,649)**	(16,016)	**(9,368)**	(29,752)
Loss per common share (basic and diluted)(in *reais*) *	**(3.51)**	(20.02)	**(9.01)**	(37.19)
Loss per preferred share (basic and diluted) (in *reais*) *	**(3.51)**	(20.02)	**(9.01)**	(37.19)

(1) Total common shares: 250,000
(2) Total preferred shares: 790,000

* figures related to the parent company

(in thousands of *reais*, except if otherwise specified)	**Sep 30 2013**	**Dec 31 2012**
Current Assets		
Cash equivalents	25	71,487
Marketable securities	586,749	617,663
Other current assets	5,960	3,717
Non-current Assets	771,077	676,070
Total Assets	1,363,811	1,368,937
Total non-current financial liabilities	-	-
Distributions or cash dividends declared per common share or preferred share	-	-

Our losses for the three months period ended on September 30, 2013, decreased to R$3.6 million from a loss of R$16.0 million during the same period of 2012. This decrease relates mostly to a higher financial income during the period.

Our total liquidity (Cash and Cash Equivalents + Marketable Securities) declined approximately R$102 million primarily corresponding to an increase of our intangible assets and property, plant and equipment, arising from ongoing drilling activities and additional feasibility capex in our assets.

SUMMARY OF QUARTERLY RESULTS

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

	2013			**2012**			
	Mar 31	**Jun 30**	**Sep 30**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenue	-	-	-	-	-	-	-
Loss for the period (in thousands of *reais*)	(3,538)	(2,181)	(3,649)	(4,753)	(8,983)	(16,016)	(4,871)
Loss per common share (basic and diluted) (in *reais*)*	(3.40)	(2.10)	(3.51)	(5.94)	(11.23)	(20.02)	(5.07)
Loss per preferred share (basic and diluted)(in *reais*)*	(3.40)	(2.10)	(3.51)	(5.94)	(11.23)	(20.02)	(5.07)

* figures related to the parent company

REVIEW OF FINANCIAL RESULTS

The following discussion of our results of operations should be read together with our quarterly financial information for the three and nine month's periods ended on September 30, 2013 and September 30, 2012. The main factor that impacted our operating results for the periods discussed below was our pre-operational expenses. The table below sets forth our results of operations for the three and nine month's period ended on September 30, 2013 and September 30, 2012.

-

(in thousands of *reais*, except if otherwise specified)	**3 months ended Sep 30, 2013**	**3 months ended Sep 30, 2012**	**9 months ended Sep 30, 2013**	**9 months ended Sep 30, 2012**
Operating expenses				
Personnel	**(9,058)**	(7,076)	**(24,466)**	(21,194)
Services rendered	**(4,308)**	(9,514)	**(11,984)**	(13,841)
General and administrative	**(2,219)**	(1,573)	**(5,897)**	(4,652)
Depreciation and amortization	**(230)**	(91)	**(513)**	(250)
Taxes	**(250)**	(260)	**(609)**	(362)
	(16,065)	(18,514)	**(43,469)**	(40,299)
Other operating expenses				
Equity results and provision for losses on investments	**-**	-	**-**	-
	-	-	**-**	-
Operating losses before financial results	**(16,065)**	(18,514)	**(43,469)**	(40,299)
Financial income and expenses				
Financial income	**12,499**	2,534	**34,281**	10,654
Financial expenses	**(83)**	(36)	**(180)**	(107)
	12,416	2,498	**34,101**	10,547
Loss before income tax and social contribution	**(3,649)**	(16,016)	**(9,368)**	(29,752)
Income tax and social contribution	**-**	-	**-**	-
Loss for the quarter	**(3,649)**	(16,016)	**(9,368)**	(29,752)
Loss per common share[1] (basic and diluted)				
(in *reais*) *	**(3.51)**	(20.02)	**(9.01)**	(37.19)
Loss per preferred share[2] (basic and diluted)				
(in *reais*) *	**(3.51)**	(20.02)	**(9.01)**	(37.19)

-

(3) Total common shares: 250,000
(4) Total preferred shares: 790,000

* figures related to the parent company

Operating expenses. We are currently in pre-operational phase of development and therefore have not generated operating revenue. We incurred operating expenses of R$16.1 million in the quarter ended September 30, 2013, a decrease of R$2.4million, compared to the quarter ended September 30, 2012. The decrease is mainly related to a lower volume of services rendered by third parties, offset by higher expenses on G&A and personnel items (3Q12 headcount was 57 and reached 107 by 3Q13).

Financial income and expenses. Our net financial income for the quarter ended September 30, 2013 reached R$12.4 million against R$2.5 million from the quarter ended September 30, 2012. This variation is mainly due to the increase in marketable securities arising from the private placement of R$611.3 million which took place in October 2012.

Loss before income tax and social contribution. As a result of the foregoing, we recorded R$3.6 million as loss before income tax and social contribution for the quarter ended September 30, 2013 against a loss of R$16.0 million for the same period ended September 30, 2012.

Income tax and social contribution. For the quarter ended September 30, 2013, the Company´s accumulated tax loss carry forward and negative social contribution basis amounted to R$63.0 million (R$59.5 million on December 31, 2012). Management opted not to record deferred taxes assets at this stage of the project. Tax loss carry-forward generated in Brazil does not expire and is 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 quarter ended September 30, 2013 was of R$3.6 million, compared to a loss of R$16.0million for the quarter ended September 30, 2012.

Cash Flows

The table below presents our cash flows for the nine month´s periods ended September 30, 2013 and September 30, 2012 (not including Marketable Securities):

(in thousands of *reais)*	**9 months ended Sep 30, 2013**	**9 months ended Sep 30, 2012**
Net cash used in operating activities	**(37,736)**	(23,836)
Net cash used in investing activities	**(31,579)**	(56,221)
Net cash used in financing activities	**(2,147)**	-
Decrease in cash and cash equivalents	**(71,462)**	(80,057)
Cash and cash equivalents at the beginning of the period	**71,487**	192,906
Cash and cash equivalents at the end of the period	**25**	112,849

Net cash used in operating activities. Our net cash used in operating activities for the nine months ended September 30, 2013 was R$13.9 million higher than for the nine months ended September 30, 2012 mainly due to more operating expenses (R$3.1 million) and less financial income on cash equivalents (R$10.6 million). Financial income on Marketable securities (R$33.1 million) is not considered in the statement of cash flows.

Net cash used in investing activities. Our net cash used in investing activities for the nine months ended September 30, 2013 was R$24.6 million lower than the nine months ended September 30, 2012 mainly due to the redemption of marketable securities (R$65.2 million) and less property, plant and equipment (R$8.8 million), partially offset by the increase in intangible assets mostly related to Pillar Hill project (R$48.2 million).

Net cash used in financing activities. The amount of net cash used in financing activities shown for the nine months period ended September 30, 2013 (R$2.1 million) relates to equity issuance costs settled in the beginning of 2013 related to the private placement of R$611.3 million, which took place in October 2012.

Decrease in cash and cash equivalents. As a result of the foregoing, during the nine months ended September 30, 2013, the decrease in our cash and cash equivalents reached R$71.5 million, R$8.6 million lower than the same period in 2012 of R$80.1 million.

CAPITAL STRUCTURE

As of September 30, 2013, 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 September 30, 2013, we have not incurred any material financial obligations and no long-term liabilities. All of our liabilities at that date are related to contractual obligations to our service providers totaling an aggregate of R$7.1 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 and cash equivalents and marketable securities originated from the private placement of its preferred shares (classes A and B), have funded its working capital needs as well as its initial long-term investments.

In order to implement 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$4 billion with respect to our projects. The estimated capital expenditures for our project do not include the capital expenditures necessary for the construction of a slurry pipeline, as we intend to build the pipeline pursuant to a BOT arrangement whereby those expenditures would be incurred by a third party. 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 September 30, 2013, liabilities are primarily represented by balances with trade accounts payable.

The following table sets forth our contractual liabilities as of September 30, 2013 (deriving from accounts payable to suppliers, purchases of fixed assets and administrative expenses) and as of September 30, 2012:

	As of September 30, 2013				
	< 1 year	1-3 years	3-5 years	> 5 years	Total
Type of liability			*(in R$ ´000)*		
Secured by real property	0	0	0	0	0
Floating	0	0	0	0	0
Unsecured	7,060	0	0	0	7,060
Total	**7,060**	**0**	**0**	**0**	**7,060**

	As of September 30, 2012				
	< 1 year	1-3 years	3-5 years	> 5 years	Total
Type of liability			*(in R$ ´000)*		
Secured by real property	0	0	0	0	0
Floating	0	0	0	0	0
Unsecured	9,861	0	0	0	9,861
Total	**9,861**	**0**	**0**	**0**	**9,861**

In addition, as of September 30, 2013 and September 30, 2012, our liability ratio (defined as our current and non-current liabilities divided by our net equity) was 0.88% and 2.14%, 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 officers and employees under our stock option plan.

CHANGES TO CORPORATE MANAGEMENT AND BOARD OF DIRECTORS

On August 29, 2013, our Board of Directors approved the creation of a Technical Committee so as to assist and provide recommendations to the Board in connection with technical matters relating to the Company's projects. The Committee is composed of Directors Andrey Zhmurovsky (Chairman), Michael Stephen Vitton and Charles Laganá Putz, along with a fourth external member still to be elected by the current Committee members.

On October 30, 2013, Mr. Ouk Choi was elected member of our Board of Directors, taking office on the same day.

We had no related changes to our Board of Executive Officers.

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 financial statements include the financial information of wholly-owned subsidiaries MOPI, Dutovias 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 applicable 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 and 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 and 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 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 expenditures related to exploration, valuation of mineral resources and prospecting 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 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.

FINANCIAL INSTRUMENTS - HEDGING TRANSACTIONS

We have not utilized derivatives since the inception of the Company. 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 and Finance 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 and Finance 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 the independent auditors that we engaged should report directly to the Audit and Finance 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 September 30, 2013. 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 lease for our headquarters in Rio de Janeiro is indexed to the IPCA and the leases for 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.

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 2012, the Central Bank continued its SELIC rate trimming cycle, reaching an all-time low rate of 7.25% in October. Inflation for that year, as measured by IPCA, was 5.84% and the Brazilian Real depreciated 9% against the US Dollar, ending the year quoted at R$2.04 per US$1.00.

In 2013, the Central Bank started a tightening cycle raising the SELIC rate up to 9.00%, and has reinforced the message that it might continue increasing along the last months of the year to try to curb down the inflation. For the twelve months period ended September 30, 2013, IPCA inflation reached 5.86% and the Brazilian Real presented a high 9.92% volatility, mainly due to the world economic environment. At that date, it was quoted at R$2.23 per US$1.00.

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

Economic indicator	9M2013[7]	12/31/12[6]	12/31/11[6]	12/31/10[6]
GDP growth [1]	1.5%[8]	0.9%	2.7%	7.5%
Inflation (IGP-M) [2]	4.4%[9]	7.8%	5.1%	11.3%
Inflation (IPCA) [1]	5.9%[9]	5.8%	6.5%	5.9%
Interbank rate – CDI (average) [3]	7.4%[9]	8.4%	11.6%	9.8%
Long-term interest rates (average) [4]	5.0%	5.8%	6.0%	6.0%
Exchange rate at the end of the period per US$1.00	R$2.23	R$2.04	R$1.88	R$1.67
Average exchange rate per US$1.00	R$2.12	R$1.95	R$1.68	R$1.76
Appreciation of the *real* against the U.S. dollar [5]	9.13%	(9.0)%	(12.6)%	4.3%

(1) *Source*: Brazilian Central Bank.
(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. The rate is valid for a 3 month period. *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.
(6) 12 month period of each year.
(7) 9 month period ended on September 30 2013, unless otherwise stated.
(8) GDP for the second quarter of 2013.
(9) 12 month period ended on September 30, 2013.

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 6.5% in 2011, 5.8% in 2012 and 5.9% for the 12 months period ended on September 30, 2013. 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.

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:

- State value-added tax and Tax on revenues. Our gross revenues will comprise the total revenue from pellet feed sales, less discounts, returns and allowances, in addition to State value-added tax amounts payable. Our net operating revenues will comprise revenues less State value-added tax payable to Brazilian states. We will also pay other taxes on our revenues related to mandatory contribution to social programs (the program for social integration contribution – PIS - and a contribution for the financing of social security - COFINS). Currently, exports are not subject to State value-added tax and social programs above, 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.

As of right now, there is a proposed legislation ("New Mining Code") still subject to discussion and approval in Congress and afterwards to final sanction by the President of Brazil. Amongst other proposals, this New Mining Code may change the existing mining royalties (financial compensation for the exploration of mineral resources) to a maximum rate of 4% on the gross sales of the mining product. As of right now, the mining royalties are 2% on the net income, i.e., deducted by transactional taxes levied upon mineral sales (State value-added state tax and social programs) as well as freight and insurance expenses. Our current expectation is that the bill should pass by the end of 2013, in which case we will update our feasibility study accordingly.