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

For the Year Ended

December 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 audited consolidated financial statements of Manabi S.A. and its subsidiaries for the year ended December 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 March 30, 2015.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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.

Statements in this MD&A, including statements related to the Company's 2014 financial results, 2015 outlook and future plans, are qualified in their entirety by more detailed information included in our Reference Form (*Formulário de Referência*), filed at CVM (Comissão de Valores Mobiliários – www.cvm.gov.br. The Reference Form includes a detailed description of risks that may affect the Company's future plans, results of operations and financial performance under Item 4, "Risk Factors" (*Fatores de Risco*). Please refer to this important information to understand more about underlying risks the Company faces, as well as the material factors and assumptions related to the forward-looking statements.

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").

SUMMARY OF 2014 MAIN EVENTS

In January, Manabi held all public hearings required by the federal environmental authority (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* or "IBAMA") in connection with the environmental permitting process of the North Port and the pipeline projects. These meetings, which took place in four different cities selected by IBAMA and were attended by more than 2,000 stakeholders, provided local communities and other interested parties with an opportunity to raise and clarify questions and to propose and discuss desired social measures for IBAMA to consider in the context of the environmental permitting process.

In February, the Presidency´s Port Secretariat (*Secretaria Especial dos Portos* or "SEP") granted the Company its regulatory authorization for the construction and operation of the North Port private terminal on the coast of Linhares, in the state of Espírito Santo.

In August, the Company entered into an investment agreement and a transportation agreement with Brazilian company Vale S.A. ("Vale") in the latter's capacity as concessionaire responsible for the operation of the Vitória-Minas Railway (*Estrada de Ferro Vitória-Minas* or "EFVM Railway"), securing a new logistics option for its mining business through the railway.

The investment agreement sets forth the terms and conditions for the development and implementation of a new rail stretch of approximately 80km connecting the EFVM Railway to Manabi's North Port area on the coast of Linhares, conditioned to an environmental permitting process and in accordance with the regulations of Brazil's National Land Transportation Agency (*Agência Nacional de Transportes Terrestres* or "ANTT").

The transportation agreement sets forth the terms and conditions for the transportation on EFVM Railway of up to 25 million tons of iron ore per year to Manabi's North Port for a period of 20 years.

In October, the Company validly approved, as Preferred Share Consent Matters, the following matters:

(i) a revision of its Business Plan which includes an additional logistic solution for the transportation of iron ore from Pilar Hill to the North Port. The new logistics option contemplates the transportation of iron ore through a short slurry pipeline (158 km) from Pilar Hill to a stockyard in Naque, the municipality where the short pipeline reaches EFVM Railway. From Naque to the North Port, the iron ore would be transported by rail pursuant to the Transportation Agreement executed by and between the Company and Vale. Manabi revised Business Plan now includes in addition to the original long slurry pipeline linking the Pilar Hill mine to the North Port directly a logistics option based on the short pipeline mentioned above connected to EFVM Railway;

(ii) the execution by the Company of an engagement letter with the following banks: BNP Paribas Securities Corp. and CIBC World Markets plc (the "Engagement Letter") as the Company's financial advisors (the "Advisors") for purposes of effecting one or more strategic equity transactions.

In November, the Minas Gerais State Council for Environmental Policy (*Conselho Estadual de Política Ambiental* or "COPAM") issued the preliminary environmental permit (*licença prévia* or "LP") for the iron ore mine, processing plant and related facilities of its Pilar Hill Project.

Given the challenging scenario for the Iron Ore industry marked by the sustained decline in the iron ore spot price since January 2014, from the range of US$130/t (for the 62% Fe CIF China) to approximately US$ 70/t by year end, Manabi´s Board of Directors has approved a reduced budget for 2015 that has led the Company to implement a significant downsizing, reducing its G&A and headcount, as other pre operational companies, with a view to preserving as much as possible its cash position going forward.

OVERALL PERFORMANCE

Pilar Hill Project

A. Mine and Plant

For the collection of more extensive data, Geosol – Geologia e Sondagens Ltda. ("Geosol"), a Brazilian leading drilling company, performed approximately 52,000 meters of drilling during 2013, in addition to the approximate 48,000 meters previously drilled at the sites. The additional drilling and related data substantiated the SRK Technical Report ("SRK TR")[1] on our flagship Pilar Hill Project finalised by SRK Consulting in February 2014 and updated in May 2014.

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. 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 data of the Project: 80% metallurgical recovery and a process design able to consistently produce a 68.5% Fe premium product, with low impurities.

The Capex[2] related to mine and plant development reached R$198 million by December 31, 2014, with R$46 million being spent during 2014, mostly on permitting and compensations to stakeholders or investments in affected municipalities.

B. Pipeline

The Company has the alternative to transport its iron ore from Pilar Hill to the North Port either through a 511km long pipeline (the "Long Pipeline") or through a 158km short pipeline (the "Short Pipeline") up to a filtering plant and stockyard in Naque, in the state of Minas Gerais, where the iron ore would be transhipped to the existing line of the EFVM Railway and taken to the North Port through a rail spur of 80km to be implemented.

By year end 2014 the Company had secured more than 50% of the rights-of-way for the Short Pipeline (158km). The Short Pipeline corresponds to approximately 30% of the length of the Long Pipeline and is on the same route.

The total expenditure[2] in non-current assets related to the development of the pipeline reached R$28 million, with R$18 million being spent during 2014, mostly on right of way negotiation, permitting and engineering.

C. North Port

As mentioned in the section *Summary of 2014 Main Events*, the Company's subsidiary Manabi Logística received in February 2014 the requisite regulatory authorization from SEP for the construction and operation of the North Port. Regarding the environmental permitting of the North Port (which is processed and reviewed jointly with the pipeline project), the Company has been in continuous dialogue with IBAMA, which has been in charge of the review of the Environmental Impact Assessment ("EIA-RIMA") since 2013. Following the successful realization of the public hearings in January 2014 and the delivery of extensive supplementary studies and information, we currently believe that IBAMA will be in a position to issue the expected environmental permit in the course of 1H2015.

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[1] 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.

[2] The Capex for all projects in this MD&A is presented on an accrual basis in R$ terms, in line with the Financial Statements).

The total Capex[2] related to the North Port reached R$53 million, with R$12 million being spent during the year of 2014, mostly on engineering and on the permitting process.

D. Railway

As stated in the section *Recent Events*, Manabi entered into an investment agreement and a transportation agreement with Brazilian company Vale (concessionaire of the EFVM Railway) securing a new logistics option for its mining business. The option for connecting the North Port to the existing EFVM Railway opens the possibility of creating a new logistics corridor for inbound and outbound cargoes in the region, significantly leveraging the value of North Port as a new alternative for the export and import of bulk commodities.

The total expenditure[2] during 2014 in non-current assets, related to the rail spur, reached R$11 million mostly on engineering.

Dark Hill Project

Activities related to the Dark Hill Project have been limited due to the priority granted by the Company to its flagship Pilar Hill Project. In this context, related investments during 2014 were of only R$1 million, out of a total Capex deployed of R$11 million since the inception of this project.

SELECTED ANNUAL INFORMATION

The following financial information is derived from our financial statements for the fiscal years ended December 31, 2014 and 2013, prepared under IFRS.

	Manabi S.A.		Consolidated	
(in thousands of *reais*, except if otherwise specified)	**12/31/2014**	**12/31/2013**	**12/31/2014**	**12/31/2013**
Total Revenue	-	-	-	-
Impairment of assets	(701,207)	-	(733,292)	-
Operating losses before financial results	**(802,110)**	(60,923)	**(733,292)**	(60,913)
Operating losses before financial results per common share (basic and diluted) (in *reais*)	**(771.26)**	(58.58)	**-**	-
Operating losses before financial results per preferred share (basic and diluted) (in *reais*)	**(771.26)**	(58.58)	**-**	-
Financial income and expenses	**51,704**	47,103	**51,696**	47,093
Loss for the year	**(750,406)**	(13,820)	**(750,406)**	(13,820)
Loss per common share (basic and diluted)(in *reais*) *	**(721.54)**	(13.29)	**-**	-
Loss per preferred share (basic and diluted) (in *reais*) *	**(721.54)**	(13.29)	**-**	-

* figures related to the parent company. Total common shares: 250,000 / Total preferred shares: 790,000

Considering the sustained decline in iron ore prices in the international market in the course of 2014, the Company has conducted an impairment testing of its Projects. Those tests indicated that the carrying amounts of the assets associated to the Pilar Hill and Dark Hill Projects were greater than the present value of the respective discounted future cash flows, related to the estimated useful life periods for these Projects. In this context, the Company has also updated some key assumptions of the business plan such as the long term exchange rate, discount rate and expected start-up date.

Accordingly, the Company's income statement indicates an impairment loss of R$733 million, recorded in the income statement as other operating expenses, of which R$659 million refer to the Pilar Hill Project and R$74 million to the Dark Hill Project.

CONSOLIDATED BALANCE SHEET

(in thousands of *Reais)*	**2014**	**2013**
Current Assets		
Cash and cash equivalents	26	44
Marketable securities	452,048	546,901
Other current assets	8,696	9,424
Non-current assets		
Property, plant and equipment	57,930	64,261
Intangible assets	99,664	739,778
Total Assets	618,364	1,360,408
Current Liabilities		
Trade accounts payable	6,289	6,120
Employee-related accruals	1,976	2,069
Other current liabilities	1,472	1,923
Non-current liabilities		
Equity		
Capital Stock	1,381,666	1,381,666
Capital Reserve	1	1
Share-based compensation reserve	25,873	17,136
Accumulated losses	(798,913)	(48,507)
Total Equity	608,627	1,350,296
Total Liabilities and Equity	618,364	1,360,408

Marketable securities are composed of (i) government bonds with yields indexed to the Selic rate and (ii) Certificate of Deposit of Caixa Econômica Federal- CEF (CD from Brazil´s Federal Saving and Loans institution) with yield indexed to the variation of the CDI (Interbank Deposit Certificate). These securities are held through the Company's exclusive investment fund and have generated an average return of 100.4% of the CDI during 2014. The government bonds and CEF CD are highly liquid assets (can be sold at any time for use in the operations of the Company and its subsidiaries) and carry Brazil sovereign risk.

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

Non-current assets are primarily composed by land, construction in progress of the port, pipeline projects and Intangible assets related to the Pilar Hill, Dark Hill and Rail spur projects. During 2014 the additions amounted to R$88 million mainly associated with expenditures related to exploration and valuation of Pilar Hill resources and its engineering. Balances contemplate reductions associated with the impairment of assets of R$733 million.

Trade accounts payables refer mainly to advisory in environmental studies, conceptual engineering and general and administrative services, with an average settlement period of 30 days, which are not subject to financial charges.

Capital stock is represented by 1,040,000 shares, of which 250,000 are common shares, 550,000 are class A preferred shares and 240,000 are class B preferred shares, with no par value.

SUMMARY OF QUARTERLY RESULTS

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

	2014				**2013**			
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenue	-	-	-	-	-	-	-	-
Loss for the period (in thousands of *reais*)	(6,073)	(7,215)	(2,955)	(734,163)	(3,538)	(2,181)	(3,649)	(4,452)
Loss per common share (basic and diluted) (in *reais*)*	(5.84)	(6.94)	(2.84)	(705.92)	(3.40)	(2.10)	(3.51)	(4.28)
Loss per preferred share (basic and diluted)(in *reais*)*	(5.84)	(6.94)	(2.84)	(705.92)	(3.40)	(2.10)	(3.51)	(4.28)

*** figures related to the parent company**

REVIEW OF FINANCIAL RESULTS

The following discussion of our results of operations should be read together with our consolidated financial statements for the years ended December 31, 2014 and 2013. The main factor that affected our operating results during the year of 2014 was the impairment of assets above mentioned. The table below sets forth our results of operations for the 12 month periods ended December 31, 2014 and 2013.

	Manabi S.A.		Consolidated	
(in thousands of *reais*, except if otherwise specified)	2014	2013	2014	2013
Operating expenses				
Personnel	(35,123)	(33,652)	(35,123)	(33,652)
Services rendered	(21,964)	(17,030)	(23,063)	(17,837)
General and administrative expenses	(8,513)	(8,074)	(9,285)	(8,261)
Depreciation and amortization	(1,009)	(753)	(1,067)	(762)
Taxes	(226)	(378)	(272)	(401)
	(66,835)	(59,887)	(68,810)	(60,913)
Other operating expenses				

Equity results in subsidiaries	(34,068)	(1,036)	-	-
Impairment of assets	(701,207)	-	(733,292)	-
	(735,275)	(1,036)	(733,292)	-
Operating losses before financial results	(802,110)	(60,923)	(802,102)	(60,913)
Financial income and expenses				
Financial income	51,866	47,303	51,868	47,303
Financial expenses	(162)	(200)	(172)	(210)
	51,704	47,103	51,696	47,093
Loss before income tax and social contribution	(750,406)	(13,820)	(750,406)	(13,820)
Income tax and social contribution	-	-	-	-
Loss for the year	(750,406)	(13,820)	(750,406)	(13,820)
Loss per common share (basic and diluted)(in *reais*)	(721.54)	(13.29)	-	-
Loss per preferred share (basic and diluted) (in *reais*)	(721.54)	(13.29)	-	-

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Operating expenses. We are currently in pre-operational phase of development and therefore have not generated operating revenue. We incurred operating expenses of R$68.8 million during the year of 2014, an increase of R$7.9 million compared to the R$60.9 million in 2013. The main variation is related to services engaged in connection with the permitting process, the railway project and to the financial advisory focused on the financing of Manabi´s project.

Other operating expenses – impairment of assets. As highlighted under the Selected Annual Information, the impairment testing performed by year end indicated a R$733 million loss derived mainly from the sustained decline in the spot and long term price of the iron ore, which is recorded in the income statement as impairment of assets, of which R$659 million refer to the Pilar Hill Project and R$74 million to the Dark Hill Project.

Financial income and expenses. Income for the year 2014 reached R$51.9 million against R$47.3 million from 2013. This variation is due mainly to the increase in the average target SELIC (Brazilian basic interest rate) to 10.8% in 12M14 vs. 8.1% in 12M13.

Income tax and social contribution. Management opted not to record deferred taxes assets at 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 December 31, 2014, the Company's tax loss carry forward and negative social contribution basis amounted to R$ 70.5 million.

Loss for the year. As a result of the foregoing, our loss for the year of 2014 was R$750.4 million, compared to a loss of R$13.8 million in 2013 highly impacted by the impairment of assets above mentioned.

Cash Flows

The table below presents our cash flows as of December 31, 2014 and 2013:

	Manabi S.A.		Consolidated	
(in thousands of *reais)*	**2014**	**2013**	**2014**	**2013**

Net cash used in operating activities	(59,008)	(56,626)	(60,787)	(57,579)
Net cash from (used in) investing activities	58,988	(12,670)	60,769	(11,717)
Net cash used in financing activities	-	(2,147)	-	(2,147)
Decrease in cash and cash equivalents	(20)	(71,443)	(18)	(71,443)
Cash and cash equivalents at the beginning of the year	44	71,487	44	71,487
Cash and cash equivalents at the end of the year	24	44	26	44

Net cash used in operating activities. The net cash used in operating activities increased from R$57.6 million in the year 2013 to R$60.8 million in 2014, due to the services the Company engaged in connection with permitting activities, the railway project and to the financial advisory focused on the financing of Manabi´s project. Financial income from marketable securities is not reflected in the statement of cash flows as this income does not pertain to cash equivalents.

Net cash from (used in) investing activities. The net cash from (used in) investing activities increased from a disbursement of R$11.7 million in the year 2013 to an income of R$60.8 million in 2014, due primarily to lower non-current assets expenditures of R$43.2 million and higher redemption of marketable securities of R$29.2 million being this latter used to meet the cash needs.

Net cash used in financing activities. The Company did not have any amount in the line of net cash from (used in) financing activities in the year of 2014. The amount of R$2.1 million included in the year 2013 relates to the remaining equity issuance costs from the second private placement incurred during 2012 and paid in the beginning of 2013.

Decrease in cash and ***cash equivalents.*** As a result of the foregoing, during the twelve months ended December 31, 2014, the decrease in our cash and cash equivalents reached R$18 million, R$53.4 million lower than during the year ended December 31, 2013, in which the decrease was of R$71.4 million.

CAPITAL STRUCTURE

As of December 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 December 31, 2014, we have not incurred any material financial obligations and no long-term liabilities. Most of our liabilities at that date are related to contractual obligations to our service providers totaling an aggregate of R$6.3 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 cash balance and marketable securities are from equity raises.

Given the challenging scenario for the Iron Ore industry marked by the sustained decline in the iron ore spot price since January14, the Company is reviewing potential funding and strategic opportunities, including the definition of priorities for the execution of its business plan and budget, and has engaged

BNP Paribas Securities Corp. and CIBC World Markets plc to assist management in identifying and structuring one or more strategic equity transactions.

INDEBTEDNESS AND CONTRACTUAL LIABILITIES

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

The following table sets forth our contractual liabilities (deriving from accounts payable to suppliers, additions to non-current assets and administrative expenses) as of December 31, 2014 and December 31, 2013:

	As of December 31, 2014				
	< 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	6,289	0	0	0	6,289
Total	**6,289**	**0**	**0**	**0**	**6,289**

	As of December 31, 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	6,120	0	0	0	6,120
Total	**6,120**	**0**	**0**	**0**	**6,120**

In addition, as of December 31, 2014 and December 31, 2013, our liability ratio (defined as our current and non-current liabilities divided by our net equity) was 18.50% 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, Ms. 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. Mr. Ramos also joined the Technical Committee of Manabi.

On January 21st, 2015, the majority of the shareholders through the Extraordinary Shareholders´ Meeting decided to dismiss all of the board members and elect a new Board of Directors. The new slate of directors unanimously approved by the attending shareholders is composed of: Alex Migon; Álvaro Piquet; Andrey Zhmurovsky; Charles Putz; Guy Bentinck; Josh Shores; Mathew Goldsmith; Michael Vitton; and Ouk (Brian) Choi. The new chairman elected on January 30, 2015 is Mr. Charles Putz. Mr. Putz has been an independent director of Manabi S.A. since January 6, 2012. During his term, he has served in each of the three advisory committees of the board of directors: the audit and finance committee, the governance, compensation and nominating committee and the technical committee.

Mr. Putz is an accomplished professional with significant expertise in the mining space in Brazil and an advocate of best practices of corporate governance.

On February 5, 2015, the Board of Directors appointed independent Director Guy Bentinck as vice-chairman of the Board. Mr. Bentinck serves as chair of the audit and finance committee and member of the governance, compensation and nominating committee. On the same date the Board of Directors appointed independent Director Álvaro Piquet Pessôa to the Governance, Compensation and Nominating Committee. Mr. Piquet Pessôa is an attorney with significant expertise of best corporate governance practices in Brazil and abroad.

We had no changes to our Board of Executive Officers, other than the resignation of Mr. Marcos Ludwig from the position of Chief Legal Officer on August 28, 2014.

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 December 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 (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	12/31/14(6)	12/31/2013(6)	12/31/12(6)	12/31/11(6)
GDP growth [1]	0.1%[7]	2.5%	1.0%	2.7%
Inflation (IGP-M) [2]	3.7%	5.5%	7.8%	5.1%
Inflation (IPCA) [1]	6.4%	5.9%	5.8%	6.5%
Interbank rate – CDI (average) [3]	10.8%[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$2.66	R$2.34	R$2.04	R$1.88
Average exchange rate per US$1.00	R$2.36[8]	R$2.16	R$1.95	R$1.67
Appreciation of the *real* against the U.S. dollar [5]	(13.7)%	(14.7)%	(8.5)%	(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 third quarter of 2014.
(8) 12 month period ended December 31, 2014.

KEY FACTORS AFFECTING OUR FUTURE RESULTS OF OPERATIONS

Please refer to our Reference Form (*Formulário de Referência*), filed at CVM (*Comissão de Valores Mobiliários* – www.cvm.gov.br, for a detailed description of factors and risks that may affect the Company's future plans, results of operations and financial performance included in Item 4, "Risk Factors" (*Fatores de Risco*). Please refer to this important information to understand more about underlying risks that the Company faces, as well as the material factors and assumptions related to any forward-looking statements.

Demand for Iron Ore

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 2014, China imported approximately 870Mt 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. This analysis is predicated upon the assumption that the high-cost Chinese production will exit the market. However, this production has been slow to exit the market despite substantially reduced iron ore prices experienced to-date in 2014. To the extent that demand for iron ore does not increase to the levels predicted, or to the extent demand decreases, or supply increases beyond the levels currently predicted, our operating results and demand for our products may be adversely affected.

Iron Ore Production Capacity

According to our studies, our Pilar Hill project shall 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.

On the North Port, we expect to possibly generate cash flow from third party import and export products. These activities should also be affected for the variation in prices of such products.

Success and Timing of Permitting Process

The activities we plan to develop are highly regulated in Brazil and require permits, concessions and authorizations of many governmental entities, such as the National Department of Mineral Production (*DNPM*), the Brazilian Institute of Environmental and Renewable Natural Resources (*IBAMA*), State Environmental Agencies of Minas Gerais and Espírito Santo States, the National Terrestrial Transportation Agency (*ANTT*), the National Waterways Transportation Agency (*ANTAQ*), the Presidency´s Port Secretariat (*SEP*), the Presidency's Secretariat for Federal Property (*SPU*), among others. Our pre-operational activities depend on obtaining or maintaining the permits, authorizations and concessions that we should need. We cannot be certain that we will be capable to obtain or maintain all such required regulatory requirements. The failure to obtain or the delay in obtaining such requirements or even disputes related thereto may have an adverse effect in the timing of our project, our start date, in our operational results and in our financial condition.

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, 5.9% in 2013 and 6.4% in 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 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. Due to delays in Congress analysis in 2014 since it is an election year, analysis of the bill by Congress is now expected for 2015. If passed, we will update our feasibility study accordingly. Nonetheless, our financial model already considers the proposed 4% mining royalties.