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

For the Quarter Ended

March 31, 2014

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INTRODUCTION

The following discussion of the financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements of Manabi S.A. and its subsidiaries for the three month period ended March 31, 2014 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 May 14 2014.

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 Technical Report (the "Pilar Hill Report") and the Dark Hill Technical Report (the "Dark Hill Report"), dated as of February 2014 and April 2012, respectively, prepared by SRK Consulting, an international leading consulting to the mining industry.

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 pre-operational 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 cash generating unit.

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").

RECENT EVENTS

On January 29, 2014, the Company has engaged CIBC World Markets plc ("CIBC"- Canadian Imperial Bank of Commerce) as its funding coordinator so as to advise the Company on the equity and debt fundraising for its mine and infrastructure projects.

Regarding the environmental licensing of the pipeline and the port, during the last four days of January of 2014, Manabi held public hearings in four cities in the States of Minas Gerais and Espirito Santo that had been selected by IBAMA (Ferros, Naque, Conselheiro Pena and Linhares). These meetings provided the community with an opportunity to have questions relating to the project answered and to propose and discuss desired social measures. The meetings had the participation of more than 2,000 stakeholders and were an important step towards the licensing of our integrated logistics. In February of 2014, the Presidency´s Port Secretariat ("SEP" - *Secretaria Especial dos Portos*) has granted the Company its authorization for the construction and operation of the North Port private terminal on the coast of Espírito Santo, which was a major milestone in its implementation process[1].

OVERALL PERFORMANCE

Pilar Hill Project

A. Mine and Plant

On February 24, 2014, Manabi received from SRK Consulting the SRK Technical Report ("SRK TR")[2], on our flagship Morro do Pilar Iron Ore Project ("Pilar Hill Project" or the "Project").

This SRK TR resulted in the certification of 1.33 billion tons of Measured and Indicated Resources ("M&I") and 312 million tons of Inferred Resources (both as defined by NI 43-101) in the area of the Project. This is a significant improvement from our last resource statement issued in April 2012 by independent consulting company Coffey Mining, which at the time certified 1.2 billion tons of Inferred Resources and no M&I in the same area. The SRK TR confirms the engineering work done for the beneficiation plant, pipeline, filtering and port, all under Feasibility Study level ("FS Level"), as well as the relevant CAPEX and OPEX figures. It also confirms at FS Level the metallurgy results for the Project: 80% metallurgical recovery and a process design able to consistently produce a 68.0% to 68.5% Fe premium product, with low impurities.

The Capex[3] related to mine and plant development reached US$73.5 million by March 31, 2014, with US$5.4 million being spent during 1Q14, mostly on the environmental licensing process, land acquisition, drilling campaign and engineering studies.

The environmental license ("LP") for the mine and plant is expected to be issued during 1H14.

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.

The Company plans to secure the rights-of-way for the pipeline through most of its route and obtain its LP in order to de-risk the BOT project and avoid unnecessary delays. The right of way negotiations for the first sector of the pipeline (approximately one third of the entire route) should be concluded during

[1] In order to start construction, the Company also needs to obtain the environmental license (LP) and the construction license (LI)

[2] The SRK TR uses mineralized material including measured, indicated, and inferred resources, as well as, exploration potential material in the mine plan. For this reason the TR does not meet reporting guidelines under CIM and JORC. The use of exploration potential is not allowed under either CIM or JORC guidelines for economic studies.

[3] The Capex in this section is on a cash basis and differs from the Capex presented in the Financial Statements

the first half of 2014, when we expect the LP for the pipeline to be granted by IBAMA (Federal Environmental Agency).

During the last four days of January of 2014, Manabi held public hearings in four cities in the States of Minas Gerais and Espírito Santo that had been pre-determined by IBAMA (Ferros, Naque, Conselheiro Pena and Linhares), as stated in the section Recent Events.

The Capex[4] related to the development of the pipeline reached US$7.0 million, with US$2.3 million during 1Q14, mostly on engineering, right of way negotiation and environmental licensing. We have been classifying these capital expenditures as construction in progress, under property, plant and equipment in the balance sheet.

C. North Port

There are two main milestones for the North Port project regarding its implementation process: (i) regulatory authorization by the Presidency´s Port Secretariat (*Secretaria de Portos da Presidência da República* – SEP); and (ii) the environmental (LP) and construction (LI) licenses from the federal environmental agency (IBAMA).

On February 14, 2014 we received the authorization by SEP for the construction and operation of North Port.

The environmental process is ongoing and in the last week of January, 2014, we held the public hearings in four cities pre-determined by IBAMA (Ferros, Naque, Conselheiro Pena and Linhares), as stated the section Recent Events. We expect to receive the LP for the North Port during the first half of 2014.

The Capex[5] related to the North Port has reached US$20.1 million by March 31, 2014, with US$1.0 million during 1Q14, mostly on engineering and environmental licensing process.

D. Railway

. The Company has been developing the studies for a 80km rail connection between North Port, its private port terminal, and Estrada de Ferro Vitória-Minas (EFVM), a federal railway concession operated by Vale S.A.

This rail connection would create a logistics corridor for inbound and outbound cargoes significantly leveraging the value of North Port as a new alternative for the export and import of bulk commodities.

We have concluded the conceptual engineering for the rail spur and its basic engineering is expected to be concluded by 3Q14. The disbursement related to the rail spur has reached US$3.5 million, with US$1.0 million during 1Q14 mostly on engineering.

Dark Hill Project

In February 2013, Manabi filed Dark Hill´s economic mining plan with the National Department of Mineral Production (*Departamento Nacional de Produção Mineral,* or "DNPM"). Filling the economic mining plan is crucial for obtaining the mining concession for this asset. In parallel, in December 2012,

[4] The Capex in this section is on a cash basis and differs from the Capex presented in the Financial Statements

[5] The Capex in this section is on a cash basis and differs from the Capex presented in the Financial Statements

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 and focused in the environmental licensing process.

The Capex[6] deployed until March 31, 2014 is US$5 million with US$0.1 million during 1Q14 on the environmental licensing process.

SELECTED QUARTERLY INFORMATION

The following financial data is derived from our quarterly financial information ended March 31, 2014 and 2013, prepared under accounting pronouncements issued by Brazilian Accounting Standard Board (CPC) for individual (Parent Company) financial information and International Accounting Standards Board (IASB) for consolidated.

	Manabi		Consolidated	
(in thousands of *reais*, except if otherwise specified)	**03/31/2014**	**03/31/2013**	**03/31/2014**	**03/31/2013**
Total Revenue	-	-	-	-
Operating losses before financial results	**(19,189)**	(14,143)	**(19,187)**	(14,143)
Operating losses before financial results per common share (basic and diluted) (in *reais*)	**(18.45)**	(13.60)	-	-
Operating losses before financial results per preferred share (basic and diluted) (in *reais*)	**(18.45)**	(13.60)	-	-
Financial income and expenses	**13,116**	10,605	**13,114**	10,605
Loss for the quarter	**(6,073)**	(3,538)	**(6,073)**	(3,538)
Loss per common share (basic and diluted)(in *reais*)	**(5.84)**	(3.40)	-	-
Loss per preferred share (basic and diluted) (in *reais*)	**(5.84)**	(3.40)	-	-

Total loss for the period increased to R$6.1 million as compared to a loss of R$3.5 million during the same period of 2013. The main variation is related to financial advisory services focused on the structuring of Manabi´s Project Finance in the domestic and international markets, increase in the G&A and the increase in personnel expenses which partially compensated by higher financial income.

CONSOLIDATED BALANCE SHEET

(in thousands of *Reais)*	**03/31/2014**	**12/31/2013**
Current Assets		
Cash	**31**	44
Marketable securities	**523,894**	546,901
Other current assets	**8,774**	9,424

[6] The Capex in this section is on a cash basis and differs from the Capex presented in the Financial Statements

Non-current Assets	**824,391**	804,039
Total Assets	**1,357,090**	1,360,408
Current Liabilities		
Trade accounts payable	**6,173**	6,120
Employee-related accruals	**2,814**	2,069
Other current liabilities	**1,247**	1,923
Equity		
Capital Stock	**1,381,666**	1,381,666
Capital Reserve	**1**	1
Share-based payment reserve	**19,769**	17,136
Accumulated losses	**(54,580)**	(48,507)
Total Liabilities and Equity	**1,357,090**	1,360,408

Marketable securities are comprised by Government bonds allocated to an exclusive investment fund with yields linked to the SELIC rate (LFT) and by the variation of the IPCA + spread (NTN-B). During 1Q14, these bonds generated an average return of 102.3% of the CDI (Interbank Deposit Certificate). Government bonds are highly liquid, have low credit risk and volatility (sovereign risk) and can be readily sold in order to meet cash needs of the Company and of its subsidiaries. The funds invested in government bonds are from the second private placement carried out by the Company in the second half of 2012.

Non-current assets are comprised by expenditures on Property, plant and equipment and Intangibles related to the projects Pilar Hill, Dark Hill, Port terminal and iron ore pipeline.

Trade accounts payables refer mainly to consultant services, environmental studies and development of conceptual engineering, with an average settlement period of 30 days that are not subject to interest charges.

Capital stock 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.

SUMMARY OF QUARTERLY RESULTS

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

	2014	2013			
	Mar 31	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenue	-	-	-	-	-
Loss for the period (in thousands of *reais*)	(6,073)	(3,538)	(2,181)	(3,649)	(4,452)

Loss per common share (basic and diluted) (in *reais*)*	(5.84)	(3.40)	(2.10)	(3.51)	(4.28)
Loss per preferred share (basic and diluted)(in *reais*)*	(5.84)	(3.40)	(2.10)	(3.51)	(4.28)

*** These figures relate to the parent company**

REVIEW OF FINANCIAL RESULTS

The following discussion of our results of operations should be read together with financial statements for the quarters ended on March 31, 2014 and March 31, 2013. The main factor that affected our operating results for the periods discussed below was our expenses in the pre-operational phase. The table below sets forth our consolidated results of operations for the quarters above mentioned.

	Manabi		**Consolidated**	
(in thousands of *reais*, except if otherwise specified)	**03/31/2014**	**03/31/2013**	**03/31/2014**	**03/31/2013**
Operating expenses				
Personnel	**(9,028)**	(6,934)	**(9,028)**	(6,934)
Services rendered	**(7,105)**	(4,990)	**(7,273)**	(5,246)
General and administrative	**(2,276)**	(1,493)	**(2,423)**	(1,526)
Depreciation and amortization	**(251)**	(114)	**(265)**	(114)
Taxes	**(190)**	(322)	**(198)**	(323)
	(18,850)	(13,853)	**(19,187)**	(14,143)
Other operating expenses				
Equity results and provision for losses on investments	**(339)**	(290)	**-**	-
Operating loss before financial results	**(19,189)**	(14,143)	**(19,187)**	(14,143)
Financial income and expenses				
Financial income	**13,183**	10,650	**13,183**	10,650
Financial expenses	**(67)**	(45)	**(69)**	(45)
	13,116	10,605	**13,114**	10,605
Loss before income tax and social contribution	**(6,073)**	(3,538)	**(6,073)**	(3,538)
Income tax and social contribution	**-**	-	**-**	-
Loss for the quarter	**(6,073)**	(3,538)	**(6,073)**	(3,538)
Loss per common share(1) (basic and diluted) (in *reais*)	**(5.84)**	(3.40)		
Loss per preferred share(2) (basic and diluted) (in *reais*)	**(5.84)**	(3.40)		

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

Operating expenses. We are currently in pre-operational phase and therefore have not generated operating revenue. We incurred operating expenses of R$19.2 million during the quarter, an increase of R$5.0 million compared to 1Q13. The main variation is related to financial advisory services focused on the structuring of Manabi´s Project Finance in the domestic and international markets, increase in the G&A and in personnel expenses.

Financial income and expenses. Net financial income for the quarter reached R$13.1 million against R$10.6 million from 1Q13. This variation is mainly due to the increase in the SELIC interest rate (10.5% in 1Q14 vs. 7.25% in 1Q13), which impacts approximately 90% of the Company´s Marketable Securities yield.

Loss before income tax and social contribution. As a result of the foregoing, we recorded R$6.1 million as loss before income tax and social contribution for the quarter ended March 31, 2014 against a loss of R$3.5 million for the same period ended March 31, 2013.

Income tax and social contribution. Management opted not to record deferred taxes assets in this stage of the project. Tax loss carry forward generated in Brazil do not expire and are offset with future taxable profit, limited to 30% of the taxable profit in each year. As of March 31, 2014, the Company's tax loss carry forward and negative social contribution basis amounted to R$ 68.2 million.

Loss for the period. As a result of the foregoing, our loss for the quarter ended March 31, 2014 was of R$6.1 million, compared to a loss of R$3.5 million for the quarter ended March 31, 2013.

Cash Flows

The table below presents our cash flows for the three month period ended March 31, 2014 and 2013.

	Manabi		**Consolidated**	
(in thousands of *reais)*	**03/31/2014**	**03/31/2013**	**03/31/2014**	**03/31/2013**
Net cash used in operating activities	**(15,466)**	(11,851)	**(15,848)**	(12,312)
Net cash used from(used in) investing activities	**15,452**	(23,077)	**15,835**	(22,616)
Net cash used in financing activities	-	(2,147)	-	(2,147)
Decrease in cash and cash equivalents	**(14)**	(37,075)	**(13)**	(37,075)
Cash and cash equivalents at the beginning of the period	**44**	71,487	**44**	71,487
Cash and cash equivalents at the end of the period	**30**	34,412	**31**	34,412

Net cash used in operating activities. Higher cash used during 1Q14 compared to 1Q13 is primarily reflecting higher expenses related to financial advisory services, G&A and personnel as mentioned above. Financial income on Marketable securities is not considered for both quarters in the statement of cash flows as this income does not involve cash equivalents.

Net cash from (used in) investing activities. Variation between quarters is due primarily to lower non-current assets expenditures of R$2.5 million and redemption of marketable securities of R$36.0 million being this latter used to meet the cash needs.

Net cash used in financing activities. The amount of R$2.1 million paid during quarter ended March 31, 2013 relates to remaining equity issuance costs from the private placement carried out by the Company in the second half of 2012.

CAPITAL STRUCTURE

As of March 31, 2014, 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 March 31, 2014, we have not incurred any financial obligations and no long-term liabilities. All of our liabilities at that date are related to contractual obligations to service providers totaling an aggregate of R$6.2 million, primarily for survey services, environmental studies and development of conceptual engineering, with an average settlement period of 30 days that are not subject to interest charges.

SOURCES OF FUNDS

Through the date of this MD&A, Manabi´s cash balance and marketable securities are from equity raises.

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$3.1 billion with respect to our projects. The estimated capital expenditures for our project does 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. In order to strengthen the execution of its funding strategy, Management engaged in the 1H2013 Lakeshore Partners as financial advisors for the structuring and raising of local debt and in 2H2013 Mizuho Bank as international financial advisor focused on the financing from ECAs, Multilaterals and international banks. For the overall coordination of the funding strategy, CIBC was engaged in January 2014 to assist Management in overseeing both Debt and Equity raise efforts.

INDEBTEDNESS AND CONTRACTUAL LIABILITIES

As of March 31, 2014, liabilities are primarily represented by balances with trade accounts payable.

The following table sets forth our contractual liabilities as of March 31, 2014 (deriving from accounts payable to suppliers, purchases of fixed assets and administrative expenses) and as of March 31, 2013:

Type of liability	< 1 year	1-3 years	3-5 years	> 5 years	Total
	As of March 31, 2014				
			(in R$)		
Secured by real property	0	0	0	0	0
Floating	0	0	0	0	0
Unsecured	6,173,000	0	0	0	6,173,000
Total	**6,173,000**	**0**	**0**	**0**	**6,173,000**

Type of liability	< 1 year	1-3 years	3-5 years	> 5 years	Total
	As of March 31, 2013				
			(in R$)		
Secured by real property	0	0	0	0	0
Floating	0	0	0	0	0
Unsecured	8,715,000	0	0	0	8,715,000
Total	**8,715,000**	**0**	**0**	**0**	**8,715,000**

In addition, as of March 31, 2014 and March 31, 2013, our liability ratio (defined as our current and non-current liabilities divided by our net equity) was 0.76% and 0.87%, 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 February 6th 2014, Mrs. Hanh Disch-Lê resigned from her position as a member of our Board of Directors and Mr. Luciano Tadeu Silva Ramos was appointed by our shareholders as Mrs. Disch-Lê´s replacement. Also, Mr. Ramos has joined the Technical Committee of Manabi.

We had no 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 at least annually.

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

Consolidation of the Financial Statements

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

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 balances, bank accounts balances 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 relevant financial liability refers to trade and accounts payable. 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 (refer to comments on the Financial Statements).

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. 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.

Intangible Assets

Intangible assets comprise mainly mining rights and expenses with exploration and assessment of mineral resources, 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. Management's initial estimate is that mining reserves will be depleted in approximately 20 years from the beginning of the operations.

FINANCIAL INSTRUMENTS - HEDGING TRANSACTIONS

We have not operated with 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 March 31, 2014. 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.

Interest Rate in Brazil is reported by the Central Bank of Brazil's (*Banco Central do Brasil*) and decisions on it are taken by the Central Bank of Brazil's Monetary Policy Committee (COPOM). The official interest rate is the Special System of Clearance and Custody rate (SELIC) which is the overnight lending rate.

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

Economic indicator	**03/31/14**(6)	**12/31/2013**(6)	**12/31/12**(6)	**12/31/11**(6)
GDP growth (1)	0.7%(7)	2.3%	1.0%	2.7%
Inflation (IGP-M) (2)	7.3%	5.5%	7.8%	5.1%
Inflation (IPCA) (1)	6.1%	5.9%	5.8%	6.5%
Interbank rate – CDI (average) (3)	2.4%(8)	8.1%	8.4%	11.6%
Long-term interest rates (average) (4)	5.0%	5.0%	5.8%	6.0%
Exchange rate at the end of the period per US$1.00	R$2.26	R$2.34	R$2.04	R$1.88
Average exchange rate per US$1.00	R$2.36	R$2.16	R$1.95	R$1.67
Appreciation of the *real* against the U.S. dollar (5)	4.2%	(14.6)%	(8.9)%	(12.6)%

(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 ended on each date, unless otherwise stated.
(7) GDP for the fourth quarter of 2013.
(8) 3 month period ended on March 31, 2014.

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 2013, China imported approximately 820Mt 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 2.4 billion tons in 2027. 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. 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 most 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, 5.8% in 2013 and 6.1% for the 12 month period ended on March 31, 2014. 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 taxable profit. 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 2014, in which case we will update our feasibility study accordingly.