



# MIRABELA NICKEL LTD

ABN 23 108 161 593

## **Unaudited Condensed Consolidated Interim Financial Report For the three and six months ended June 30, 2011**

Expressed in thousands of US dollars (US\$000) unless otherwise stated

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**Unaudited condensed consolidated interim statement of income and comprehensive income**  
**For the three and six months ended June 30, 2011**

	Note	Three months ended		Six months ended	
		30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
		US\$000	US\$000	US\$000	US\$000
Sales revenue		80,307	51,938	123,562	94,557
Treatment, refining and transport charges		(14,079)	(7,467)	(23,046)	(14,162)
<b>Net sales revenue</b>		<b>66,228</b>	<b>44,471</b>	<b>100,516</b>	<b>80,395</b>
Direct costs		(58,212)	(39,183)	(85,996)	(60,586)
Royalties		(5,019)	(2,109)	(7,571)	(3,793)
Depreciation, amortisation and depletion		(14,417)	(8,570)	(22,995)	(15,493)
<b>Cost of sales</b>		<b>(77,648)</b>	<b>(49,862)</b>	<b>(116,562)</b>	<b>(79,872)</b>
<b>Gross (loss)/profit</b>		<b>(11,420)</b>	<b>(5,391)</b>	<b>(16,046)</b>	<b>523</b>
<b>Expenses</b>					
General and administration		(2,284)	(1,555)	(4,390)	(3,632)
Financial income	7	1,112	143	1,927	286
Financial expense	7	(15,455)	(5,239)	(19,297)	(10,514)
Net derivative gain	8	1,227	18,211	249	1,415
Net foreign exchange gain		7,006	(892)	7,869	(5,439)
Other expenses	10	(6,437)	(80)	(7,555)	(184)
		(14,831)	10,588	(21,197)	(18,068)
Loss before income tax		(26,251)	5,197	(37,243)	(17,545)
Income tax		-	-	-	-
<b>Loss for the period</b>		<b>(26,251)</b>	<b>5,197</b>	<b>(37,243)</b>	<b>(17,545)</b>
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>					
Foreign currency translation differences		25,314	(4,984)	41,730	(13,688)
Effective portion of changes in fair value of cash flow hedges		35,270	103,477	12,777	(10,956)
Net change in fair value of cash flow hedges transferred to profit or loss		7,891	(7,094)	22,132	(5,929)
<b>Other comprehensive income/(expense) for the period</b>		<b>68,475</b>	<b>91,399</b>	<b>76,639</b>	<b>(30,573)</b>
<b>Total comprehensive income/(expense) for the period</b>		<b>42,224</b>	<b>96,596</b>	<b>39,396</b>	<b>(48,118)</b>
<b>(LOSS)/EARNINGS PER SHARE</b>					
Basic (loss) /earnings per share (\$ per share)		(0.05)	0.01	(0.08)	(0.05)
Diluted loss) /earnings per share (\$ per share)		(0.05)	0.01	(0.08)	(0.05)
Weighted basic average number of shares outstanding (000's)		491,561	367,102	491,561	364,250
Weighted diluted average number of shares outstanding (000's)		491,561	367,163	491,561	364,463

*The accompanying condensed notes form part of this unaudited condensed consolidated interim financial report.*

## Unaudited condensed consolidated interim statement of changes in equity

For the six months ended June 30, 2011

Period ended June 30, 2011	Attributable to equity holders of the Group					
	Issued capital	Translation reserve	Share based payments reserve	Hedging reserve	Accumulated losses	Total equity
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Balance at January 1, 2011	681,272	86,808	13,180	(101,024)	(60,901)	619,335
<b>TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD</b>						
Loss for the period	-	-	-	-	(37,243)	(37,243)
<i>Other comprehensive income/ (expense)</i>						
Foreign currency translation differences	-	41,730	-	-	-	41,730
Effective portion of changes in fair value of cash flow hedges	-	-	-	12,777	-	12,777
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	22,132	-	22,132
<i>Total other comprehensive income/ (expense)</i>	-	41,730	-	34,909	-	76,639
<b>Total comprehensive income/ (expense) for the period</b>	-	41,730	-	34,909	(37,243)	39,396
<b>TRANSACTIONS WITH EQUITY HOLDERS</b>						
Share issue costs recovery	804	-	-	-	-	804
Options lapsed during the period	-	-	(6,263)	-	6,263	-
Share based payment transactions	-	-	1,101	-	-	1,101
<b>Total transactions with equity holders</b>	804	-	(5,162)	-	6,263	1,905
<b>Balance at 30 June 2011</b>	<b>682,076</b>	<b>128,538</b>	<b>8,018</b>	<b>(66,115)</b>	<b>(91,881)</b>	<b>660,636</b>

The accompanying condensed notes form part of this unaudited condensed consolidated interim financial report.

## Unaudited condensed consolidated interim statement of changes in equity

For the six months ended June 30, 2011

	Attributable to equity holders of the Group					
	Issued capital	Translation reserve	Share based payments reserve	Hedging reserve	Accumulated losses	Total equity
Period ended June 30, 2010	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Balance at January 1, 2010	477,024	56,248	11,904	(17,967)	(13,283)	513,926
<b>TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD</b>						
Loss for the period	-	-	-	-	(17,545)	(17,545)
<i>Other comprehensive income/ (expense)</i>						
Foreign currency translation differences	-	(13,688)	-	-	-	(13,688)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(10,956)	-	(10,956)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	(5,929)	-	(5,929)
<b>Total other comprehensive expense</b>	-	(13,688)	-	(16,885)	-	(30,573)
<b>Total comprehensive expense for the period</b>	-	(13,688)	-	(16,885)	(17,545)	(48,118)
<b>TRANSACTIONS WITH EQUITY HOLDERS</b>						
Share issue net of issue costs	24,728	-	-	-	-	24,728
Share based payment transactions	-	-	458	-	-	458
<b>Total transactions with equity holders</b>	24,728	-	458	-	-	25,186
<b>Balance at June 30, 2010</b>	<b>501,752</b>	<b>42,560</b>	<b>12,362</b>	<b>(34,852)</b>	<b>(30,828)</b>	<b>490,994</b>

The accompanying condensed notes form part of this unaudited condensed consolidated interim financial report.

## Unaudited condensed consolidated interim statement of financial position

As at June 30, 2011

	Note	30-Jun-11 US\$000	31-Dec-10 US\$000
<b>ASSETS</b>			
Cash and cash equivalents	9	118,073	102,134
Trade and other receivables	11	53,181	43,024
Inventories	12	48,120	34,509
Derivative financial instruments	13	-	15,774
<b>Total current assets</b>		<b>219,374</b>	<b>195,441</b>
Trade and other receivables	11	46,822	33,803
Property, plant and equipment	15	961,615	883,621
Exploration and evaluation assets	14	585	550
Derivative financial instruments	13	-	6,886
<b>Total non-current assets</b>		<b>1,009,022</b>	<b>924,860</b>
<b>Total assets</b>		<b>1,228,396</b>	<b>1,120,301</b>
<b>LIABILITIES</b>			
Trade and other payables	16	40,604	32,660
Provisions	17	4,303	3,680
Borrowings	18	8,246	16,418
Derivative financial instruments	13	33,452	81,890
Provision for current tax		6,963	6,629
<b>Total current liabilities</b>		<b>93,568</b>	<b>141,277</b>
Provisions	17	14,787	14,405
Borrowings	18	396,247	246,108
Derivative liability - option	19	-	1,013
Derivative financial instruments	13	63,158	98,163
<b>Total non-current liabilities</b>		<b>474,192</b>	<b>359,689</b>
<b>Total liabilities</b>		<b>567,760</b>	<b>500,966</b>
<b>Net assets</b>		<b>660,636</b>	<b>619,335</b>
<b>EQUITY</b>			
Contributed equity	20	682,076	681,272
Reserves		70,441	(1,036)
Accumulated losses		(91,881)	(60,901)
<b>Total equity</b>		<b>660,636</b>	<b>619,335</b>

The accompanying condensed notes form part of this unaudited condensed consolidated interim financial report.

**Unaudited condensed consolidated interim statement of cash flow**  
**For the three and six months ended June 30, 2011**

	Note	Three months ended		Six months ended	
		30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
		US\$000	US\$000	US\$000	US\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from customers		95,483	52,517	135,214	71,295
Cash paid to suppliers and employees		(104,064)	(47,789)	(173,261)	(85,658)
Interest received		1,113	143	1,927	286
<b>Net cash (used in)/from operating activities</b>		<b>(7,468)</b>	<b>4,871</b>	<b>(36,120)</b>	<b>(14,077)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of property, plant and equipment		(30,494)	(6,247)	(44,779)	(10,745)
Payment for exploration and evaluation expenditure		-	(326)	(5)	(327)
<b>Net cash used in investing activities</b>		<b>(30,494)</b>	<b>(6,573)</b>	<b>(44,784)</b>	<b>(11,072)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue on unsecured senior notes		395,000	-	395,000	-
Repayment senior and off-taker loans		(224,532)	(1,938)	(226,572)	(2,883)
Borrowing costs paid		(20,476)	-	(20,476)	-
Hedge collateral		(25,000)	-	(25,000)	-
Proceeds from close out of foreign exchange hedges		25,793	-	25,793	-
Payment on closeout of nickel and copper call options & interest rate swap		(42,105)	-	(42,105)	-
Interest paid		(12,505)	(4,691)	(15,343)	(7,053)
Proceeds from the issue of share capital		-	281	-	25,477
Share issue costs		1	(91)	-	(749)
<b>Net cash from/(used in) financing activities</b>		<b>96,176</b>	<b>(6,439)</b>	<b>91,297</b>	<b>14,792</b>
Net increase/(decrease) in cash and cash equivalents		58,214	(8,141)	10,393	(10,357)
Cash and cash equivalents at beginning of the period		56,178	50,661	102,134	53,027
Effect of changes in foreign currency		3,681	(2,503)	5,546	(2,653)
<b>Cash and cash equivalents at end of the period</b>	9	<b>118,073</b>	<b>40,017</b>	<b>118,073</b>	<b>40,017</b>

*The accompanying condensed notes form part of this unaudited condensed consolidated interim financial report.*

**Notes to unaudited condensed consolidated interim financial report**

**For the three and six months ended June 30, 2011**

**1. REPORTING ENTITY**

Mirabela Nickel Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office is Level 21, Allendale Square, 77 St Georges Terrace, Perth WA 6000. The unaudited condensed consolidated interim financial report of the Company for the half year ended June 30, 2011 comprises the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the production, development and exploration of mineral properties in Brazil.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

This condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting, IAS 34: Interim Financial Reporting and the Corporations Act 2001. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the financial year ended December 31, 2010.

The condensed consolidated interim financial report was approved by the Board of Directors on August 12, 2011.

**(b) Basis of measurement**

The condensed consolidated interim financial report has been prepared on the historical cost basis except for the following which are measured at fair value:

- derivative financial instruments; and
- share based payment arrangements.

The methods used to measure fair values are discussed further in the consolidated annual financial report as at and for the financial year ended December 31, 2010.

**(c) Functional and presentation currency**

The condensed consolidated interim financial report is presented in US dollars (US\$), which is the Group's presentation currency (refer note 2(e) for change in presentation currency). The Company's functional currency is Australian dollars (A\$) and the functional currency of the Company's foreign subsidiary is Brazilian Real (R\$). The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates.

The Group is of a kind referred to in ASIC Class Order 98/100 dated July 10, 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**(d) Financial position**

The Group held cash on hand and on deposit as at June 30, 2011 of \$118.073 million, including \$25 million held as hedge collateral which will be released upon Companhia Bahiana de Pesquisa Mineral (CBPM) consent for security on the mineral rights being granted to the hedge financiers. In addition, a further \$25 million is held as hedge collateral, within non-current receivables.

As at June 30, 2011 the Group has a net working capital surplus of \$125.806 million, which includes \$33.452 million of net commodity derivative liabilities that will be offset by sales of the underlying commodity. For the period



**Notes to unaudited condensed consolidated interim financial report  
For the three and six months ended June 30, 2011**

ended June 30, 2011 the Group incurred a loss of \$37.243 million. As at June 30, 2011 the Group held net assets of \$660.636 million.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows. The meeting of the cash flow forecast depends upon the successful operation of mining and production activities in accordance with the ramp up schedule and nickel price assumptions. Should the ramp up of operations not successfully achieve forecasts or forecast nickel prices not be achieved, the Group may be required to source additional funds through debt or equity markets or a combination of the two.

**(e) Change in presentation currency**

On July 1, 2010, the Group changed presentation currency from Australian dollars (A\$) to US dollars (US\$). The presentation currency of a Group is the currency in which the Group chooses to present its financial reports. The Group has changed its presentation currency for financial reporting in order to better align the presentation of the Group's financial position and financial performance with its operations. Refer note 2(c), functional and presentation currency.

In order to derive US\$ equivalent for the consolidated financial statements, the Group has accounted for this change in presentation currency retrospectively which involves translation of equity, assets, liabilities, revenue and expenses as follows:

- Revenue and expenses for the 6 months ended June
- 30, 2010 – rate A\$1 = US\$0.8826 to US\$0.9037 approximating actual exchange rates for the date of the transactions;
- Balance sheet as at December 31, 2010 – rate A\$1 = US\$1.0178, being the exchange rate of December 31, 2010; and
- On the change in presentation currency on July 1, 2010, equity and reserves except the translation reserve were restated using historical rates, approximating the date of the transactions with rates in the range of A\$1 = US\$0.7598 to US\$0.9107, with the translation differences recorded in the translation reserve.
- The statement of comprehensive income in Australian dollars and US dollars is stated as following:

## Notes to unaudited condensed consolidated interim financial report

For the three and six months ended June 30, 2011

<b>Statement of comprehensive income</b>					
	<i>Note</i>	Three months ended		Six months ended	
		30-Jun-10	30-Jun-10	30-Jun-10	30-Jun-10
		A\$000	US\$000	A\$000	US\$000
Sales revenue		60,152	51,938	106,022	94,557
Treatment, refining and transport charges		(8,461)	(7,467)	(15,869)	(14,162)
<b>Net sales revenue</b>		<b>51,691</b>	<b>44,471</b>	<b>90,153</b>	<b>80,395</b>
Direct costs		(44,395)	(39,183)	(68,078)	(60,586)
Royalties		(2,390)	(2,109)	(4,253)	(3,793)
Depreciation, amortisation and depletion		(9,710)	(8,570)	(17,371)	(15,493)
<b>Cost of sales</b>		<b>(56,495)</b>	<b>(49,862)</b>	<b>(89,702)</b>	<b>(79,872)</b>
<b>Gross (loss)/profit</b>		<b>(4,804)</b>	<b>(5,391)</b>	<b>451</b>	<b>523</b>
<b>Expenses</b>					
General and administration		(1,762)	(1,555)	(4,062)	(3,632)
Net financial expense	7	(5,773)	(5,096)	(11,452)	(10,228)
Net derivative fair value movement gain	8	19,330	18,211	2,034	1,415
Foreign exchange loss		(1,011)	(892)	(6,042)	(5,439)
Other expenses		(91)	(80)	(206)	(184)
		10,693	10,588	(19,728)	(18,068)
Profit/loss before income tax		5,889	5,197	(19,277)	(17,545)
Income tax expense		-	-	-	-
<b>Profit/loss for the period</b>		<b>5,889</b>	<b>5,197</b>	<b>(19,277)</b>	<b>(17,545)</b>
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>					
Foreign currency translation differences		37,819	(4,984)	17,173	(13,688)
Effective portion of changes in fair value of cash flow hedges		(2,225)	103,477	(9,176)	(10,956)
Net change in fair value of cash flow hedges transferred to profit or loss		111,432	(7,094)	(6,951)	(5,929)
<b>Other comprehensive income/(expense) for the period</b>		<b>147,026</b>	<b>91,399</b>	<b>1,046</b>	<b>(30,573)</b>
<b>Total comprehensive income/(expense) for the period</b>		<b>152,915</b>	<b>96,596</b>	<b>(18,231)</b>	<b>(48,118)</b>
<b>EARNINGS/LOSS PER SHARE</b>					
Basic earnings/(loss) per share (\$ per share)		0.02	0.01	(0.05)	(0.05)
Diluted earnings/(loss) per share (\$ per share)		0.02	0.01	(0.05)	(0.05)
Weighted basic average number of shares outstanding (000's)		367,102	367,102	364,250	364,250
Weighted diluted average number of shares outstanding (000's)		367,163	367,163	364,463	364,463

**Notes to unaudited condensed consolidated interim financial report**

**For the three and six months ended June 30, 2011**

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Group in this condensed consolidated interim financial report are consistent with those applied by the Group in its consolidated annual financial report as at and for the financial year ended December 31, 2010.

**4. USE OF ESTIMATES AND JUDGEMENTS**

The preparation of a financial report in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. Significant estimates and assumptions include those related to:

- the life of mine assumptions,
- the carrying value of the Santa Rita Project,
- the valuation of financial instruments,
- share based compensation,
- determination of reserves to be used in depletion calculations,
- determination of useful lives of property, plant and equipment,
- determination of life-of-mine stripping ratio, and
- determination as to whether certain costs are expensed or deferred.

While management believe the estimates and assumptions to be reasonable, actual future results may vary significantly. The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are consistent with those applied to the consolidated annual financial report as at and for the financial year ended December 31, 2010.

**5. FINANCIAL RISK MANAGEMENT**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated annual financial report as at and for the financial year ended December 31, 2010.

**Notes to unaudited condensed consolidated interim financial report**  
**For the three and six months ended June 30, 2011**

## 6. SEGMENT REPORTING

During the financial period, Mirabela Nickel Limited operated in one business and operating segment, mineral exploration and development, and in one primary geographical area, Brazil, with two primary customers:

Customer Sector Group	Principal Activities
Base Metals	Mining of nickel, copper, cobalt and platinum in Brazil

The accounting policies applied for internal reporting purposes are consistent with those applied in preparation of this financial report.

### Information on the reportable segments of the Group

US\$000	Base Metals	Unallocated items/elimination <sup>(c)</sup>	Mirabela Nickel Group
<b>3 months ended June 30, 2011</b>			
<b>Net Revenue</b>			
Group Production	66,228	-	66,228
<b>Total net revenue</b>	<b>66,228</b>	<b>-</b>	<b>66,228</b>
<b>Underlying EBITDA<sup>(a)</sup></b>	<b>6,326</b>	<b>(5,613)</b>	<b>713</b>
Depreciation, amortisation and depletion	(14,023)	(394)	(14,417)
<b>Underlying EBIT<sup>(b)</sup></b>	<b>(7,697)</b>	<b>(6,007)</b>	<b>(13,704)</b>
Net financial expense	(9,693)	(4,650)	(14,343)
Net derivative (loss)/gain	(4,200)	5,427	1,227
Net foreign exchange gain/(loss)	20,329	(13,323)	7,006
Other expenses	(453)	(5,984)	(6,437)
<b>Gain/(loss) before taxation</b>	<b>(1,714)</b>	<b>(24,537)</b>	<b>(26,251)</b>
<b>Capital expenditure</b>	<b>30,485</b>	<b>9</b>	<b>30,494</b>

<sup>(a)</sup> Underlying EBITDA is underlying EBIT, before depreciation, amortisation and depletion.

<sup>(b)</sup> Underlying EBIT is earnings before net financial expense, net derivative loss, net foreign exchange gain, taxation and other expenses.

<sup>(c)</sup> Unallocated items comprise mainly corporate assets including cash, certain items of property, plant and equipment, head office expenses, income tax assets and liabilities, consolidation and elimination adjustments.

**Notes to unaudited condensed consolidated interim financial report**  
**For the three and six months ended June 30, 2011**

US\$000	Base Metals	Unallocated items/elimination <sup>(c)</sup>	Mirabela Nickel Group
<b>6 months ended June 30, 2011</b>			
<b>Net Revenue</b>			
Group Production	100,516	-	100,516
<b>Total net revenue</b>	<b>100,516</b>	<b>-</b>	<b>100,516</b>
<b>Underlying EBITDA<sup>(a)</sup></b>	<b>6,949</b>	<b>(4,390)</b>	<b>2,559</b>
Depreciation, amortisation and depletion	(21,526)	(1,469)	(22,995)
<b>Underlying EBIT<sup>(b)</sup></b>	<b>(14,577)</b>	<b>(5,859)</b>	<b>(20,436)</b>
Net financial expense	(10,209)	(7,161)	(17,370)
Net derivative (loss)/gain	(5,734)	5,983	249
Net foreign exchange gain/(loss)	30,168	(22,299)	7,869
Other expenses	(4,826)	(2,729)	(7,555)
<b>Profit/(Loss) before taxation</b>	<b>(5,178)</b>	<b>(32,065)</b>	<b>(37,243)</b>
<b>Capital expenditure</b>	<b>44,756</b>	<b>28</b>	<b>44,784</b>
<b>As at June 30, 2011</b>			
<b>Total assets</b>	<b>1,087,939</b>	<b>140,457</b>	<b>1,228,396</b>
<b>Total liabilities</b>	<b>831,977</b>	<b>(264,217)</b>	<b>567,760</b>

<sup>(a)</sup> Underlying EBITDA is underlying EBIT, before depreciation, amortisation and depletion.

<sup>(b)</sup> Underlying EBIT is earnings before net financial expense, net derivative loss, net foreign exchange gain, taxation and other expenses.

<sup>(c)</sup> Unallocated items comprise mainly corporate assets including cash, certain items of property, plant and equipment, head office expenses, income tax assets and liabilities, consolidation and elimination adjustments.

**Notes to unaudited condensed consolidated interim financial report**  
**For the three and six months ended June 30, 2011**

US\$000	Base Metals	Unallocated items/elimination <sup>(c)</sup>	Mirabela Nickel Group
<b>3 months ended June 30, 2010</b>			
<b>Net Revenue</b>			
Group Production	44,471	-	44,471
<b>Total net revenue</b>	<b>44,471</b>	<b>-</b>	<b>44,471</b>
<b>Underlying EBITDA<sup>(a)</sup></b>	<b>5,740</b>	<b>(4,115)</b>	<b>1,625</b>
Depreciation, amortisation and depletion	(13,543)	4973	(8,570)
<b>Underlying EBIT<sup>(b)</sup></b>	<b>(7,803)</b>	<b>858</b>	<b>(6,945)</b>
Net financial (expense)/ income	(10,226)	5130	(5,096)
Net derivative gain	16,045	2,166	18,211
Net foreign exchange (loss)/gain	(26,201)	25,309	(892)
Other expenses	(81)	-	(81)
<b>(Loss)/ income before taxation</b>	<b>(28,266)</b>	<b>33,463</b>	<b>5,197</b>
<b>Capital expenditure</b>	<b>9,723</b>	<b>23</b>	<b>9,746</b>
<b>6 months ended June 30, 2010</b>			
<b>Net Revenue</b>			
Group Production	80,395	-	80,395
<b>Total net revenue</b>	<b>80,395</b>	<b>-</b>	<b>80,395</b>
<b>Underlying EBITDA<sup>(a)</sup></b>	<b>16,016</b>	<b>(3,632)</b>	<b>12,384</b>
Depreciation, amortisation and depletion	(20,436)	4,943	(15,493)
<b>Underlying EBIT<sup>(b)</sup></b>	<b>(4,420)</b>	<b>1,311</b>	<b>(3,109)</b>
Net financial (expense)/ income	(15,483)	5,255	(10,228)
Net derivative (loss)/gain	(986)	2,401	1,415
Net foreign exchange (loss)/gain	(25,596)	20,157	(5,439)
Other expenses	(184)	-	(184)
<b>(Loss)/profit before taxation</b>	<b>(46,669)</b>	<b>29,124</b>	<b>(17,545)</b>
<b>Capital expenditure</b>	<b>18,029</b>	<b>26</b>	<b>18,055</b>
<b>As at December 31, 2010</b>			
<b>Total assets</b>	<b>1,018,449</b>	<b>101,852</b>	<b>1,120,301</b>
<b>Total liabilities</b>	<b>977,912</b>	<b>(476,946)</b>	<b>500,966</b>

<sup>(a)</sup> Underlying EBITDA is underlying EBIT, before depreciation, amortisation and depletion.

<sup>(b)</sup> Underlying EBIT is earnings before net financial expense, net derivative loss, net foreign exchange gain, taxation and other expenses.

<sup>(c)</sup> Unallocated items comprise mainly corporate assets including cash, certain items of property, plant and equipment, head office expenses, income tax assets and liabilities, consolidation and elimination adjustments.

## Notes to unaudited condensed consolidated interim financial report

For the three and six months ended June 30, 2011

## 7. FINANCIAL INCOME/(EXPENSE)

	Three months ended		Six months ended	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
	US\$000	US\$000	US\$000	US\$000
Interest received	1112	143	1,927	286
<b>Financial income</b>	<b>1112</b>	<b>143</b>	<b>1,927</b>	<b>286</b>
Interest expense	(15,106)	(5,239)	(18,704)	(10,514)
Discounting of rehabilitation costs	(349)	-	(593)	-
<b>Financial expense</b>	<b>(15,455)</b>	<b>(5,239)</b>	<b>(19,297)</b>	<b>(10,514)</b>

## 8. NET DERIVATIVE GAIN/(LOSS) THROUGH PROFIT OR LOSS

	Three months ended		Six months ended	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
	US\$000	US\$000	US\$000	US\$000
Derivative gain - option	471	2,166	1,027	2,401
Call option gain	1,044	17,985	-	3,435
<b>Derivative gain</b>	<b>1,515</b>	<b>20,151</b>	<b>1,027</b>	<b>5,836</b>
Call option (loss)	-	-	(549)	-
Interest rate swap loss	(288)	(1,940)	(229)	(4,421)
<b>Derivative loss</b>	<b>(288)</b>	<b>(1,940)</b>	<b>(778)</b>	<b>(4,421)</b>
<b>Net derivative gain</b>	<b>1227</b>	<b>18,211</b>	<b>249</b>	<b>1415</b>

## 9. CASH AND CASH EQUIVALENTS

	30-Jun-11	31-Dec-10
	US\$000	US\$000
Cash at bank and on hand	77,015	24,833
Call deposits	41,058	77,301
	<b>118,073</b>	<b>102,134</b>

Cash at bank and on hand includes a balance of US\$25 million held as hedge collateral which will be released upon Companhia Bahiana de Pesquisa Mineral (CBPM) consent for security on the mineral rights being granted to the hedge financiers.

## 10. OTHER EXPENSES

Other expenses comprise Brazilian indirect taxes incurred on payout of the Norilsk Nickel loan, exploration expenditure, transaction fees and general expenditure.

## Notes to unaudited condensed consolidated interim financial report

For the three and six months ended June 30, 2011

## 11. TRADE AND OTHER RECEIVABLES

	30-Jun-11	31-Dec-10
	US\$000	US\$000
<b>Current asset</b>		
Trade receivables	19,995	30,793
Other receivables	336	144
Prepayments	32,850	12,087
	<b>53,181</b>	<b>43,024</b>
<b>Non-current asset</b>		
Other receivables	28,577	2,710
Prepayments	18,245	31,093
	<b>46,822</b>	<b>33,803</b>

Prepayments for the period ended 30 June 2011 comprise payments in advance for consumables, plant and equipment not yet delivered.

Other non-current receivables as at 30 June 2011 consist of hedge collateral of US\$25 million and US\$3.577 million relating to the guarantee of the electricity contract in Brazil.

In addition to the above, current and non-current prepayments also consist of claimable Brazilian federal and state taxes incurred during the construction and commissioning stages of the Santa Rita Project. It is anticipated these taxes will be offset against future federal and state taxes payable and are classified into current and non-current based on their expected period of recovery.

## 12. INVENTORIES

	30-Jun-11	31-Dec-10
	US\$000	US\$000
Broken ore - cost	12,680	6,195
Concentrate - cost	11,624	10,506
Stores, spares and consumables - cost	23,816	17,808
	<b>48,120</b>	<b>34,509</b>

Inventories comprise broken ore stocks, concentrate stocks and stores, spares and consumables. Stores, spares and consumables represent materials and supplies consumed in the production process. All stocks have been calculated as the lower of cost and net realisable value, with net realisable value for broken ore stocks and concentrate representing the estimated selling price in the ordinary course of business less any further costs expected to be incurred in respect of such disposal.



## Notes to unaudited condensed consolidated interim financial report

For the three and six months ended June 30, 2011

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

	30-Jun-11	31-Dec-10
	US\$000	US\$000
<b>Current asset</b>		
Foreign exchange - forward contracts <sup>(a)</sup>	-	15,774
	-	<b>15,774</b>
<b>Non-current asset</b>		
Foreign exchange - forward contracts <sup>(a)</sup>	-	6,886
	-	<b>6,886</b>
<b>Current liability</b>		
Nickel - forward contracts <sup>(a)</sup>	30,792	46,726
Copper - forward contracts <sup>(a)</sup>	2,660	408
Metal call options <sup>(b)</sup>	-	32,251
Interest rate swap <sup>(c)</sup>	-	2,505
	<b>33,452</b>	<b>81,890</b>
<b>Non-current liability</b>		
Nickel - forward contracts <sup>(a)</sup>	40,514	61,592
Copper - forward contracts <sup>(a)</sup>	22,644	21,197
Metal call options <sup>(b)</sup>	-	13,485
Interest rate swap <sup>(c)</sup>	-	1,889
	<b>63,158</b>	<b>98,163</b>

**(a) Forward contracts designated as hedges**

As at 30 June 2011, the Group had a net hedge liability position of US\$96.610 million reflecting the negative mark-to-market value of commodity (nickel and copper) contracts. As at 31 December 2010 the net hedge liability position was US\$107.263 million which reflected the positive mark-to-market value of foreign exchange forward contracts and the negative mark-to-market value of commodity (nickel and copper) contracts.

**(i) Metal forward contracts**

Metal hedges comprise of forward contracts for 11,851 tonnes of nickel at an average price of US\$7.64/lb for the period July 2011 to March 2014 and 8,898 tonnes of copper at an average price of US\$2.77/lb for the period July 2011 to March 2015.

**(ii) Foreign exchange forward contracts**

The foreign exchange forward contracts were terminated on 20 April 2011. The fair value of US\$25.793 million was realised in cash through the statement of financial position. Included in the hedge reserve is US\$20.314 million crystallised upon settlement of the contracts, which will unwind to revenue upon realisation of the underlying hedge transaction.

**(b) Metal call options**

The Group terminated its nickel and copper call options of US\$37.950 million on 20 April 2011, at an additional loss of US\$0.549 million which is recorded in the statement of income and comprehensive income.

## Notes to unaudited condensed consolidated interim financial report

For the three and six months ended June 30, 2011

**(c) Interest rate swap**

The Group terminated its interest rate swap of US\$4.155 on April 20, 2011, at an additional loss of US\$0.229 million which is recorded in the statement of income and comprehensive income.

**14. EXPLORATION AND EVALUATION EXPENDITURE**

	30-Jun-11	31-Dec-10
	US\$000	US\$000
Balance at the beginning of the period	550	161
Expenditure incurred during the period	5	376
Transfer to development expenditure	-	(9)
Effect of movements in foreign exchange	30	22
<b>Balance at the period end</b>	<b>585</b>	<b>550</b>

The recoverability of the carrying amounts of exploration and evaluation assets is dependent upon the successful development and commercial exploitation or sale of the respective area of interest.

**15. PROPERTY, PLANT & EQUIPMENT**

30 June 2011	Plant &	Leased		Mine	Construction &	
US\$000	equipment	Asset	Land	properties <sup>(a)</sup>	development	Total
					expenditure in	
					progress <sup>(b)</sup>	
<b>Cost</b>						
Balance at 1 January 2011	437,055	39,454	13,878	440,837	-	931,224
Additions	12,276	-	-	13,376	19,127	44,779
ARO life of mine adjustment	-	-	-	(1,878)	-	(1,878)
Effect of movement in exchange rates	29,993	2,708	952	30,254	-	63,907
<b>Balance at 30 June 2011</b>	<b>479,324</b>	<b>42,162</b>	<b>14,830</b>	<b>482,589</b>	<b>19,127</b>	<b>1,038,032</b>
<b>Depreciation</b>						
Balance at 1 January 2011	(31,605)	(6,694)	-	(9,304)	-	(47,603)
Depreciation charge for the period	(17,451)	(3,781)	-	(3,387)	-	(24,619)
Effect of movement in exchange rates	(2,785)	(590)	-	(820)	-	(4,195)
<b>Balance at 30 June 2011</b>	<b>(51,841)</b>	<b>(11,065)</b>	<b>-</b>	<b>(13,511)</b>	<b>-</b>	<b>(76,417)</b>
<b>Net book value at 30 June 2011</b>	<b>427,483</b>	<b>31,097</b>	<b>14,830</b>	<b>469,078</b>	<b>19,127</b>	<b>961,615</b>

**(a) Mine properties**

Mine properties include deferred stripping costs of US\$30.773 million (31 December 2010: US\$17.397 million).

## Notes to unaudited condensed consolidated interim financial report

For the three and six months ended June 30, 2011

**(b) Construction and development expenditure in progress**

This refers to cost incurred to date on the plant upgrade at the Santa Rita operation to increase production capacity to 7.2Mtpa.

31 December 2010 US\$000	Plant & equipment	Leased Asset	Land	Mine properties	Construction & development expenditure in progress	Total
<b>Cost</b>						
Balance at 1 January 2010	185,981	-	12,305	-	685,358	883,644
Additions	8,623	3,814	-	24,053	-	36,490
Disposals	(2)	-	-	-	-	(2)
Reclassification <sup>(c)</sup>	-	-	-	(36,584)	-	(36,584)
Transfers	222,592	32,367	936	429,463	(685,358)	-
Effect of movement in exchange rates	19,861	3,273	637	23,905	-	47,676
<b>Balance at 31 December 2010</b>	<b>437,055</b>	<b>39,454</b>	<b>13,878</b>	<b>440,837</b>	<b>-</b>	<b>931,224</b>
<b>Depreciation</b>						
Balance at 1 January 2010	(5,024)	-	-	-	-	(5,024)
Depreciation charge for the year	(22,971)	(4,839)	-	(7,834)	-	(35,644)
Disposals	2	-	-	-	-	2
Transfers	912	(912)	-	-	-	-
Effect of movement in exchange rates	(4,524)	(943)	-	(1,470)	-	(6,937)
<b>Balance at 31 December 2010</b>	<b>(31,605)</b>	<b>(6,694)</b>	<b>-</b>	<b>(9,304)</b>	<b>-</b>	<b>(47,603)</b>
<b>Net book value at 31 December 2010</b>	<b>405,450</b>	<b>32,760</b>	<b>13,878</b>	<b>431,533</b>	<b>-</b>	<b>883,621</b>

**(c) Reclassification**

This refers to Brazilian federal and state taxes on capital expenditure during the construction, commissioning and ramp-up periods that the Group believes is recoverable and able to be offset against future federal and state taxes payable. In the previous financial year, the value of these recoverable taxes has been reclassified from property, plant and equipment to prepayments in the Statement of financial position, to better reflect the nature of the transaction.

**16. TRADE AND OTHER PAYABLES**

	30-Jun-11 US\$000	31-Dec-10 US\$000
Trade payables	19,271	19,737
Other payables and accrued expenses	21,333	12,923
	<b>40,604</b>	<b>32,660</b>

**Notes to unaudited condensed consolidated interim financial report**  
**For the three and six months ended June 30, 2011**

Other payables and accrued expenses as at June 30, 2011 include an amount of US\$7.297 million interest accrual in relation to the senior unsecured notes.

**17. PROVISIONS**

	30-Jun-11	31-Dec-10
	US\$000	US\$000
<b>Current liability</b>		
Provision for annual leave	4,303	3,680
	<b>4,303</b>	<b>3,680</b>
<b>Non-current liability</b>		
Provision for rehabilitation	11,084	11,627
Other provision	3,703	2,778
	<b>14,787</b>	<b>14,405</b>
<b>Reconciliation of movements in provisions</b>		
<b>Annual leave provision</b>		
Balance at beginning of period	3,680	879
Net provision made during the financial period	423	2,682
Effect of movements in foreign exchange	200	119
<b>Balance at period end</b>	<b>4,303</b>	<b>3,680</b>
<b>Rehabilitation provision</b>		
Balance at beginning of period	11,627	18,872
Accretion expense	593	-
Life of mine adjustment	(1,878)	-
Reversal of provision	-	(8,457)
Effect of movements in foreign exchange	742	1,212
<b>Balance at period end</b>	<b>11,084</b>	<b>11,627</b>
<b>Other provision</b>		
Balance at beginning of period	2,778	-
Provision made during the financial period	774	2,778
Effect of movements in foreign exchange	151	-
<b>Balance at period end</b>	<b>3,703</b>	<b>2,778</b>

The rehabilitation provision is an estimate of the value of future costs for dismantling, demobilisation, remediation and ongoing treatment and monitoring of the Santa Rita operation. The Group uses third parties to estimate these costs. The estimate will be reviewed over time as the operation develops. The unwinding of the effect of discounting on the provision is recognised as a finance cost. In addition, the rehabilitation obligation has been recognised as an asset and will be amortised over the life of the mine.

Other provisions include indirect taxes payable which are not repayable in the next 12 months.

## Notes to unaudited condensed consolidated interim financial report

For the three and six months ended June 30, 2011

## 18. BORROWINGS

June 30, 2011 US\$000	Caterpillar finance		Total
	Senior unsecured notes (i)	lease facility (ii)	
Nominal Interest Rate	8.75%	COF + LIBOR + 2.75%	
Loan Term	2011 to 2018	2009 to 2014	
Carrying Value	375,287	29,206	404,493
Current borrowings	-	8,246	8,246
Non-current borrowings	375,287	20,960	396,247
	375,287	29,206	404,493

December 31, 2010 US\$000	Caterpillar	Norilsk	Votorantim	Senior	Total
	finance lease facility (ii)	loan (iii)	loan (iv)	loan (v)	
Nominal Interest Rate	COF + LIBOR + 2.75%	LIBOR + 3.50%	CDI rate	COF + 5.25% to 5.75%	
Loan Term	2009 to 2014	2010 to 2013	2009 to 2013	2011 to 2015	
Carrying Value	33,234	54,748	26,893	147,651	262,526
Current borrowings	8,247	-	7,896	275	16,418
Non-current borrowings	24,987	54,748	18,997	147,376	246,108
	33,234	54,748	26,893	147,651	262,526

- (i) US\$395 million of 8.75% senior unsecured notes due 2018 were issued in the international and United States Rule 144A debt capital markets during April 2011. The notes are guaranteed by Mirabela Investments Pty Ltd and Mirabela Mineração do Brasil Ltda. Interest on the notes will be payable semi-annually in arrears on 15 April and 15 October of each year during the term of the notes, beginning 15 October 2011. Borrowing costs of US\$20.476 million to secure this funding have been offset against the principal borrowings amount and are amortised using the effective interest rate method. Effective interest for the period was US\$0.763 million.
- (ii) The US\$55 million master funding and leasing agreement is for the purpose of lease financing of up to 90% of the purchase price of Caterpillar mobile equipment. The facility was drawn down to US\$40.795 million as at June 30, 2011, with US\$29.206 million outstanding after repayments. Further drawdown under the leasing facility will require approval from Caterpillar prior to the drawdown. The Company does not intend to drawdown further on this facility. Lease payments under the facility are calculated on the basis of a 60 month term, and include interest determined at the date of the particular funding request as the prevailing 3 month US\$ LIBOR rate plus COF plus 2.75% per annum (weighted average interest rate of 4.22%).
- (iii) The facility is subordinated to the Senior Credit Facility with Barclays Bank Plc, Credit Suisse International, West LB AG, Caterpillar Financial Services Corporation and Bayerische Hypo-und Vereinsbank AG (banking syndicate). Interest is payable at LIBOR plus a 3.50% margin. Overdue amounts incur a 1% per annum higher interest rate

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during the period of non-payment. On 18 April 2011 this facility was repaid in full and the final repayment amount including capitalised interest was US\$56.038 million.

- (iv) The facility is subordinated to the Senior Credit Facility with the banking syndicate. Interest is payable at the average rates for interbank deposits (CDI), as calculated by the Brazilian Custody and Settlement Chamber (CETIP). The R\$ loan amount is repayable in monthly instalments from September 30, 2009 to November 30, 2013. Principal repayments were accelerated during the period in accordance with a prepayment agreement with Votorantim, whereby the principal is automatically reduced through offset of the domestic sales tax payable by Votorantim on each monthly sale. On April 19, 2011 this facility was repaid in full and the final repayment amount was US\$24.497 million.
- (v) Interest is payable on a Cost of Funds (COF) basis (determined as the weighted average cost of funds of each lender), plus a margin of 5.75% per annum prior to the completion (as defined in the Senior Loan documents) of the Santa Rita Project and thereafter 5.25% per annum (weighted average interest rate of 6.51%). The remainder of the loan is repayable in half yearly instalments from March 31, 2012 to September 30, 2015. On April 20, 2011 this facility was repaid in full and the final repayment amount was US\$152.136 million.

**19. DERIVATIVE LIABILITY – OPTION**

	30-Jun-11	31-Dec-10
	US\$000	US\$000
Norilsk option derivative liability	-	1,013
	-	<b>1,013</b>

Under the Norilsk Loan Agreement, Norilsk had an option to convert up to US\$40 million of the US\$50 million loan into ordinary shares of Mirabela Nickel Limited at a price of US\$8.00 per share, expiring on December 31, 2012. The options expired pursuant to the repayment of the loan on April 20, 2011. During the period a gain of US\$1.027 million was recorded in the statement of income and comprehensive income.

**20. CONTRIBUTED EQUITY****Movement in share capital for the six months ended June 30, 2011**

	<b>Ordinary shares</b>	<b>Number of shares</b>	<b>Issue price</b>	<b>US\$</b>
Jan 1, 2011	Opening balance	491,561,237		681,271,793
	Closing balance	<b>491,561,237</b>		<b>681,271,793</b>
	Add: Share issue costs recovery - current period <sup>(a)</sup>			804,084
				<b>682,075,877</b>

**(a) Share issue costs recovery**

An independent review was undertaken on the ability to claim GST on prior financial periods share issue costs.

## Notes to unaudited condensed consolidated interim financial report

### For the three and six months ended June 30, 2011

#### Movement in share capital for the half-year ended June 30, 2010

	Ordinary shares	Number of shares	Issue price	US\$
Jan 1, 2010	Opening balance	354,694,375		477,023,997
Jan 21, 2010	Issue of ordinary shares fully paid (Issued at A\$2.30)	4,467,450	\$2.08	9,304,163
Feb 5, 2010	Options converted (Issued at A\$0.95)	12,000	\$0.86	10,323
	Warrants converted to ordinary shares			
Feb 9, 2010	(Issued at A\$2.30)	5,500,000	\$2.08	11,454,610
Feb 16, 2010	Options converted (Issued at A\$0.95)	50,000	\$0.86	43,011
Mar 15, 2010	Options converted (Issued at A\$0.95)	12,000	\$0.86	10,323
Mar 30, 2010	Issue of ordinary shares fully paid (Issued at A\$2.30)	2,100,000	\$2.08	4,373,578
Apr 7, 2010	Options converted (Issued at A\$0.95)	20,000	\$0.86	17,205
Apr 12, 2010	Options converted (Issued at A\$0.95)	18,000	\$0.86	15,484
Apr 16, 2010	Options converted (Issued at A\$0.95)	225,000	\$0.86	193,551
Apr 30, 2010	Options converted (Issued at A\$0.95)	63,900	\$0.86	54,969
	<b>Closing balance</b>	<b>367,162,725</b>		<b>502,501,214</b>
	Less: Share issue costs-current period			(749,530)
				<b>501,751,684</b>

#### Options on issue at June 30, 2011

Exercise Price A\$ <sup>(1)</sup>	Exercise Price US\$ <sup>(1)</sup>	Expiry Date	Number of Options
A\$6.20	US\$5.52	Sep 7, 2011	300,000
A\$6.20	US\$5.85	Dec 31, 2011	350,000
A\$6.20	US\$5.51	Sep 11, 2012	300,000
A\$3.00	US\$2.02	Jul 7, 2013	3,000,000
A\$3.00	US\$2.73	Jul 7, 2013	750,000
A\$3.00	US\$2.50	Jun 30, 2014	400,000
<b>Balance</b>			<b>5,100,000</b>

#### Options on issue at June 30, 2010

Exercise Price A\$ <sup>(1)</sup>	Exercise Price US\$ <sup>(1)</sup>	Expiry Date	Number of Options
A\$5.60	US\$4.75	Feb 23, 2011	1,800,000
A\$6.20	US\$5.25	Jun 30, 2011	1,400,000
A\$6.20	US\$5.52	Sep 7, 2011	300,000
A\$6.20	US\$5.85	Dec 31, 2011	350,000
A\$6.20	US\$5.51	Sep 11, 2012	300,000
A\$8.89 <sup>(1)</sup>	US\$8.00	Dec 31, 2012	5,000,000
A\$3.00	US\$2.02	Jul 7, 2013	3,000,000
A\$3.00	US\$2.73	Jul 7, 2013	750,000
A\$3.00	US\$2.50	Jun 30, 2014	400,000
<b>Balance</b>			<b>13,300,000</b>

<sup>(1)</sup> All options are exercisable in A\$ (presented in US\$ at historical rates) with the exception of the US\$8.00 options, which are exercisable in US\$.

**Notes to unaudited condensed consolidated interim financial report****For the three and six months ended June 30, 2011**

During the period ended June 30, 2011 a total of 3,200,000 options lapsed, comprising 1,800,000 options at an exercise price of US\$4.75 on February 23, 2011, and 1,400,000 options at an exercise price of US\$5.75 on June 30, 2011. A further 5,000,000 options at an exercise price of US\$8.00 expired pursuant to the repayment of the loan held with Norilsk Nickel Harjavalta OY on April 20, 2011.

**21. CAPITAL AND OTHER COMMITMENTS**

	30-Jun-11	31-Dec-10
	US\$000	US\$000
<b>Operating lease commitments</b>		
<i>Non-cancellable operating lease rentals:</i>		
Within one year	738	687
One year or later and no later than five years	2,441	3,110
	<b>3,179</b>	<b>3,797</b>
<b>Exploration expenditure commitments</b>		
<i>Commitments for rental fees under exploration licence agreements:</i>		
Within one year	5,228	4,898
	<b>5,228</b>	<b>4,898</b>
<b>Contractual, capital and operating commitments</b>		
<i>Contracted but not provided for and payable:</i>		
Within one year	142,418	83,716
One year or later and no later than five years	117,606	141,703
	<b>260,024</b>	<b>225,419</b>

**22. SHARE BASED PAYMENTS**

During the half-year ended June 30, 2011, the Company recognised an employee share based payment expense of US\$1,101,055 (half-year ended June 30, 2010: US\$457,577).

**23. RELATED PARTIES**

Key management personnel receive compensation in the form of short-term employee benefits, post employment benefits and share based payment awards. Key management personnel received total compensation of US\$2,069,672 and US\$3,055,583 for the three and six months ended June 30, 2011 (three and six months ended June 30, 2010: US\$1,081,658 and US\$1,730,076).

***Transactions with key management personnel***

Key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. These entities may enter into transactions with the Company or its subsidiaries. The terms and conditions of such transactions are no more favourable than those available, or which might reasonably be expected to be available, to non-director related entities dealing at arm's length with the Company. These are detailed below.

During the three and six months ended June 30, 2011, the Company was invoiced nil and US\$28,716 by Verona Capital Pty Ltd (nil for three and six months ended June 30, 2010) for the recovery of shared overheads.



**Notes to unaudited condensed consolidated interim financial report  
For the three and six months ended June 30, 2011**

The Company charged Verona Capital Pty Ltd a total of US\$5,418 and US\$64,451 (three and six months ended June 30, 2010: US\$40,159 and US\$40,159) for office rent and shared overheads for the three and six months ended June 30, 2011. Verona Capital Pty Ltd is a director related entity associated with Mr Craig Burton, the non-executive chairman of the Company.

During the three and six months ended June 30, 2011, the Company charged US\$3,072 and US\$4,654 (three and six months ended June 30, 2010: US\$5,291 and US\$5,291) to Nearfield Resources Limited, for shared overhead and premises rent costs. Nearfield Resources Limited is a director related entity associated with Mr Craig Burton.

# Management's Discussion and Analysis

For the three and six month period ended June 30, 2011

All amounts in thousands of US dollars (US\$'000) unless otherwise stated



**MIRABELA NICKEL**  
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## INTRODUCTION

The following management discussion and analysis ("MD&A") of Mirabela Nickel Limited, including its subsidiaries, ("Mirabela", the "Company" or the "Group") is for the three and six month period ended June 30, 2011 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the same period, and the notes thereto. The effective day of this report is August 12, 2011.

The Company's annual financial statements, interim financial statements and the financial information contained in this MD&A were prepared in accordance with International Financial Reporting Standards ("IFRS").

## THE COMPANY

Mirabela is an international mineral resource company engaged in the mining, production and sale of nickel concentrate. The ordinary shares of Mirabela are listed on the Toronto Stock Exchange under the symbol "MNB" and on the Australian Securities Exchange under the symbol "MBN".

Mirabela's principal asset is the 100% owned Santa Rita nickel sulphide, open pit operation in Bahia State, Brazil, discovered by Mirabela in 2004 and brought into commercial production in 2010. Mirabela also has a portfolio of prospective nickel targets in Brazil, including an underground mineral resource at Santa Rita.

## OVERALL PERFORMANCE & SELECTED ANNUAL INFORMATION

Financial Statistics	Three months ended		Six months ended	
	30 Jun 11	30 Jun 10	30 Jun 11	30 Jun 10
Total revenue	80,307	51,938	123,562	94,557
Net sales revenue	66,228	44,471	100,516	80,395
Cost of sales	(77,648)	(49,862)	(116,562)	(79,872)
Gross (loss)/profit	(11,420)	(5,391)	(16,046)	523
(Loss)/profit for the period	(26,251)	5,197	(37,243)	(17,545)
EBITDA <sup>(1)</sup>	713	1,625	2,559	12,384
Basic (loss)/earnings per share	(\$0.05)	\$0.01	(\$0.08)	(\$0.05)
Diluted (loss)/earnings per share	(\$0.05)	\$0.01	(\$0.08)	(\$0.05)
Dividends Paid	-	-	-	-
Total assets	1,228,396	949,486	1,228,396	949,486
Long term liabilities	474,192	307,849	474,192	307,849
Total liabilities	567,760	458,493	567,760	458,493
Net assets	660,636	490,993	660,636	490,993

# Management's Discussion and Analysis

For the three and six month period ended June 30, 2011



**MIRABELA NICKEL**  
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Production Statistics	Measure	Three months ended		Six months ended	
		30 Jun 11	30 Jun 10	30 Jun 11	30 Jun 10
<b>Mining</b>					
Total Material Mined	Tonnes	9,119,831	7,099,000	18,162,129	12,555,000
Ore Mined	Tonnes	1,294,774	663,000	2,270,550	1,316,000
Nickel Grade	%	0.48	0.55	0.48	0.56
<b>Processing</b>					
Total Ore Processed	Tonnes	1,294,550	840,000	2,364,918	1,618,000
Nickel Grade	%	0.47	0.52	0.47	0.52
Copper Grade	%	0.13	0.13	0.12	0.14
Cobalt Grade	%	0.01	0.02	0.02	0.02
Nickel Recovery	%	56	52	56	50
Copper Recovery	%	65	67	69	64
Cobalt Recovery	%	33	30	33	29
<b>Production</b>					
Nickel in Concentrate Produced	DMT	3,395	2,304	6,220	4,295
Copper in Concentrate Produced	DMT	1,065	764	2,008	1,485
Cobalt in Concentrate Produced	DMT	65	40	117	75
<b>Sales</b>					
Nickel in Concentrate Sold	DMT	3,909	2,505	5,993	4,492
Copper in Concentrate Sold	DMT	1,262	824	1,930	1,545
Cobalt in Concentrate Sold	DMT	74	43	113	79

Unit Cash Costs	Measure	Three months ended		Six months ended	
		30 Jun 11	30 Jun 10	30 Jun 11	30 Jun 10
Payable Nickel Production <sup>(2)</sup>	lbs	6,662,001	4,520,728	12,205,062	8,427,292
Mining Cost	USD/lb	3.83	3.36	3.67	3.41
Processing Costs	USD/lb	2.51	2.64	2.31	2.73
Administration Cost	USD/lb	1.05	1.11	1.06	1.08
Transport/Shipping Cost	USD/lb	0.06	0.08	0.11	0.10
Smelter Charges <sup>(4)</sup>	USD/lb	2.04	1.57	1.76	1.58
By-Product Credit <sup>(3)</sup>	USD/lb	(1.64)	(1.14)	(1.49)	(1.05)
<b>Unit Cash Cost<sup>(5)</sup></b>	<b>USD/lb</b>	<b>7.85</b>	<b>7.62</b>	<b>7.42</b>	<b>7.85</b>
Realised Nickel Price <sup>(6)</sup>	USD/lb	11.48	11.61	10.72	9.64
Realised Copper Price <sup>(6)</sup>	USD/lb	4.23	2.91	4.27	2.76
Realised Cobalt Price <sup>(6)</sup>	USD/lb	17.72	17.43	17.64	17.43



- (1) EBITDA is defined as gross profit less general & administration expenses, but before depreciation, amortisation and depletion. See "Non-GAAP Measures".
- (2) Average payability of 89%.
- (3) Including prior period QP adjustments, excludes hedging & call options.
- (4) Smelter charges per payable nickel sold for the three and six months ended is US\$1.77/lb and US\$1.83/lb.
- (5) Excludes royalty charges per payable nickel sold for the three and six months ended of US\$0.58/lb and US\$0.57/lb.
- (6) Including prior period QP adjustments, realised hedging, but excluding realised call options.  
Including realised call options, the actual realised nickel and copper prices were US\$8.99/lb and (US\$5.93)/lb for the three months ended 30 June 2011 and US\$8.82/lb and (US\$3.83)/lb for the six months ended 30 June 2011 respectively.
- (7) Average exchange rate for the three and six months ended June 30, 2011: USD/Real 1.60 and USD/Real 1.63 (three and six months ended June 30, 2010: USD/Real 1.79 and USD/Real 1.80) respectively.

## RESULTS OF OPERATIONS

### OPERATING REVIEW

Ramp up of the Santa Rita operation continued during the second quarter of 2011. The primary focus for 2011 is the completion of the open pit pre-strip, which has now been achieved, and the upgrade of the processing plant to 7.2 Mtpa, which is currently ahead of schedule.

Mirabela is targeting between 15,500 and 16,500 tonnes of nickel in concentrate for 2011. The lower end of the range is due to lower nickel grades at the top of the central zone ore contact, with the upper end of the range possible due to the accelerated plant upgrade schedule.

### SAFETY

Since commencing operations, Santa Rita's strong commitment to safety has continued. Two LTI's occurred during the quarter. The 12 month moving average Lost Time Injury Frequency Rate was 0.85 at the end of the second quarter. The implementation of safety training and safety improvement programmes is continuing.

### MINING

Mirabela achieved another solid mining performance with 9.1 million tonnes of material movement during the second quarter of 2011. During the second quarter record ore production of 1,294,774 tonnes was mined at an average nickel grade of 0.48% and a strip ratio of 6:1.

Pre-stripping of the central zone of the open pit was completed during May and the full strike length of the pit is now open. Steady ore production is now coming from all parts of the open pit with the central zone contributing approximately 30% of the ore feed for May and June. With the completion of the pre-strip in May, June produced record ore production of 455,000 tonnes.

Mirabela strengthened the mining fleet during the quarter with the arrival of a CAT994 Front End Loader, four Komatsu dozers, and an Atlas Copco L8 drill rig. Equipment availability and utilisation was adversely affected by limited off road tyre supply which saw up to five trucks stood down for a week during May. The situation has now been rectified with the sourcing of adequate tyres for the full fleet. Mirabela continues working with its contractors to improve the drilling performance with the performance improving during June.

### PROCESSING

During the quarter a record of 1.3 million tonnes of ore, grading at an average of 0.47% nickel was milled at an average recovery of 56%. The recovery result for the quarter is in line with the quality of ore presented to the plant. June recoveries averaged 60% with the improvement in ore feed quality and consistency. A major SAG mill reline was completed in June during scheduled maintenance downtime. Monthly plant shutdowns are occurring to allow for routine maintenance and tie-in work to occur for the plant upgrade project to 7.2Mtpa.



During the quarter, a total of 3,395 tonnes of contained nickel in concentrate, an increase of 20% from Q1 2011 (2,825 tonnes), 1,065 tonnes of contained copper in concentrate, and 65 tonnes of contained cobalt in concentrate were produced.

### **7.2MTPA PROCESSING PLANT UPGRADE**

The processing plant upgrade is ahead of schedule and on budget. Installation of the second ball mill is underway, and with the successful installation of the second pebble crusher and Larox filter now complete, the plant is expected to be capable of running at the 7.2Mtpa nameplate during the fourth quarter.

The civil works and the installation of pumps and pipelines for the de-sliming plant are underway. Final detailed engineering for the crusher upgrade is expected during the third quarter. Both of these projects are currently on target to be completed by the end of 2011.

Pre-feasibility work for a further expansion of the open pit and processing plant has commenced. The study is considering an expansion of the open pit ore production and processing plant to 9Mtpa. Findings from the pre-feasibility study are expected to be announced by the end of 2011.

### **SALE OF CONCENTRATE**

During the quarter, a total of 3,909 tonnes of nickel in concentrate was sold to Mirabela's customers, Votorantim Metais Niquel S.A. and Norilsk Nickel, an increase of 88% from quarter one 2011 (2,084 tonnes). One export shipment to Norilsk Nickel was completed during the quarter with the next shipment expected to be completed during August. Steady deliveries to Votorantim continued throughout the quarter.

### **EXPLORATION**

Exploration activity for the quarter was focused on tenement maintenance only.

## **FINANCIAL REVIEW**

### **THREE MONTHS ENDED JUNE 30, 2011**

#### **NET SALES REVENUE**

Sales generated during the quarter comprised 3,909 tonnes of nickel in concentrate at an average nickel price of \$11.48/lb including realised hedges, and 1,262 tonnes of copper in concentrate at an average copper price of \$4.23/lb including realised hedges. This resulted in gross nickel revenue of \$69.39 million, copper revenue of \$8.86 million, cobalt revenue of \$1.31 million, platinum revenue of \$0.53 million and other revenue of \$0.22 million. Treatment, refining and transport charges associated with the sale of concentrate totalled \$14.08 million.

The comparative quarter ended June 30, 2010 comprised 2,505 tonnes of nickel in concentrate at an average nickel price of \$11.61/lb including realised hedges, and 824 tonnes of copper in concentrate at an average copper price of \$2.91/lb including realised hedges. This resulted in gross nickel revenue of \$46.69 million, copper revenue of \$3.98 million, cobalt revenue of \$0.74 million, platinum revenue of \$0.44 million and gold revenue of \$0.08 million. Treatment, refining and transport charges totalled \$7.47 million. The higher sales revenue for the current period is mainly due to the higher nickel sales volume as the Company continues its ramp up to full production.



### **COST OF SALES**

Cost of sales for the quarter of \$77.65 million comprised direct costs of \$58.21 million, royalties of \$5.02 million and indirect costs of \$14.42 million. Direct costs were driven by expenditure on mining (\$29.92 million), processing & plant (\$16.74 million), administration (\$6.99 million), and stockpile movements (\$4.56 million) associated with the timing of production and sales. The comparative period ended June 31, 2010 reflected the company's second quarter of commercial production, with cost of sales of \$49.86 million comprising direct costs of \$39.18 million, royalties of \$2.11 million and indirect costs of \$8.57 million. The higher cost of sales during the current period is mainly due to a stronger Real / USD exchange rate (period to June 30, 2011: US\$1:R\$1.60 vs period to June 30, 2010: US\$1:R\$1.79), as well as increased operational costs reflective of the Company's ramp-up to full production.

Royalties of \$5.02 million reflect the leasing of mining rights to nickel sulphide ore, federal royalties and landowner royalties in connection with surface rights.

Depreciation and amortization (indirect costs) of \$14.42 million reflects the Company's use of its assets based on a combination of a unit of production calculation and the useful life of equipment.

### **(LOSS)/PROFIT FOR THE PERIOD**

The Santa Rita Operation incurred a gross loss for the quarter of \$11.42 million and a net loss of \$26.25 million for the quarter (June 30, 2010: \$5.20 million profit), mainly driven by cost of sales as discussed above, as well as financing cost and other expenses, offset by favourable foreign exchange movements. The comparative period net profit was mainly due to derivative gains on nickel and copper call options.

Net financing costs for the quarter ended June 30, 2011 of \$14.34 million, comprise of interest expense (\$9.22 million) and capitalised transaction costs (\$6.24 million) written off. These capitalised transaction costs related to the long term debt that was repaid during April 2011. Financing costs for the comparative period ended June 30, 2010 comprised interest expense of \$5.24 million. The higher interest expense in the current period reflects the increase in long term debt following the refinancing during April 2011.

Gains on financial derivatives for the quarter ended June 30, 2011 were \$1.23 million, mainly comprising of favourable movements on the closing out of nickel and copper call options (\$1.51 million) as part of the refinancing. The comparative period gain of \$18.21 million was driven by nickel and copper call options (\$17.99 million).

The \$7.01 million foreign exchange gain comprises of realised and unrealised movements on the conversion of functional currency on cash held and borrowings. The comparative period ended June 30, 2010 reflected a foreign exchange loss of \$0.89 million related to realised and unrealised movements on the conversion of functional currency on cash held and borrowings.

Other expenses of \$6.44 million for the quarter ended June 30, 2011 comprises of Brazilian indirect taxes incurred on payout of the Norilsk Nickel loan, exploration expenditure, transaction fees and general expenditure.

### **UNIT CASH COSTS**

Unit cash costs represent the total of all cash costs directly attributable to operations after deductions of credits in respect of by-product sales.

By-product credits, in particular copper (11% of sales revenue) and cobalt (2% of sales revenue), are an important factor in determining cash costs. The Company's cost per pound will be positively affected by increases in the prices for copper and cobalt, and adversely affected with decreases in those prices.

The unit cash cost of production for the three months ended June 30, 2011 was \$7.85 per pound of payable nickel (June 30, 2010: \$7.62 per pound). The higher unit cash cost against the corresponding

## Management's Discussion and Analysis

For the three and six month period ended June 30, 2011



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quarter was driven by the timing of smelter charges, a stronger Real / USD exchange rate, higher mining costs (due to high off road tyre costs and lower capitalised mining rates) offset by a higher level of production. Unit cash costs are expected to fall in the second half of the year as production levels increase. Mirabela is not expecting to achieve the NI43-101 Technical Report unit cost estimate for 2011 (US\$5.69/lb) due to the stronger Real / USD exchange rate (year to date 1.63 versus NI43-101 estimate of 1.80) and higher mining costs.

The following table reflects a reconciliation of the Company's unit cash cost to the income statement prepared in accordance with GAAP:

	Three months ended 30 Jun 11	Three months ended 30 Jun 10
<b>Costs as reported in the income statement (US\$000):</b>		
Gross (loss)/profit	(11,420)	(5,391)
Add back:		
Royalties	5,019	2,109
Depreciation, amortization and depletion	14,417	8,570
Less:		
Nickel sales revenue	(69,392)	(46,694)
Direct stockpile movement	9,079	6,958
<b>Total cash operating cost of production (US\$000)</b>	<b>52,297</b>	<b>34,448</b>
Payable nickel (pounds)	6,662,001	4,520,728
<b>Unit Cash Cost (US\$) per pound of payable nickel</b>	<b>7.85</b>	<b>7.62</b>

### SIX MONTHS ENDED JUNE 30, 2011

#### NET SALES REVENUE

Sales generated during the six month period comprised 5,993 tonnes of nickel in concentrate at an average nickel price of \$10.72/lb including realised hedges, and 1,930 tonnes of copper in concentrate at an average copper price of \$4.27/lb including realised hedges. This resulted in gross nickel revenue of \$105.32 million, copper revenue of \$13.74 million, cobalt revenue of \$1.99 million, platinum revenue of \$1.46 million, and other revenue of \$1.06 million. Treatment, refining and transport charges associated with the sale of concentrate totalled \$23.05 million.

The comparative period ended June 30, 2010 comprised 4,492 tonnes of nickel in concentrate at an average nickel price of \$9.64/lb (hedging commenced April 2010), and 1,545 tonnes of copper in concentrate at an average copper price of \$2.76/lb (hedging commenced April 2010). This resulted in gross nickel revenue of \$85.62 million, copper revenue of \$7.05 million, cobalt revenue of \$1.37 million, platinum revenue of \$0.44 million and gold revenue of \$0.08 million. Treatment, refining and transport charges totalled \$14.16 million. The higher sales revenue during the current period is mainly due to the higher nickel sales volume as the Company continues its ramp up to full production.

#### COST OF SALES

Cost of sales for the period of \$116.56 million comprised direct costs of \$86.00 million, royalties of \$7.57 million and indirect costs of \$23.00 million. Direct costs were driven by expenditure on mining (\$48.74 million), processing & plant (\$28.37 million), and administration (\$12.98 million), offset by stockpile movements (\$4.09 million) associated with the timing of production and sales. The comparative period ended June 30, 2010 reflected the company's first half year of commercial production, with cost of sales of \$79.87 million comprising direct costs of \$60.59 million, royalties of \$3.79 million and indirect costs of



\$15.49 million. The higher cost of sales during the current period is mainly due to a stronger Real / USD exchange rate (period to June 30 2011: US\$1:1.63 vs period to June 30 2010: US\$1:R\$1.80), as well as increased operational costs reflective of the Company's ramp-up to full production.

Royalties of \$7.57 million reflect the leasing of mining rights to nickel sulphide ore, federal royalties and landowner royalties in connection with surface rights.

Depreciation and amortization (indirect costs) of \$23.00 million reflects the Company's use of its assets based on a combination of a unit of production calculation and the useful life of equipment.

### **(LOSS)/PROFIT FOR THE PERIOD**

The Santa Rita Operation incurred a gross loss for the period of \$16.05 million and a net loss of \$37.24 million for the period (June 30, 2010: \$17.55 million loss), mainly driven by cost of sales as discussed above, as well as financing costs, general & administration and other expenses, offset by favourable foreign exchange movements. The comparative period net loss was mainly due to unfavourable foreign exchange movements and financing costs.

Net financing costs for the period ended June 30, 2011 of \$17.37 million, mainly comprise of interest expense (\$19.30 million). Financing costs for the comparative period ended June 30, 2010 comprised interest expense of \$10.51 million. The higher interest expense in the current period reflects the increase in long term debt following the refinancing during April 2011.

Gains on financial derivatives for the period ended June 30, 2011 were \$0.25 million, mainly comprising of a favourable movement on Norilsk options (\$1.03 million) offset by losses on call options and interest rate swap. The comparative period gain of \$1.42 million was mainly driven by nickel and copper call options (\$3.44 million) and a favourable movement on Norilsk options (\$2.40 million), offset by a loss on interest rate swap (\$4.42 million).

The \$7.87 million foreign exchange gain comprises of realised and unrealised movements on the conversion of functional currency on cash held and borrowings. The comparative period ended June 30, 2010 reflected a foreign exchange loss of \$5.44 million primarily related to realised and unrealised movements on the conversion of functional currency on cash held and borrowings.

Other expenses of \$7.56 million for the period ended June 30, 2011 comprised of Brazilian indirect taxes incurred on payout of the Norilsk Nickel loan, exploration expenditure, transaction fees and general expenditure.

### **UNIT CASH COSTS**

Unit cash costs represent the total of all cash costs directly attributable to operations after deductions of credits in respect of by-product sales.

By-product credits, in particular copper (11% of sales revenue) and cobalt (2% of sales revenue), are an important factor in determining cash costs. The Company's cost per pound will be positively affected by increases in the prices for copper and cobalt, and adversely affected with decreases in those prices.

The unit cash cost of production for the six months ended June 30, 2011 was \$7.42 per pound of payable nickel (June 30, 2010: \$7.85 per pound). The lower unit cash cost against the corresponding period was driven by higher production volumes, reflecting the ramp up of operations, offset by unfavourable exchange rate movements. Unit cash costs are expected to continue to fall as production levels increase in the second half of the year.



## Management's Discussion and Analysis

For the three and six month period ended June 30, 2011



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The following table reflects a reconciliation of the Company's unit cash cost to the income statement prepared in accordance with GAAP:

	Six months ended 30 Jun 11	Six months ended 30 Jun 10
<b>Costs as reported in the income statement (US\$000):</b>		
Gross (loss)/profit	(16,046)	523
Add back:		
Royalties	7,571	3,793
Depreciation, amortization and depletion	22,995	15,493
Direct stockpile movement	234	(344)
Less:		
Nickel sales revenue	(105,316)	(85,619)
<b>Total cash operating cost of production (US\$000)</b>	<b>90,562</b>	<b>66,154</b>
Payable nickel (pounds)	12,205,062	8,427,292
<b>Unit Cash Cost (US\$) per pound of payable nickel</b>	<b>7.42</b>	<b>7.85</b>

## SUMMARY OF QUARTERLY RESULTS

Selected financial data for each of the eight most recently completed quarters is included in the table below.

For the three months ended *	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09
Total revenue	80,307	43,255	64,063	52,368	51,938	42,619	-	-
Net sales revenue	66,228	34,288	54,096	44,683	44,471	35,924	-	-
Cost of Sales	(77,648)	(38,914)	(51,071)	(40,370)	(49,862)	(30,010)	-	-
Gross profit	(11,420)	(4,626)	3,025	4,313	(5,391)	5,914	-	-
Expenses	(14,831)	(6,366)	(23,692)	(13,718)	10,588	(28,657)	(562)	1,521
Net (loss)/ income	(26,251)	(10,992)	(20,667)	(9,405)	5,197	(22,743)	(562)	1,521
Basic (loss)/profit per share (cents)	(5.34)	(2.24)	(4.37)	(2.52)	1.42	(6.29)	(0.16)	0.49
Diluted(loss)/ profit per share (cents)	(5.34)	(2.24)	(4.37)	(2.52)	1.42	(6.29)	(0.16)	0.48

\* Revenue and expenses have been converted using the average exchange rates, ranging from A\$1 = US\$0.8327 to US\$1.0674 during the period September 2009 to June 2011.



Prior to January 1, 2010 the Company was not in commercial production and its quarterly results did not include sales revenue and cost of sales. Rather, mining revenues and associated costs were capitalised to the balance sheet.

The Company's results for 2011 are discussed throughout this document, with further information disclosed for previous quarters within the respective quarterly financial statements and related management's discussion and analysis located on [www.sedar.com](http://www.sedar.com).

## LIQUIDITY

The following sets out the Company's cash flows for the quarter ended June 30, 2011 as compared to the period ended June 30, 2010:

Cash Flows from	Three months ended*	Three months ended*	Six months ended*	Six months ended*
	30 Jun 11	30 Jun 10	30 Jun 11	30 Jun 10
Operating activities	(7,468)	4,871	(36,120)	(14,077)
Investing activities	(30,494)	(6,573)	(44,784)	(11,072)
Financing activities	96,176	(6,439)	91,297	14,792

\*Cash flow for the three and six months ended June 30, 2011 have been converted using average exchange rates of A\$1 = US\$0.9964 to US\$1.0674 for the period. Cash flow for the three and six months ended June 30, 2010 have been converted using average exchange rates of A\$1 = US\$0.8826 to US\$0.9037.

Net cash outflows from operating activities for the three month period ended June 30, 2011 were \$7.47 million, compared to \$4.87 million inflow for the three month period ended June 30, 2010. Cash receipts totalled \$95.48 million, reflecting the sale of 3,909 tonnes of nickel in concentrate to Votorantim and Norilsk. This was offset by cash outflows of \$104.06 million, driven by higher mining costs (due to off road tyre costs), plant maintenance costs, payments on nickel and copper hedges and call options, together with increased operational costs resulting from the Company's ramp-up to full production.

Net cash outflows from investing activities for the three month period were \$30.49 million, compared to \$6.57 million for the three month period ended June 30, 2010. The cash outflow for the current period included the strengthening of the mining fleet with the arrival of a CAT994 Front End Loader, four Komatsu dozers and an Atlas Copco drill rig, together with the installation of the second pebble crusher and Larox filter, deferred waste removal costs associated with pre-stripping of the central zone that was completed during May and critical spares. The cash outflow for the comparative period reflects the purchase and leasing of mining equipment during the initial ramp up stages of the project.

The net cash inflow from financing activities of \$96.18 million mainly reflects proceeds on the issue of US\$395 million of 8.75% senior unsecured notes due 2018, reduced by the subsequent pay down of Mirabela's senior and subordinated debt facilities, termination of its nickel and copper call options as well as interest rate swap and foreign exchange hedges. The net cash outflow for the comparative period ended June 30, 2010 of \$6.44 million reflects interest paid (\$4.69 million) on the senior credit facility and repayments under the Leasing Facility.

## FINANCIAL POSITION

The Group held cash on hand and on deposit as at June 30, 2011 of \$118.07 million, including \$25 million held as hedge collateral which will be released upon CBPM consent for security on the mineral rights being granted to the hedge financiers. In addition, a further \$25 million is held as hedge collateral, within non-current receivables.

As at June 30, 2011 the Group has a net working capital surplus of \$125.81 million, which includes \$33.45 million of net commodity derivative liabilities that will be offset by sales of the underlying commodity.

For the six month period ended June 30, 2011 the Group incurred a loss of \$37.24 million. At June 30, 2011 the Group held net assets of \$660.64 million.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows. The meeting of the cash flow forecast depends upon the successful operation of mining and production activities in accordance with the ramp up schedule and nickel price assumptions. Should the ramp up of operations not successfully achieve forecasts or forecast nickel prices not be achieved, the Group may be required to source additional funds through debt or equity markets or a combination of the two.

### FINANCING

On April 15, 2011, Mirabela Nickel Ltd successfully issued US\$395 million of 8.75% senior unsecured notes due 2018 (the "Notes") in the international and United States Rule 144A debt capital markets. The notes are guaranteed by Mirabela Investments Pty Limited and Mirabela Mineração do Brasil Ltda.

The net proceeds from the Notes were used as follows:

- repurchasing the outstanding amount (\$152.14 million) of the Senior Loan Agreement;
- repayment in full (\$24.50 million) of the Votorantim Offtake Prepayment Agreement;
- repayment in full (\$56.04 million) of the Norilsk Offtake Loan Agreement;
- \$3.24 million for payment of taxes in connection with the repayment of the Norilsk Loan Agreement and the Senior Loan Agreement;
- \$16.31 million in pre-payments in connection with the termination of nickel and copper call options, foreign exchange hedges and the interest rate swap;
- \$20.89 million in Initial Purchasers' commissions and offering fees and other expenses payable in connection with the offering; and termination of derivatives; and
- \$121.83 million cash to balance sheet.

### SHARE CAPITAL

As at June 30, 2011 the Company's issued share capital consisted of 491,561,237 ordinary shares, and a balance of 5,100,000 unlisted options and 1,788,276 performance rights were outstanding.

1,400,000 options lapsed and no options were exercised during the quarter. 5,000,000 options were cancelled as part of the refinancing discussed earlier.

### CONTRACTUAL COMMITMENTS

The Company's contractual commitments as at June 30, 2011 are as follows:

As at June 30, 2011	Payments due by period				
	Total	Within 1 year	1-3 years	4-5 years	After 5 years
Operating leases	3,179	738	1,588	853	-
Exploration	5,228	5,228	-	-	-
Purchase obligations	260,024	142,418	85,664	23,736	8,206
Loans and borrowings	404,493	8,246	16,101	4,859	375,287
Provision for rehabilitation	11,084	-	-	-	11,084
<b>Total</b>	<b>684,008</b>	<b>156,630</b>	<b>103,353</b>	<b>29,448</b>	<b>394,577</b>

The table on contractual commitments excludes trade payables and derivative liabilities, and should be read in conjunction with the table under the heading "loans and borrowings". Operating lease

commitments relate to the Company's rental properties. Exploration commitments are those required to maintain Mirabela's rights to its exploration tenements in good standing.

Purchase obligations reflect contracts entered into during the ramp up of the Company's operations and consist primarily of mining contracts (\$241 million) that include fuel, mining equipment, preventive maintenance and explosives.

## CAPITAL RESOURCES

### LOANS AND BORROWINGS

The following interest-bearing loans entered into for the financing of the Santa Rita mine (non-current and current) were outstanding as at June 30, 2011:

	Senior Unsecured Notes	Caterpillar Finance Lease Facility	Total
Current borrowings	-	8,246	8,246
Non-current borrowings	375,287	20,960	396,247
<b>Total</b>	<b>375,287</b>	<b>29,206</b>	<b>404,493</b>

The US\$395 million of 8.75% senior unsecured notes due 2018 are guaranteed by Mirabela Investments Pty Ltd and Mirabela Mineração do Brasil Ltda. The interest is payable in US dollars, semi annually on April 15 and October 15, commencing October 15, 2011. Borrowing costs of \$20.48 million to secure this funding have been offset against the principal borrowings amount and are amortised using the effective interest rate method. Effective interest for the period was \$0.76 million.

The Caterpillar master leasing agreement of \$55 million was drawn down to \$40.80 million as at June 30, 2011 with \$29.21 million outstanding after repayments. Further drawdown under the leasing facility will require approval from Caterpillar prior to the drawdown. The Company does not intend to drawdown further on this facility.

### OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2011 there were no off balance sheet arrangements.

### TRANSACTIONS WITH RELATED PARTIES

During the period the Company transacted with related parties of Mr Craig Burton, the non-executive chairman of the Company. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, to non-director related entities dealing at arm's length with the Company.

The Company charged an immaterial amount for the three months ended June 30, 2011 and \$0.06 million for the six months ended June 30, 2011 (three and six months ended June 30, 2010: \$0.04 million and \$0.04 million) to Verona Capital Pty Ltd for office rent and shared overheads. Verona Capital Pty Ltd is a director related entity associated with Mr Craig Burton.

The Company charged immaterial amounts for the three and six months ended June 30, 2011 (three and six months ended June 30, 2010 also immaterial) to Nearfield Resources Ltd, for the shared overheads and premises rent costs. Nearfield Resources Ltd is a director related entity associated with Mr Craig Burton.

All amounts for services were billed based on normal market rates for the services provided.



### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. While management believe the estimates and assumptions to be reasonable, actual future results may vary significantly. A summary of the Company's critical accounting estimates is set out below.

#### **PROPERTY, PLANT AND EQUIPMENT, INCLUDING DETERMINATION OF RESERVES AND RESOURCES**

Reserves are estimates of the amount of nickel product that can be economically extracted from the Group's mine properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grade, production techniques, recovery rates, production costs, future capital requirements, short and long term nickel prices and exchange rates. Due to the fact that economic assumptions used to estimate reserves change from period to period, and geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and position in a number of ways including:

- Asset carrying values may be impacted due to changes in the estimated future cash flows;
- Depreciation and amortisation charged in the income statement may change where such changes are calculated using the units of production basis; and
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves alter expectations about the timing or cost of these activities.

If changes in estimates occur, depreciation and amortisation of mining assets are adjusted prospectively.

#### **VALUATION OF FINANCIAL INSTRUMENTS**

The Company uses metal and foreign exchange forward contracts to manage financial risks associated with its underlying business activities and the financing of those activities. All of the Company's forward contracts as at June 30, 2011 are recorded using hedge accounting, under which the effective portion of the forward contract is recognised in equity and the ineffective portion is recognised in the income statement. The financial statements entries have been prepared on the assumption that hedges existing as at June 30, 2011 will continue to be highly effective (80% - 125%) on a prospective and retrospective basis.

#### **IMPAIRMENT OF PROPERTY PLANT AND EQUIPMENT**

The carrying value of property plant and equipment is assessed for impairment at each reporting date, or upon any changes in circumstances that may indicate that the carrying amounts may not be recoverable. The Company assesses the recoverability of its assets carrying values based on estimated future cash flows, having consideration to the quantity of mineral reserves, future metal prices, and expected future operating and capital costs. The uncertainty of future events requires the Company to make assumptions that may result in accounting estimates changing from one period to another. This may result in asset balances being materially impacted if other assumptions and estimates had been used. Further, future operating results could be impacted if different assumptions and estimates are applied in future periods.

#### **REVENUE RECOGNITION**

The Company's offtake agreements require nickel and other commodity sales to be determined on a provisional basis at the time of sale, with final prices to be determined in a future period. For this purpose, it is necessary for management to estimate the final prices received. Significant volatility in metal prices may result in actual results upon sales finalisation being materially different to those



estimated. Management follows the industry practice of re-pricing any provisionally priced sales at the end of each reporting period based on published forward curve prices with differences being recorded in the current period's earnings.

### **PROVISION FOR MINE CLOSURE AND RESTORATION**

The rehabilitation provision is an estimate of the value of future costs for the dismantling, demobilisation, remediation and ongoing treatment and monitoring of the Santa Rita Operation site. The Company relies on estimates from third parties to estimate these costs. The estimate is subject to change over the life of the mine as more data becomes available. As at June 30, 2011 the Company has recognised a liability of \$11.08 million (present value) for rehabilitation costs at the Santa Rita Operation and will accrete costs through periodic charges to the income statement. In addition, the rehabilitation obligation asset has been recognised and will be amortised over the life of the mine. Future changes to the rehabilitation obligation will be prospectively reflected in the year the estimates change.

### **SHARE BASED PAYMENTS**

The Company utilises the binomial model for valuing options. The value derived from the option pricing model is highly subjective and depends entirely on the input assumptions made. These input assumptions include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value

The fair value of performance rights granted to employees at grant date is recognised as an employee expense, and is not required to adjust the fair value afterwards (even if it becomes more or less valuable or does not ultimately vest) unless the award is modified. The performance rights are subjected to both service and performance conditions. Service conditions require the employee to complete a specified period of service with failure to do so resulting in forfeiture of the award. Performance conditions require the employee to complete a specified period of service and meet performance targets. A performance condition can either be market vesting or non-market vesting. For market vesting conditions, the Group is required to take into consideration the probability of reaching the target share price when estimating the fair value of the equity instruments at grant date. For non-market vesting conditions, the Group does not take into account the vesting conditions when estimating the fair value of the equity instruments granted. Therefore, the Group will only consider the vesting conditions in their calculation when estimating the number of equity instruments expected to vest during the vesting period.

## **CHANGES IN ACCOUNTING POLICIES**

### **CHANGE IN PRESENTATION CURRENCY**

On July 1, 2010 the Group changed presentation currency from Australian dollars (A\$) to US dollars (US\$). The presentation currency of a Group is the currency in which the Group chooses to present its financial reports. The Group has changed its presentation currency for financial reporting from A\$ to US\$ in order to better align the presentation of the Group's financial position and financial performance with its operations.

In order to derive US\$ equivalent for the consolidated financial statements, the Group has accounted for this change in presentation currency retrospectively which involves translation of equity, assets, liabilities and revenue and expense as follows:

## Management's Discussion and Analysis

For the three and six month period ended June 30, 2011



MIRABELA NICKEL  
LTD

- Revenue and expenses for the 3 months year ended June 30, 2011 - rate A\$1 = US\$1.0578 to US\$1.0674 average rate for the period, approximating actual exchange rates for the date of the transactions;
- Revenue and expenses for the 6 months year ended June 30, 2011 - rate A\$1 = US\$0.9964 to US\$1.0674 average rate for the period, approximating actual exchange rates for the date of the transactions;
- Revenue and expenses for the 3 months period ended June 30, 2010 - rate A\$1 = US\$0.8826 approximating actual exchange rates for the date of the transactions;
- Revenue and expenses for the 6 months period ended June 30, 2010 - rate A\$1 = US\$0.8826 to US\$0.9037 approximating actual exchange rates for the date of the transactions;
- Balance sheet as at June 30, 2011 – rate A\$1 = US\$1.0731, being the exchange rate of June 30, 2011;
- Balance sheet as at December 31, 2010 – rate A\$1 = US\$1.0178, being the exchange rate of December 31, 2010; and
- Equity and reserve except translation reserve has been restated using historical rates, approximating the date of transaction with rates in the range of A\$1 = US\$0.8826 to US\$1.0674, with the translation differences recorded in the translation reserve.

## FINANCIAL INSTRUMENTS

Commodity Instruments	2011 Jul-Dec	2012	2013	2014	2015	Total Remaining 30 Jun 11
<b>Nickel Hedges</b>						
Tonnes	2,449	4,899	3,683	819	-	11,851
\$/lb	8.16	7.89	7.66	7.55	-	7.81
<b>Copper Hedges</b>						
Tonnes	108	2,232	2,904	2,922	732	8,898
\$/lb	3.00	2.87	2.74	2.62	2.57	2.76

The Company is exposed to fluctuations in metal prices (principally nickel and copper) in relation to its future operational cash flows and its ability to service existing and planned borrowings for the Santa Rita Mine. The Company's strategy is to mitigate these risks by entering into metals hedging that underwrite the full value of expected operating costs during the debt service period of its various borrowings.

The metals hedging position as at June 30, 2011 comprises 11,851t of nickel forward sold at an average price of US\$7.81/lb in the period from July 2011 to March 2014, and 8,898t of copper forward sold at an average price of US\$2.76/lb in the period from July 2011 to March 2015. The negative mark-to-market value of these hedges was \$96.61 million as at June 30, 2011 (compared to \$129.92 million negative mark-to-market value of hedges as at December 31, 2010).

The Company's metal hedge contracts are forward sales agreements and are not subject to margin calls. The Company's risk is that it may have insufficient metal to deliver at the hedge settlement dates. In these circumstances, where prevailing metal prices are above the hedged price, the Company will have an obligation to settle the net difference between the hedge value and the value of the metal at the prevailing spot prices.



### **OTHER MD&A REQUIREMENTS**

Information about the Company and its business activities, including its annual financial statements and annual information form (AIF), is available under the Company's profile at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.mirabela.com.au](http://www.mirabela.com.au).

#### **MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management to allow timely decisions regarding the required disclosure.

The internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with IFRS.

The Company's management are of the opinion that any disclosure controls and processes or internal controls over financial reporting, no matter how well developed and executed, can provide only reasonable and not absolute assurance that the objectives of the control systems are met.

During the period ended June 30, 2011 no material changes were made to the Company's disclosure and internal controls over financial reporting. The Company is committed to monitor and improve the control environment on an ongoing basis.

The CEO and CFO conducted an evaluation of the Company's disclosure controls and processes and internal controls over financial reporting for the period ended June 30, 2011 and have concluded that the controls were effective.

### **RISKS AND UNCERTAINTIES**

There are a number of risks that may have a material and adverse impact on the future operating and financial performance of Mirabela and the value of its ordinary shares. These include risks that are widespread and associated with any form of business and specific risks associated with Mirabela's business and its involvement in the exploration and mining industry generally and in Brazil in particular. While most risk factors are largely beyond the control of Mirabela and its directors, the Company will seek to mitigate the risks where possible. An investment in the Company's shares is considered to be speculative due to the nature of Mirabela's business and the present stage of its development.

#### **DECREASES IN THE PRICE OF NICKEL**

The price of nickel will affect the profitability of the Santa Rita Operation. The price of nickel fluctuates widely and is affected by numerous factors beyond the control of Mirabela such as industrial and retail supply and demand, exchange rates, inflation rate fluctuation, changes in global economies, confidence in the global monetary system, forward sales of metals by producers and speculators as well as other global or regional political, social or economic events. The supply of metals consists of a combination of new mine production and existing stocks held by governments, producers, speculators and consumers.

Future production from Mirabela's mining properties, including in particular the Santa Rita Operation, is dependent upon the price of nickel being adequate to make it economic. In particular, the Company's mineral reserves have been calculated at a price of US\$8.00/lb, which as of the date of this MD&A is below the prevailing market price.





Future price declines in the market value of nickel and copper could cause commercial production from the Santa Rita Operation to be rendered uneconomic. Declining metal prices will also adversely affect the Company's ability to obtain financing both now and in the long term.

### **PRODUCTION ESTIMATES**

The Company may not achieve its production estimates. The failure of the Company to achieve its production estimates could have a material adverse effect on any or all of its future cash flows, profitability, results of operations and financial conditions. The realization of production estimates is dependent on, among other things, the accuracy of mineral reserve and resource estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions (including hydrology), the physical characteristics of ores, the presence or absence of particular metallurgical characteristics, and the accuracy of the estimated rates and costs of mining, ore haulage and processing.

Actual production may vary from estimates for a variety of reasons, including: the availability of certain types of ores; the actual ore mined varying from estimates of grade or tonnage; dilution and metallurgical and other characteristics (whether based on representative samples of ore or not); short-term operating factors such as the need for sequential development of ore bodies and the processing of new or adjacent ore grades from those planned; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for mining operations, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; plant and equipment failure; the inability to process certain types of ores; labour shortages or strikes; lack of required labour; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the regulatory environment.

Such occurrences could also result in damage to mineral properties or mines, interruptions in production, injury or death to persons, damage to property of the Company or others, monetary losses and legal liabilities in addition to adversely affecting mineral production. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable forcing the Company to cease production.

### **INCREASES IN OPERATING COST ESTIMATES**

Operating costs are estimated based on the interpretation of geological data, feasibility studies, anticipated climatic conditions and other factors. Any of the following events, among the other events and uncertainties described in this MD&A, could affect the ultimate accuracy of such estimate and result in an increase in actual operating costs incurred: (i) unanticipated changes in grade and tonnage of ore to be mined and processed; (ii) incorrect data on which engineering assumptions are made; (iii) equipment delays; (iv) labour disputes and negotiations; (v) changes in government regulation including regulations regarding prices, cost of consumables, royalties, duties, taxes, permitting and restrictions on production quotas on exportation of minerals; and (vi) title claims. Material increases in operating costs at the Santa Rita Operation could cause the Company to suspend operation of the Santa Rita Operation as currently planned, either temporarily or permanently.

### **DELAYS IN PROCURING NEW EQUIPMENT**

Delays in procuring new equipment, or maintaining and supporting existing equipment may impact the Company's ability to achieve its ramp-up targets and production forecasts. Equipment delays may result from difficulties in procurement, due to funding constraints the Company may face, late ordering of equipment, shipping and customs delays, or fabrication, drilling, blasting and loading problems. Additionally, excessive wear on equipment could create the need for unexpected repairs or new equipment or spares, creating further delays and increasing operating costs.



Supply shortages may also result from an excess of demand over supply for mining equipment and competition for supplies from competitors. If the Company is unable to secure sufficient supplies for its operations, it may suffer reductions in its production capacity, which could have a material adverse effect on its financial and operating results.

### **THE COMPANY'S FINANCIAL CONDITION**

As at June 30, 2011 the Company has a net working capital surplus of \$125.81 million, which includes \$33.45 million of net commodity derivative liabilities that will be offset by sales of the underlying commodity. For the six month period ended June 30, 2011 the Company incurred a loss of \$37.24 million. At June 30, 2011 the Company held net assets of \$660.64 million.

There can be no assurance that the Company will not continue to incur losses. Numerous factors, including declining metal prices, adverse currency exchange rate movements (in particular in the United States dollar), lower than expected ore grades or higher than expected operating costs (including increased commodity prices), and impairment write-offs of mine property and/or exploration property costs, could cause the Company to continue to be unprofitable in the future. Continued losses could have important consequences, including the following:

- Increasing the Company's vulnerability to general adverse economic conditions and industry conditions;
- Limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating and exploration costs and other general corporate requirements;
- Requiring the Company to dedicate a significant portion of the Company's cash flow from operations, anticipated from the Santa Rita Operation, to make debt service payments, which would reduce its ability to fund working capital, capital expenditures, operating and exploration costs and other general corporate requirements;
- Limiting the Company's flexibility in planning for, or reacting to, changes in our business and the industry; and
- Placing the Company at a disadvantage when compared to its competitors that have less debt relative to their market capitalisation.

### **MINERAL RESERVES AND MINERAL RESOURCES ESTIMATES**

The estimated costs of the Project, the tonnages and grades anticipated to be achieved and the anticipated level of recovery are based on the Company's estimated mineral reserves and mineral resources for the Project. No assurance can be given that the anticipated tonnages and grades will be achieved, that anticipated level of recovery will be realised or that mineral reserves will be mined or processed profitably. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgements used in engineering and geological interpretation. Short term operating factors relating to the mineral reserves, such as the need for the orderly development of ore bodies or the processing of new or different ore grades, may cause mining operations to be unprofitable in any particular accounting period. In addition, there can be no assurance that recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Fluctuations in nickel prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate of reserves or resources may require revisions to such estimates. As a result, the volume and grade of reserves the Company mines and processes, the



recovery rate it achieves and the cost of its operations may not be the same as currently anticipated. Any material reductions in the Company's estimated mineral reserves and mineral resources, or of its ability to extract these mineral reserves, could have a material adverse effect on the Company's results of operations and financial condition.

### **ADDITIONAL FUNDING MAY BE REQUIRED**

The Company is not yet cash flow positive as the Santa Rita mine ramps up to full production. Becoming cash flow positive will depend on a number of factors including, but not limited to, the price of nickel and other base metals, the optimisation of operations without delay, operating costs, production, recovery and exchange rates.

If the Company is not cash flow positive or is normally expected to be cash flow positive, prior to the depletion of its cash reserves and available credit, the Company will require third party financing to fund future working capital, capital expenditures, operating and exploration costs, and other general corporate requirements.

The success and the pricing of any such capital raisings and/or debt financing will be dependent upon the prevailing market conditions at that time and upon the ability of a company without significant projects already in production and with significant amounts of existing indebtedness, to attract significant amounts of debt and/or equity. There is no assurance that such financing will be obtained or on terms satisfactory to the Company. Failure to obtain sufficient financing, as and when required, could cause the Company to realise assets and extinguish liabilities other than in the normal course of business and not be able to continue as a going concern.

### **FOREIGN EXCHANGE RISK**

Exchange rate fluctuations have affected the Company's costs, revenue and cash flows. Although the Company raises equity in Canadian and Australian dollars and the Company's indebtedness is denominated in United States dollars, portions of the Company's operating expenses and portions of the remainder of its capital expenditures are incurred in Brazilian reais. Further, nickel is sold worldwide, predominantly in United States dollars.

Accordingly, adverse fluctuations in the relative price of the Brazilian real and the Canadian, Australian and United States dollars would effectively increase the costs of development and production at the Santa Rita mine and could materially and adversely affect the Company's earnings and financial condition.

### **CONCENTRATE SPECIFICATIONS**

The Company's concentrate is subject to risks of process upsets and equipment malfunctions. Head grade, mill throughput recovery rates, or anticipated metallurgical recoveries may ultimately be lower than expected. Concentrate produced by Mirabela until 2014 is subject to off-take agreements and must meet certain specifications. Failure to meet such specifications could entitle purchasers to refuse delivery or seek price adjustments, which in either case, could have a material adverse effect on the Company's revenue, cash flows and financial condition.

### **ENVIRONMENTAL RISKS AND REGULATIONS**

All phases of Mirabela's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of



responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Mirabela's operations. Environmental hazards may exist on the properties on which Mirabela holds interests which are unknown to Mirabela at present and which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are current and may in the future be required in connection with the operations of Mirabela. To the extent such approvals are required and not obtained, Mirabela may be curtailed or prohibited from continuing its mining operations or from proceeding with planned exploration or development of mineral properties or sale of concentrate.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties or the sale of concentrate may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on Mirabela and cause increases in exploration expenses, capital expenditures or production costs, or reduction in levels of production, or require abandonment or delays in development of new mining properties.

### **INTEREST RATE RISK**

The Company's various credit arrangements accrue interest at variable rates that fluctuate with LIBOR, Cost of Funds or CDI (calculated by the Brazilian Custody and Settlement Chamber). Although the Company has entered into agreements to hedge, to a certain extent, against unfavourable changes in interest rates, the Company may be exposed to adverse interest rate fluctuations that could have a material adverse impact on the Company's financial position.

### **HEDGING POLICIES**

The Company has entered into forward sales agreements for nickel and copper. Although these agreements may protect the Company in certain instances, they may also limit the price that can be realized on metals subject to any hedges where the market price exceeds the hedge contract. In addition, Mirabela is exposed to credit related losses in the event of non-performance by counterparties to these financial instruments.

### **CHANGES IN THE TERMS OF THE LEASING FACILITY**

Mirabela Brazil, as lessee, and Mirabela, as guarantor, entered into a master funding and lease agreement dated March 23, 2009 with Caterpillar Financial SARL, as arranger, and Caterpillar Financial Services Corporation, as lender (together with the arranger, "**Caterpillar Financial**"), pursuant to which Caterpillar Financial agreed to extend a master funding and lease facility in the principal amount of not more than \$55 million (the "**Leasing Facility**") for the purpose of lease financing up to 90% of the purchase price of Caterpillar mobile equipment from Marcosa SA and Sotreq SA, Brazil.

By the terms of the Leasing Facility, Caterpillar Financial may syndicate up to \$30 million of the Leasing Facility and is entitled to make changes to the pricing and structure of the Leasing Facility (subject to limitations to be determined by the parties), in order to achieve a successful syndication (such changes applying only to the syndicated portion of the facility). There can be no assurance that such changes to



the pricing and structure of the Leasing Facility will not have an adverse effect on the Company and its financial condition.

### FORWARD LOOKING INFORMATION

Certain information in this MD&A, including all statements that are not historical facts, constitutes forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information includes, but is not limited to, information which reflect management's expectations regarding Mirabela's future growth, results of operations (including, without limitation, future production and capital expenditures), performance (both operational and financial) and business prospects (including the timing and development of new deposits and the success of exploration activities) and opportunities. In this MD&A this specifically includes statements regarding the timing of completion of the processing plant upgrade to 7.2Mtpa and production of between 15,500 and 16,500 tonnes of nickel in concentrate for 2011. Often, this information includes words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

In making and providing the forward-looking information included in this MD&A, the Company has made numerous assumptions. These assumptions include among other things: (i) assumptions about the price of nickel and other base metals; (ii) that there are no material delays in the optimisation of operations at the Santa Rita Operation; (iii) assumptions about operating costs and expenditures; (iv) assumptions about future production and recovery; (v) that the supply and demand for nickel develops as expected; (vi) that there is no unanticipated fluctuation in interest rates and foreign exchange rates; and (vii) that there is no material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: (i) decreases in the price of nickel and copper; (ii) the risk that the Company will continue to have negative operating cash flow;; (iii) the risk that additional financing will not be obtained as and when required; (iv) adverse fluctuations in foreign exchange rates; (v) the risk that concentrate produced will not meet certain minimum specifications; (vi) material increases in operating costs; (vii) production estimates may not be accurate; (viii) environmental risks and changes in environmental legislation; (ix) adverse fluctuations in interest rates; (x) failure to comply with restrictions and covenants in the Senior Loan Agreement; (xi) risks arising from the Company's hedging activities; (xii) failure to comply with restrictions and covenants in the off take loan agreements; (xiii) changes in the terms of the Senior Loan in order to achieve successful syndication; and (xiv) changes in the terms of the Leasing Facility in order to achieve successful syndication.

This MD&A (See "*Risk Factors*") and the Company's annual information form contain information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward-looking information as a result of new information or events after the date of this MD&A except as may



be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

### **NON-GAAP MEASURES**

This MD&A makes reference to several non-GAAP measurements that may not be comparable to similar measures presented by other issuers. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company. The terms are intended to provide additional information and should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP. Non-GAAP financial measures referred to in this MD&A include:

- "Cash operating cost per pound of nickel produced" or to "unit cash costs". This includes all mining, processing, site administration, transport and smelter costs, less by-product credits;
- "Realised nickel price". This includes total gross nickel revenue, prior period quotational period adjustments, realised nickel and foreign exchange hedges, but excludes call options;
- "Realised copper price". This includes total gross copper revenue, prior period quotational period adjustments, realised copper and foreign exchange hedges, but excludes call option adjustments;
- "EBITDA". This includes gross profit less general & administration expenses, but before depreciation, amortisation and depletion.