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

For the Six Months Ended

June 30, 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 Quarterly Financial Information of Manabi S.A. for the six month period ended June 30, 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 August 13, 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 May 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 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 permitting 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*) 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. In order to start construction, the Company also needs to obtain the environmental license (LP) and the construction license (LI).

Discussions with Vale S.A. regarding the terms and conditions for the implementation of a new rail spur of approximately 80km connecting Vitória-Minas Railway (Estrada de Ferro Vitória-Minas or "EFVM") to Manabi's North Port area and of a 25Mtpy iron ore transportation contract, are well advanced. This rail connection could provide Manabi with an important logistics alternative to the option of the slurry pipeline connecting Pilar Hill mine and North Port.

OVERALL PERFORMANCE

Pilar Hill Project

A. Mine and Plant

On June 10, 2014, Manabi received from the independent consulting company SRK Consulting (U.S.), Inc. ("SRK") an Updated Technical Report (the "Updated Technical Report") on the Company's flagship Pilar Hill Iron Ore Project presenting optimizations to the original technical report dated of February 24, 2014 related to mine planning, engineering, metallurgical process and trade-off studies.

Among the results of the additional work undertaken by SRK, the Updated Technical Report presents a reduction of mining cost and other operational expenditures (OPEX) of almost 10%, of capital expenditures (CAPEX) of around 3% and of the environmental footprint of the Pilar Hill Project, based on the revised mining plan.

During the 1st half of 2014, the Capex[1] related to mine and plant development reached US$78.4 million, with US$10.3 million being spent during 1H14, 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 2H14.

B. Pipeline

As an alternative to executing the pipeline Capex under a direct EPC or EPCM agreement, Manabi is analysing the option of contracting the construction of the slurry pipeline 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 project. Under the BOT arrangement, Manabi would be charged a fee for the transportation of our pellet feed by the slurry pipeline in accordance with a long-term take-or-pay agreement.

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[1] The Capex in this MD&A is presented on a cash basis in US$ terms, whereas in the Financial Statements the Capex is on accrual basis in Reais (property, plant and equipment, and intangible assets).

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. We expect the environmental license for the pipeline to be granted by IBAMA (Federal Environmental Agency) during the 2H 2014.

During 1H14, the Capex[2] related to the development of the pipeline reached US$9.4 million, with US$4.7 million during 1H14, mostly on right of way negotiation, environmental licensing and engineering.

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 LP is expected during the 2H14.

During 1H14 the Capex[2] related to the North Port has reached US$21.5 million by June 30, 2014, with US$2.4 million during 1H14, mostly on engineering and environmental licensing process.

D. Railway

As stated in section Recent Events, the discussions with Vale regarding a new rail spur of approximately 80km connecting EFVM to Manabi's North Port, are well advanced.

This railway connection should 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.

During 1H14, we have concluded the conceptual engineering for the rail spur and its basic engineering is expected to be concluded during 3Q14. The disbursement related to the rail spur has reached US$4.7 million, with US$2.3 million during 1H14 mostly on engineering.

Dark Hill Project

Manabi has been prioritizing its Pilar Hill Project, so that the activities at Dark Hill have been limited and therefore the related investments during the 1H14 were of only US$0.2 million, out of a total Capex deployed of US$5.1 million since the inception of the project.

SELECTED FINANCIAL INFORMATION

The following financial data is derived from our six months financial information ended June 30, 2014 and 2013, prepared in accordance with the accounting practices adopted in Brazil for individual (Parent Company) financial information and IFRS as issued by the International Accounting Standards Board (IASB) for consolidated financial information.

	Manabi		**Consolidated**	
(in thousands of *reais*, except if otherwise specified)	**06/30/2014**	**06/30/2013**	**06/30/2014**	**06/30/2013**
Total Revenue	-	-	-	-
Operating loss before financial results	**(39,149)**	(27,411)	**(39,150)**	(27,404)
Operating loss before financial results per common share (basic and diluted) (in *reais*)	**(37.64)**	(26.36)	-	-
Operating loss before financial results per preferred share (basic and diluted) (in *reais*)	**(37.64)**	(26.36)	-	-
Net financial income	**25,861**	21,692	**25,862**	21,685
Loss for the period	**(13,288)**	(5,719)	**(13,288)**	(5,719)
Loss per common share (basic and diluted)(in *reais*)	**(12.78)**	(5.50)	-	-
Loss per preferred share (basic and diluted) (in *reais*)	**(12.78)**	(5.50)	-	-

Total loss for the period increased to R$13.3 million as compared to a loss of R$5.7 million during the same period of 2013. This variation is basically related to initial studies on railway project, financial advisory services focused on the structuring of Manabi´s Project Finance in the domestic and international markets, partially offset by higher financial income.

CONSOLIDATED BALANCE SHEET

(in thousands of *Reais)*	**06/30/2014**	**12/31/2013**
Current Assets		
Cash	**17**	44
Marketable securities	**497,662**	546,901
Other current assets	**9,561**	9,424
Non-current Assets	**841,529**	804,039
Total Assets	**1,348,769**	1,360,408
Current Liabilities		
Trade accounts payable	**2,274**	6,120
Employee-related accruals	**3,528**	2,069
Other current liabilities	**942**	1,923
Equity		
Capital Stock	**1,381,666**	1,381,666

Capital Reserve	**1**	1
Share-based payment reserve	**22,153**	17,136
Accumulated losses	**(61,795)**	(48,507)
Total Liabilities and Equity	**1,348,769**	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 to the variation of the IPCA + spread (NTN-B). During 1H14, these bonds generated an average return of 100.9% of the CDI (Interbank Deposit Certificate). Government bonds are highly liquid, have low credit risk (sovereign risk) and volatility and can be readily sold in order to meet cash needs of the Company and of its subsidiaries.

Other current assets refer primarily to withholding tax on financial income to be recovered.

Non-current assets are primarily comprised by expenditures on Land, Construction in progress of the port and pipeline projects and Intangible assets related to the Pilar Hill and Dark Hill projects.

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 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 the consolidated quarterly results for the last six quarters.

	2014		**2013**			
	Mar 31	**Jun 30**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenue	-	-	-	-	-	-
Loss for the period (in thousands of *reais*)	(6,073)	(7,215)	(3,538)	(2,181)	(3,649)	(4,452)
Loss per common share (basic and diluted) (in *reais*)*	(5.84)	(6,94)	(3.40)	(2.10)	(3.51)	(4.28)
Loss per preferred share (basic and diluted)(in *reais*)*	(5.84)	(6,94)	(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 Unaudited Quarterly Financial Information for the three and six month period ended June 30, 2014 and 2013. The table below sets forth our consolidated results of operations for the periods above mentioned.

	Consolidated			
(in thousands of *reais*, except if otherwise specified)	**3 months ended June 30, 2014**	**3 months ended Jun 30, 2013**	**6 months ended Jun 30, 2014**	**6 months ended Jun 30, 2013**
Operating expenses				
Personnel	**(9,947)**	(8,474)	**(18,975)**	(15,408)
Services rendered	**(7,534)**	(2,430)	**(14,807)**	(7,676)
General and administrative	**(2,193)**	(2,152)	**(4,616)**	(3,678)
Depreciation and amortization	**(260)**	(169)	**(525)**	(283)
Taxes	**(29)**	(36)	**(227)**	(359)
Operating loss before financial results	**(19,963)**	(13,261)	**(39,150)**	(27,404)
Financial income and expenses				
Financial income	**12,780**	11,132	**25,963**	21,782
Financial expenses	**(32)**	(52)	**(101)**	(97)
	12,748	11,080	**25,862**	21,685
Loss before income tax and social contribution	**(7,215)**	(2,181)	**(13,288)**	(5,719)
Income tax and social contribution	**-**	-	**-**	-
Loss for the period	**(7,215)**	(2,181)	**(13,288)**	(5,719)
Loss per common share(1) (basic and diluted)	**(6.94)**	(2.10)	**(12.78)**	**(5.50)**
Loss per preferred share(2) (basic and diluted)	**(6.94)**	(2.10)	**(12.78)**	**(5.50)**

(1) Total common shares (figures related to the parent company): 250,000
(2) Total preferred shares (figures related to the parent company): 790,000

Operating expenses. We are currently in pre-operational phase and therefore have not generated operating revenue. We incurred operating expenses of R$39.1 million during 1H14, an increase of R$11.7 million compared to 1H13. This variation is basically related to initial studies for the railway project, increase in personnel expenses and financial advisory services focused on the structuring of Manabi´s Project Finance in the domestic and international markets.

Net financial income. Income for the period reached R$26.0 million against R$21.8 million from 1H13. This variation is due mainly to the increase in the SELIC (Brazilian basic interest rate) to 11.0% in 1H14 vs. 8.0% in 1H13.

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 June 30, 2014, the Company's tax loss carry forward and negative social contribution basis amounted to R$ 72.5 million.

Loss for the period. As a result of the foregoing, our loss for the six months period ended June 30, 2014 was of R$13.3 million, compared to a loss of R$5.7 million for the 1H13.

Cash Flows

The table below presents cash flows for the six month period ended June 30, 2014 and 2013.

(in thousands of *reais)*	**Manabi**		**Consolidated**	
	06/30/2014	**06/30/2013**	**06/30/2014**	**06/30/2013**
Net cash used in operating activities	**(33,381)**	(24,051)	**(34,199)**	(24,707)
Net cash from (used in) investing activities	**33,353**	(45,276)	**34,172**	(44,620)
Net cash used in financing activities	-	(2,147)	-	(2,147)
Decrease in cash and cash equivalents	**(28)**	(71,474)	**(27)**	(71,474)
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	**16**	13	**17**	13

Net cash used in operating activities. Increase during 1H14 compared to 1H13, as mentioned above basically reflecting initial studies for the railway project, increase in personnel expenses and the financial advisory services focused on the structuring of Manabi´s Project Finance in the domestic and international markets. Financial income on Marketable securities is not considered for both periods in the statement of cash flows as this income does not involve cash equivalents.

Net cash from (used in) investing activities. Variation between the periods is due primarily to lower non-current assets expenditures of R$19.8 million and higher redemption of marketable securities of R$59.0 million being this latter used to meet the cash needs.

Net cash used in financing activities. The amount of R$2.1 million relates to remaining equity issuance costs from the second private placement incurred during 2012 and paid in the beginning of 2013.

CAPITAL STRUCTURE

As of June 30, 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 June 30, 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 amount of R$6.7 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 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$3.0 billion with respect to our projects, based on SRK updated technical report of May 2014. The estimated capital expenditures for our project does not include the capital expenditures necessary for the construction of a slurry pipeline, as we have been considering the alternative of building 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 1H13 Lakeshore Partners as financial advisors for the structuring and raising of local debt and in 2H13 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 June 30, 2014, liabilities are primarily represented by balances with trade accounts payable.

The following table sets forth our contractual liabilities as of June 30, 2014 and 2013:

	As of June 30, 2014				
	< 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	6,744,000	0	0	0	6,744,000
Total	**6,744,000**	**0**	**0**	**0**	**6,744,000**

	As of June 30, 2013				
	< 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	10,112,000	0	0	0	10,112,000
Total	**10,112,000**	**0**	**0**	**0**	**10,112,000**

In addition, as of June 30, 2014 and June 30, 2013, our liability ratio (defined as our current and non-current liabilities divided by our net equity) was 0.50% and 0.75%, 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: (i) the determination of the useful lives of property, plant and equipment; (ii) estimates of reserves used to calculate depreciation by the unit production method; (iii) the recoverable amount of each cash-generating unit; (iv) the impairment of property, plant and equipment; (v) deferred income tax and social contribution; and (vi) 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: (i) consolidation of the financial statements; (ii) financial instruments; (iii) cash and cash equivalents and marketable securities and; (iv) investments in subsidiaries and; (v) 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 (i) analysis of our annual and quarterly reports and our financial statements, and (ii) 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 June 30, 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 (*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 considering the last 12 months, as of the end of the periods indicated, unless stated otherwise:

Economic indicator	06/30/14[6]	12/31/2013[6]	12/31/12[6]	12/31/11[6]
GDP growth [1]	0.2%[7]	2.5%	1.0%	2.7%
Inflation (IGP-M) [2]	6.2%	5.5%	7.8%	5.1%
Inflation (IPCA) [1]	6.5%	5.9%	5.8%	6.5%
Interbank rate – CDI (average) [3]	5.0%[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$2.20	R$2.34	R$2.04	R$1.88
Average exchange rate per US$1.00	R$2.30[8]	R$2.16	R$1.95	R$1.67
Appreciation of the *real* against the U.S. dollar [5]	6.0%	(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 first quarter of 2014.
(8) 6 month period ended on June 30, 2014.

KEY FACTORS AFFECTING OUR FUTURE RESULTS OF OPERATIONS

The development and implementation of an integrated iron ore production and distribution project is capital intensive. In this context, Management believes that the funds held in cash are sufficient for the short term activities. Currently, the Company has no cash generating activities or sufficient funds to implement the whole of its investment plan, depending on the shareholders' funds or third parties to implement the business plan. Management continues to evaluate alternatives to raise additional funds through equity transactions and project financing that will enable this implementation.

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 approximately 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, 5.9% in 2013 and 6.5% for the 12 month period ended on June 30, 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.