Management's Discussion and Analysis

For the three and twelve month period ended December 31, 2010

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

MIRABELA NICKEL LTD

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 twelve month period ended December 31, 2010 and should be read in conjunction with the audited Annual Report for the same period, and the notes thereto. The effective day of this report is March 23, 2011.

The Company's audited Annual Report 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	Twelve months ended 31 Dec 10	Six months ended 31 Dec 09 (2)	Twelve months ended 30 Jun 09 (2)
Net sales revenue	$179.16 m	-	-
Cost of sales	($171.31 m)	-	-
Gross profit	$7.85 m	-	-
(Loss)/profit for the period	($47.62 m)	$0.96 m	($28.36 m)
EBITDA (1)	$35.75 m	($4.13 m)	($12.26 m)
Basic (loss)/earnings per share	(12.09 cents)	0.29 cents	(16.81 cents)
Diluted (loss)/earnings per share	(12.09 cents)	0.29 cents	(16.81 cents)
Dividends Paid	-	-	-
Total assets	$1.120 m	$965 m	$737 m
Long term liabilities	$360 m	$358 m	$275 m
Total liabilities	$501 m	$451 m	$360 m
Net assets	$619 m	$514 m	$377 m

Production Statistics	Measure	Twelve months ended 31 Dec 10	Six months ended 31 Dec 09[2]	Twelve months ended 30 Jun 09[2]
Mining				
Total Material Mined	Tonnes	29,058,000	-	-
Ore Mined	Tonnes	3,086,000	-	-
Nickel Grade	%	0.55	-	-
Processing				
Total Ore Processed	Tonnes	3,805,000	-	-
Nickel Grade	%	0.51	-	-
Copper Grade	%	0.13	-	-
Cobalt Grade	%	0.02	-	-
Nickel Recovery	%	53	-	-
Copper Recovery	%	68	-	-
Cobalt Recovery	%	29	-	-
Production				
Nickel in Concentrate Produced	DMT	10,375	-	-
Copper in Concentrate Produced	DMT	3,239	-	-
Cobalt in Concentrate Produced	DMT	179	-	-
Sales				
Nickel in Concentrate Sold	DMT	9,956	-	-
Copper in Concentrate Sold	DMT	3,129	-	-
Cobalt in Concentrate Sold	DMT	168	-	-

Unit Cash Costs	Measure	Twelve months ended 31 Dec 10	Six months ended 31 Dec 09[2]	Twelve months ended 30 Jun 09[2]
Payable Nickel Production[3]	lbs	20,357,702	-	-
Mining Cost	USD/lb	2.89	-	-
Processing Costs	USD/lb	2.56	-	-
Administration Cost	USD/lb	1.04	-	-
Transport/Shipping Cost	USD/lb	0.08	-	-
By-Product Credit[4]	USD/lb	(1.04)	-	-
Operating Unit Cash Cost	USD/lb	5.52	-	-
Smelter Charges	USD/lb	1.48	-	-
Unit Cash Cost[5]	**USD/lb**	**7.00**	**-**	**-**
Realised Nickel Price[6]	USD/lb	9.27	-	-
Realised Copper Price[6]	USD/lb	2.93	-	-

(1) EBITDA is defined as gross profit less general & administration expenses, but before depreciation, amortisation and depletion. See "Non-GAAP Measures".

(2) The Company was not in commercial production prior to 2010.
(3) Average Payability of 89%
(4) Including prior period QP adjustments, excludes hedging & call options
(5) Excludes royalty (5.5%)
(6) Including prior period QP adjustments, realised hedging, but excluding realised call options.
Including realised call options, the realised nickel and copper prices were US$9.08/lb and US$1.85/lb respectively.
(7) Average exchange rate for the year ended December 31, 2010: USD/Real 1.76

RESULTS OF OPERATIONS

OPERATING REVIEW

The Santa Rita Operation successfully achieved operational status during early 2010. Ramp up of operations continued throughout the year, with all key production parameters improving quarter on quarter. Significant progress was made during the year in mining operations with improved mine operating procedures and mobile fleet maintenance performance resulting in increasing productivity. Breakthrough plant performance was achieved during the fourth quarter with throughput and recovery records achieved.

SAFETY

Since commencing operations, the operations strong safety performance has continued. The Lost Time Injury Frequency Rate for the year was 1.05, an outstanding result for the first year of operations and well ahead of the Brazilian mining average. The implementation of safety training and safety improvement programmes continues.

MINING

During the year, a total of 3,086,000 tonnes of ore was mined at an average nickel grade of 0.55%. The mining operations were predominantly in the northern end of the ore body during the first half of 2010, with pre-stripping at the southern end of the ore body completed during the third quarter and first ore production occurring in September. Pre-strip of the Central pit commenced during the fourth quarter of 2010.

During the second half of the year, mining in the north pit moved through a major fault structure resulting in higher than average levels of fine, chloritic altered material being mined. Mirabela implemented an effective two pronged strategy to improve recoveries, firstly, the use of dispersants and a secondary collector in the processing plant reagent regime and, secondly, improved blasting and stockpile control. Mining in the South pit resulted in good quality ore with minimal fines. The mining team is continuing their focus on waste removal to open up the strike length of the open pit, which will provide more mining flexibility and is critical for the ongoing ramp-up to the targeted full mining production capacity.

The ramp up to full production necessitated an increase in mining fleet which was completed by the end of 2010. Total purchased equipment included three AtlasCopco L8 drill rigs, six CAT 777F trucks, twelve CAT 785D trucks, two CAT D9 dozers, two CAT D10 dozers, two CAT 834H dozers, three CAT 16M graders, three RH 120 excavators, a PV 271 drill rig, CAT 992 front end loader, CAT 994 front end loader, RH 90 excavator, and a DML drill rig. Hired equipment included six CAT 777 trucks, two Bucyrus 37HR drill rigs and two CAT D9 Dozers. An order was also placed for four Komatsu Dozers and a CAT 994 front end loader for delivery in the first half of 2011.

PROCESSING

The processing plant performed well during the year, running for extended periods of time at and above the current nameplate capacity of 4.6Mtpa. Recovery performance and production levels improved quarter on quarter, largely attributable to operational and technical improvements in reagents, grinding and the flotation regime. Material which previously recovered poorly is now achieving acceptable levels of recoveries. A pilot plant test program was completed during the year to provide further improvements to nickel recovery. The results have confirmed the opportunity to achieve higher recovery rates through mechanical separation of the fines and the Company is planning to install a de-sliming circuit by the end of 2011.

During the year, a total of 3,805,000 tonnes of ore was milled at an average recovery of 53%. Full year production was above recent guidance with a total of 10,375 tonnes of contained nickel in concentrate, 3,239 tonnes of contained copper in concentrate, and 179 tonnes of contained cobalt in concentrate produced. All production was within off-take contract specifications.

SALE OF CONCENTRATE

During the year, a total of 9,956 tonnes of contained nickel in concentrate was sold to Mirabela's domestic customer, Votorantim Metais Niquel S.A. pursuant to an offtake agreement.

During the year, Mirabela was granted an environmental licence by the Municipal Council for Environmental Defence of Ilheus – Condema for the loading, storage and up-loading of nickel concentrate in the town of Ilheus. The granting of this licence cleared the way for Mirabela to commence export operations through the Ilheus port, located approximately 136 kilometres from Mirabela's Santa Rita mine. Exports to Norilsk Nickel Harjavalta Oy commenced through the port during January 2011.

OUTLOOK

Mirabela's current focus is the continued ramp up of operations to achieve full production levels in 2012. The immediate focus for 2011 will be the completion of the open pit pre-strip, the expansion of the processing plant and crusher to 7.2Mtpa, and the installation of a de-sliming circuit.

EXPLORATION

The focus during 2010 was the ramp up of the Santa Rita Operation and as a result only exploration expenditure to maintain the tenements in good standing was incurred during the year.

BOARD AND EXECUTIVE CHANGES

Mr Geoffrey Handley and Mr Ian McCubbing were appointed as non-executive directors of the Company, effective January 1, 2011.

Mr Nicholas Poll resigned as a director on April 6, 2010 and Mr Joseph Hamilton effective December 31, 2010.

Mr Craig Burton moved from Executive Chairman to the role of Non-Executive Chairman effective January 1, 2011.

The Company strengthened its executive team with the appointment of Mr Luis Nepomuceno as Managing Director Brazil on April 28, 2010, and Mr Bill Bent, VP Business Development joined the Company on June 1, 2010.

Mr Bryan Hyde, Managing Director Santa Rita resigned on June 16, 2010 and Mr Paulo Oliva, Country Manager, on June 6, 2010.

FINANCIAL REVIEW

For accounting purposes, the Company transitioned from construction and commissioning to operations during the first quarter of 2010. As a result, mining revenues and costs are no longer capitalised, but instead treated as operational costs through profit and loss. The Company has also changed its financial year end from June 30 to December 31, and its presentation currency for financial reporting to US dollars.

NET SALES REVENUE

Sales generated during the period comprised 9,956 tonnes of nickel in concentrate at an average nickel price of US$9.27/lb including realised hedges. This resulted in gross nickel revenue of $189.67 million, copper revenue of $15.17 million, cobalt revenue of $2.98 million, platinum revenue of $2.33 million, gold revenue of $0.52 million and other revenue of $0.31 million. Treatment, refining and transport charges associated with the sale of concentrate totalled $31.82 million.

COST OF SALES

Cost of sales for the year of $171.31 million comprised direct costs of $123.82 million, royalties of $10.31 million and indirect costs of $37.18 million. Direct costs were driven by expenditure on mining ($64.59 million), processing & plant ($52.19 million), and administration ($21.40 million), offset by stockpile movements ($14.35 million) associated with the timing of production and sales.

Royalties of $10.31 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 $37.18 million reflects the Company's use of its assets based on a combination of a units of production calculation and the useful life of equipment.

(LOSS)/PROFIT FOR THE PERIOD

Despite the Santa Rita Operation achieving a gross profit for the year of $7.85 million, the Company incurred a net loss of $47.62 million for the year (December 31, 2009: $0.96 million profit), mainly driven by financing costs and derivative losses on call options, offset by favourable foreign exchange movements. The comparative period net profit was mainly due to favourable foreign exchange movements, offset by derivative losses on call options and financing costs.

Net financing costs for the twelve months ended December 31, 2010 of $21.12 million, mainly comprise of interest expense ($21.20 million) relating to the long term loans; the proceeds of which were used to fund the construction and commissioning of its Santa Rita mine. Financing costs for the six month period ended December 31, 2009 reflected net interest of $5.36 million, as interest expenses were capitalised as part of the construction costs of the Santa Rita Operation.

Losses on financial derivatives for the twelve months ended December 31, 2010 were $21.32 million, mainly comprising of an unfavourable movement on nickel and copper call options ($18.77 million) and interest rate swaps ($4.01 million). The comparative period loss of $17.17 million was driven by nickel and copper call options ($15.52 million).

The $6.61 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 December 31, 2009 reflected a foreign exchange gain of $29.24 million primarily related to conversion of functional currency on long term borrowings.

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 (7% of sales revenue) and cobalt (1% 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 twelve months ended December 31, 2010 was US$7.00 per pound of payable nickel. Whilst the unit costs have reduced for the fourth successive quarter, the unit cash cost is not reflective of the operation's expected cash cost as the operation is still in ramp up.

Unit cash costs are expected to continue to fall as production levels increase. Mining, processing and administration unit costs are expected to fall with increased production levels whilst transport unit costs are expected to rise when shipping concentrate to Norilsk Nickel commences.

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

	Twelve months ended 31 Dec 10
Costs as reported in the income statement (US$000):	
Gross (loss)/profit	7,847
Add back:	
Royalties	10,314
Depreciation, amortization and depletion	37,178
Less:	
Nickel sales revenue	(189,674)
Direct stockpile movement	(8,169)
Total cash operating cost of production (US$000)	**142,504**
Payable nickel (pounds)	20,357,702
Unit Cash Cost (US$) per pound of payable nickel	**7.00**

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 *	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09
Net sales revenue	54,096	44,683	45,621	34,759	-	-	-	-
Cost of Sales	(51,071)	(40,370)	(49,861)	(30,010)	-	-	-	-
Gross profit	3,025	4,313	(4,240)	4,749	-	-	-	-
Expenses	(23,692)	(13,718)	9,438	(27,493)	(562)	1,521	18,829	(9,306)
Net (loss)/ income	(20,667)	(9,405)	5,197	(22,743)	(562)	1,521	18,829	(9,306)
Basic (loss)/profit per share (cents)	(4.37)	(2.52)	1.41	(6.26)	(0.16)	0.49	19.15	(7.17)
Diluted(loss)/ profit per share (cents)	(4.37)	(2.52)	1.41	(6.26)	(0.16)	0.48	19.15	(7.17)

** Revenue and expenses have been converted using the average exchange rates for each quarter, ranging from A$1 = US$0.6640 to US$0.9949 during the period March 2009 to December 2010.*

Prior to the March 2010 quarter, 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 2010 are discussed throughout this document, with further information disclosed in the respective quarterly financial statements and related management's discussion and analysis located on sedar.com.

LIQUIDITY

The following sets out the Company's cash flows for the period ended December 31, 2010 as compared to the period ended December 31, 2009;

Cash Flows from	Twelve months ended* 31 Dec 10	Six months ended* 31 Dec 09	Twelve months ended* 30 Jun 09
Operating activities	(74,489)	(5,909)	(2,546)
Investing activities	(33,065)	(120,415)	(367,557)
Financing activities	149,510	144,727	365,804

**Cash flow for the twelve months ended December 31, 2010 have been converted using average exchange rates of A$1 = US$0.8826 to US$0.9949 for the period. Cash flow for the six months ended December 31, 2009 have been converted using average exchange rates of A$1 = US$0.7598 to US$0.9107 for the period. Cash flow for the twelve months ended June 30, 2009 have been converted using an average exchange rate of A$1 = US$0.7354 for the period.*

Net cash outflows from operating activities for the twelve month period ended December 31, 2010 of $74.49 million as compared to a $5.91 million outflow for the six month period ended December 31, 2009 are primarily attributable to the Company's transition from development to production. Cash receipts of $157.54 million reflect the sale of 9,956 tonnes of nickel in concentrate to Votorantim. This was offset by cash outflows of $233.03 million, reflecting operating expenditure incurred during the period, pre-stripping and deferred waste removal costs, first fill inventory, and payments made for commissioning expenditure incurred during 2009.

Net cash outflows from investing activities for the twelve month period were $33.07 million, compared to $120.42 million for the six month period ended December 31, 2009. The cash outflow reflects the purchase and leasing of mining equipment, as the Company ramps up to full production. Leased equipment was acquired pursuant to the Leasing Facility, with the cash component paid by the company, comprising 10% of the value of the equipment. The cash outflow for the comparative period relates to construction and development expenditure on the Santa Rita Operation.

The net cash inflow from financing activities of $149.51 million mainly reflects net proceeds from capital raisings during 2010 ($204.25 million), offset by principal repayments ($44.89 million) and interest paid ($13.66 million) on the Senior Debt Facility and Caterpillar Leasing Facility. The repayment on the Senior Debt Facility ($38.1 million) was pursuant to covenant waiver conditions negotiated with the Senior Lenders in quarter three of 2010. The net cash inflow for the comparative period ended December 31, 2009 of $144.73 million reflects proceeds from capital raisings ($126.82 million) and the final draw down of the Senior Loan ($25.21 million) used for, amongst other things repayment of the then outstanding Bridge Loan ($80 million) as well as construction and development of the Santa Rita Operation.

FINANCIAL POSITION

The Group held cash on hand and on deposit as at December 31, 2010 of $102.13 million, including $25 million held in the Santa Rita Operation contingency reserve account. As at December 31, 2010 the Group has a net working capital surplus of $54.16 million, which includes $47.13 million of net commodity derivative liabilities that will be offset by sales of the underlying commodity. For the full year ended December 31, 2010 the Group incurred a loss of $47.62 million. At December 31, 2010 the Group held net assets of $619.34 million. Cash flows from operations and investing activities for 2010 was negative $107.55 million.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds. 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 to enable cash flow forecasts to be achieved. 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 January 11, 2010 the Company completed a private placement of 5.50 million special warrants at a price of C$2.23 (US$2.08) per special warrant primarily to Canadian investors, raising gross proceeds of C$12.27 million (US$11.46 million). On February 9, 2010 the Company issued 5,500,000 ordinary shares upon the conversion of said special warrants.

On January 21, 2010, the Company completed a share purchase plan pursuant to which shareholders resident in those jurisdictions where the Company was lawfully permitted to do so in reliance on exemptions from applicable prospectus and registration requirements, were granted the opportunity to subscribe for ordinary shares at a price of A$2.30 (US$2.08) per share, raising gross proceeds of A$10.28 million (US$9.30 million).

In March 2010, the Company completed a private placement approved by shareholders with (i) Mr Craig Burton (Chairman) consisting of the purchase and sale of 400,000 ordinary shares of the Company at a price of A$2.30 per share for gross proceeds to the Company of A$0.92 million (US$0.83 million); and (ii) with Lancaster Park S.A, an entity associated with Mr Colin Steyn (Director), consisting of the purchase and sale of 1.7 million ordinary shares of the Company for gross proceeds to the Company of A$3.91 million (US$3.54 million).

These placements formed part of a larger offering of 18.5 million ordinary shares, the balance of which was completed in December 2009 pursuant to a private placement of 16.4 million ordinary shares to purchasers primarily resident in Australia, and raised gross proceeds of A$37.72 million (US$34.35 million).

On September 8, 2010 the Company launched an institutional share placement to raise a minimum of US$135 million and a maximum of US$165 million ("Global Offer") at the exchange rate of A$1 = US$0.9163. The share placement consisted of:

- an unconditional placement of ordinary shares on the Company's Australian register in respect of those shares issuable without prior shareholder approval ("Unconditional Placement");
- a placement of ordinary shares to settle on the Company's Australian register in respect of those shares issuable only upon shareholders approval pursuant to ASX Listing Rule 7.1 (relating to the issuance of more than 15% of the issuers share capital) ("Conditional Offer"); and
- a placement to settle on the Company's Canadian register consisting of (i) ordinary shares; and (ii) subscription receipts, each entitling the holder thereof (without the payment of additional consideration) to one ordinary share of the Company upon satisfaction of certain conditions ("Release Conditions"), including shareholder approval to the issue of those underlying shares ("TSX Offer").

On September 20, 2010 the Company completed a private placement of 48,896,905 ordinary shares at a price of A$1.60 (US$1.45) per share in Australia and 6,177,500 million ordinary shares at a price of C$1.52 (the Canadian dollar equivalent of US$1.45) to Canadian investors, raising AU$88.12 million (US$79.79 million) and placed 6,472,500 subscription receipts at a price of C$1.52 per subscription receipt.

On October 26, 2010 A$110.92 million (US$108.82 million) was raised from 69,324,107 shares at A$1.60 (US$1.57) per share as part of the conditional component of the offer, after all resolutions were passed at a shareholders meeting held on October 19, 2010 as follows:

- 57,704,466 shares pursuant to the Global Offer, which includes 6,472,500 shares following conversion of the Subscription Receipts;
- 4,784,558 shares to related parties, which includes 3,895,997 shares to Lancaster Park SA and 888,561 shares to Mr Craig Burton; and
- 6,835,083 shares consisting of 3,439,342 shares pursuant to a Share Purchase Plan to eligible shareholders and a further 3,395,741 shares, representing the shortfall of the Share Purchase Plan, placed by Macquarie Capital Advisers Limited and UBS AG.

Following completion of the capital raising, the Company prepaid $38.10 million in principal under its existing $190 million senior financing facility, together with the transfer of an additional $15 million to Mirabela's Contingent Support Account. Subsequently, on November 5, 2010 the lenders to the Senior Credit Facility confirmed crystallisation of a waiver to certain covenants of the Credit Facility during 2011.

SHARE CAPITAL

As at December 31, 2010 the Company's issued share capital consisted of 491,561,237 ordinary shares, and a balance of 13,300,000 unlisted options and 1,788,276 performance rights were outstanding.

During the March quarter of 2010 the following shares were issued:

- 5,500,000 shares pursuant to the conversion of 5,500,000 special warrants placements to Canadian investors;
- 4,467,450 shares pursuant to the share purchase plan;
- 1,700,000 shares to Lancaster Park as part of the Directors placement approved at a shareholders meeting held on March 29, 2010;
- 400,000 shares to Craig Burton as part of the Directors placement approved at a shareholders meeting held on March 29, 2010; and
- 74,000 ordinary shares upon exercise of options.

During the June quarter of 2010 the following shares were issued:

- 326,900 ordinary shares upon exercise of options.

During the September quarter of 2010 the following shares were issued:

- 48,896,905 ordinary fully paid shares pursuant to an unconditional institutional placement to sophisticated investors in Australia; and
- 6,177,500 ordinary fully paid shares pursuant to a private placement to "accredited investors" primarily in Canada.

During the December quarter of 2010 the following shares were issued as part of the finalisation of the debt restructuring:

- 57,704,466 ordinary fully paid shares, including 6,472,500 upon conversion of the subscription receipts issued on September 20, 2010;
- 4,784,558 ordinary fully paid shares to related parties; and
- 6,835,083 ordinary fully paid shares consisting of 3,439,342 shares pursuant to a Share purchase Plan and 3,395,741 representing the shares not placed in the Share Purchase Plan by private placement.
- 1,788,276 performance rights were granted to employees under the Mirabela Performance rights Plan as approved by shareholders at a general meeting held during the quarter.

CONTRACTUAL COMMITMENTS

The Company's contractual commitments as at December 31, 2010 are as follows:

		Payments due by period			
As at December 31, 2010	**Total**	**Within 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Operating leases	3,797	687	1,479	1,631	-
Exploration	4,898	4,898	-	-	-
Purchase obligations	225,419	83,716	82,347	59,356	-
Loans and borrowings	262,526	16,418	174,181	71,927	-
Provision for rehabilitation	11,627	-	-	-	11,627
Total	**508,267**	**105,719**	**258,007**	**132,914**	**11,627**

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 ($223 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 December 31, 2010:

	Norilsk Loan	Votorantim Loan	Senior Credit Facility	Caterpillar Finance Lease Facility	Total
Current borrowings	-	7,896	275	8,247	16,418
Non-current borrowings	54,748	18,997	147,376	24,987	246,108
Total	**54,748**	**26,893**	**147,651**	**33,234**	**262,526**

The Senior Credit Facility, Votorantim and Norilsk Loans are fully drawn, with the Votorantim and Norilsk loans being subordinated to the Senior Credit Facility and may only be repaid on satisfaction of certain conditions. Votorantim repayments are made through certain indirect tax credits received. The prepayment of the 2011 instalments of the Senior Loan resulted in no current principal repayments, with the residual current balance reflecting interest accrued at year end. The Caterpillar master leasing agreement of $55 million was drawn down to $40.80 million as at December 31, 2010 with U$33.23 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 December 31, 2010 there were no off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the year the Company transacted with related parties of Mr Craig Burton, the 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.

Technical services provided by Mitchell River Group Pty Ltd during the year ended December 31, 2010 were immaterial in value (December 31, 2009: $0.05 million) and reflected database administration services.

The Company charged Verona Capital Pty Ltd the total of $0.06 million (December 31, 2009: $0.02 million) for office rent and shared overheads. The Company was invoiced by Verona Capital Pty Ltd $0.35 million (December 31, 2009: nil) for directors' fees, travel and expense reimbursements. Verona Capital Pty Ltd is a director related entity associated with Mr Craig Burton.

The Company charged $0.01 million (December 31, 2009: nil) 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.

FOURTH QUARTER

Financial Statistics	Three months ended 31 Dec 10	Three months ended 31 Dec 09
Net sales revenue	$54.10 m	-
Cost of sales	($51.07 m)	-
Gross profit	$3.02 m	-
(Loss)/profit for the period	($20.67 m)	($0.56 m)
EBITDA[1]	$10.33 m	($2.79 m)
Basic (loss)/earnings per share	(4.37 cents)	(0.16 cents)
Diluted (loss)/earnings per share	(4.37 cents)	(0.16 cents)
Dividends Paid	-	-

Production Statistics	Measure	Three months ended 31 Dec 10	Three months ended 31 Dec 09[2]
Mining			
Total Material Mined	Tonnes	9,079,000	-
Ore Mined	Tonnes	924,000	-
Nickel Grade	%	0.55	-
Processing			
Total Ore Processed	Tonnes	1,244,000	-
Nickel Grade	%	0.50	-
Copper Grade	%	0.11	-
Cobalt Grade	%	0.02	-
Nickel Recovery	%	60	-
Copper Recovery	%	74	-
Cobalt Recovery	%	31	-
Production			
Nickel in Concentrate Produced	DMT	3,676	-
Copper in Concentrate Produced	DMT	980	-
Cobalt in Concentrate Produced	DMT	62	-
Sales			
Nickel in Concentrate Sold	DMT	3,104	-
Copper in Concentrate Sold	DMT	832	-
Cobalt in Concentrate Sold	DMT	53	-

Unit Cash Costs	Measure	Three months ended 31 Dec 10	Three months ended 31 Dec 09(2)
Payable Nickel Production(3)	lbs	7,211,968	-
Mining Cost	USD/lb	2.65	-
Processing Costs	USD/lb	2.27	-
Administration Cost	USD/lb	1.02	-
Transport/Shipping Cost	USD/lb	0.06	-
By-Product Credit(4)	USD/lb	(1.05)	-
Operating Unit Cash Cost	USD/lb	4.95	-
Smelter Charges	USD/lb	1.32	-
Unit Cash Cost(5)	**USD/lb**	**6.27**	**-**
Realised Nickel Price(6)	USD/lb	8.47	-
Realised Copper Price(6)	USD/lb	3.72	-

(1) EBITDA is defined as gross profit less general & administration expenses, but before depreciation, amortisation and depletion. See "Non-GAAP Measures".
(2) The Company was not in commercial production prior to 2010
(3) Average Payability of 89%
(4) Including prior period QP adjustments, excludes hedging & call options
(5) Excludes royalty (5.5%)
(6) Including prior period QP adjustments, realised hedging, but excluding realised call options.
Including realised call options, the realised nickel and copper prices were US$8.03/lb and US$0.97/lb respectively.
(7) Average exchange rate for the period ended December 31, 2010: USD/Real 1.70

OPERATIONAL REVIEW

Ramp up of the Santa Rita Operation continued during the fourth quarter with a strong production result achieved for the quarter.

SAFETY

Since commencing operations, the strong safety performance has continued with one lost time injury for the fourth quarter.

The Lost Time Injury Frequency Rate for the year was 1.1, an outstanding result for the first year of operations and well ahead of the Brazilian mining average. The implementation of safety training and safety improvement programmes is continuing.

MINING

The improvement in the mining operations seen during the third quarter 2010 carried through to the fourth quarter with record material movement achieved during the quarter of 9.1 million tonnes.

During the fourth quarter a total of 924,000 tonnes of ore was mined at an average nickel grade of 0.55%. The South Pit production increased during the quarter with the mining of good quality ore with minimal fines. The mining team continued their focus on waste removal to open up the strike length of the open pit, which will provide more mining flexibility and is critical for the ongoing ramp-up to the targeted full mining production capacity.

The planned expansion to the mining fleet was completed during the quarter with six hired CAT 777 trucks, three purchased CAT 785 trucks, a purchased Atlas Copco DML drill rig, two hired Bucyrus 37HR drill rigs and two hired CAT D9 Dozers added to the fleet, whilst the order was placed for four Komatsu Dozers and a second CAT 994 front end loader for delivery in the first half of 2011.

PROCESSING

Break through plant performance was achieved during the quarter with above nameplate throughput and a step change in recovery performance.

During the quarter a total of 1.2 million tonnes of ore was milled at an average recovery of 60% for the quarter, with plant throughput improving to 108%. The blending of low grade ore into the mill feed continued. Despite the low grade feed, the plant achieved average recoveries of 62% for December.

The improved recovery performance is a direct result of operational and technical improvements in reagents, grinding and the flotation regime. Material which previously recovered poorly is now achieving acceptable levels of recoveries. A pilot plant test program has been completed to determine the preferred process flow changes to provide further improvements to nickel recovery. The results have confirmed the opportunity to achieve higher recovery through mechanical separation of the fines and Mirabela is planning to install a de-sliming circuit by the end of 2011.

During the quarter a total of 3,676 tonnes of contained nickel in concentrate, 980 tonnes of contained copper in concentrate, and 62 tonnes of contained cobalt in concentrate were produced. All production continued to be within contract specifications and 3,104 tonnes of nickel in concentrate was sold to Mirabela's domestic customer, Votorantim Metais Niquel S.A. and export operations to Norilsk Nickel commenced in January 2011.

EXPLORATION

No exploration activity was conducted during the quarter.

UNIT CASH COSTS

The unit cash cost of production decreased for the fourth successive quarter to US$6.27 per pound of nickel. Unit cash costs are expected to continue to fall as production levels increase. Mining, processing and administration unit costs are expected to fall with increased production levels whilst transport unit costs are expected to rise with the commencement of shipping to Norilsk Nickel.

FINANCIAL REVIEW

NET SALES REVENUE

Sales generated during the quarter comprised 3,104t of nickel in concentrate at an average nickel price of US$8.47/lb including realised hedge adjustments. This resulted in gross nickel revenue of $54.03 million after upward sales adjustments, copper revenue of $5.11 million, cobalt revenue of $0.97 million, platinum revenue of $1.14 million, gold revenue of $0.18 million and other revenue of $0.19 million.

COST OF SALES

Cost of sales for the quarter of $51.07 million comprise direct costs of $35.93 million, royalties of $4.00 million and indirect costs of $11.14 million. Direct costs were driven by expenditure on mining ($20.47 million), processing & plant ($16.41 million), and administration ($7.53 million), offset by stockpile movements ($8.48 million) associated with the timing of production and sales.

Royalties of $4.00 million reflect the leasing of mining rights to nickel sulphide ore, federal royalties and landowner royalties in connection with surface rights.

Depreciation and amortization of $11.14 million reflects the Company's use of its assets based on a combination of units of production calculation and the useful life of equipment.

(LOSS)/PROFIT FOR THE PERIOD

Despite the Santa Rita Operation achieving a gross profit for the three month period ended December 31, 2010 ($3.02 million), the Company incurred a net loss of $20.67 million. The gross profit was offset by expenses of $23.69 million, mainly driven by financing costs and unfavourable movements on financial derivatives. The comparative period loss was mainly attributable to derivative losses on call options and financing expenses.

Losses on financial derivatives for the three months ended December 31, 2010 were $6.27 million, mainly comprising an unfavourable movement on nickel and copper call options ($7.53 million) offset by a favourable movement on interest rate swaps ($3.87 million). The comparative period loss of $7.39 million was driven by a loss on nickel and copper call options ($8.20 million).

Financing costs for the three months ended December 31, 2010 of $5.63 million mainly comprise interest expense ($5.29 million) relating to long term loans; the proceeds of which were used to fund the construction and commissioning of its Santa Rita Operation. Financing costs for the comparative period ended December 31, 2009 were capitalised as part of the construction costs of the Operation.

The foreign exchange loss of $1.26 million comprises of unrealised gains of $2.17 million, offset by a realised loss of $3.43 million for the three month period ended December 31, 2010. The comparative period ended December 31, 2009 reflected a foreign exchange gain of $13.63 million, primarily related to movements on foreign denominated loan balances.

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 December 31, 2010 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 December 31, 2010 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. December 31, 2010 the Company has recognised a liability of $11.63 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:

- Revenue and expenses for the 12 months year ended December 31, 2010 - rate A$1 = US$0.8826 to US$0.9949 average rate for the period, approximating actual exchange rates for the date of the transactions;
- Revenue and expenses for the 6 months period ended December 31, 2009 - rate A$1 = US$0.7598 to US$0.9107 average rate for the period, 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;
- Balance sheet as at December 31, 2009 – rate A$1 = US$0.8969, being the exchange rate of December 31, 2009;
- Balance sheet as at July 1, 2009 – rate A$1 = US$0.8114, being the exchange rate of July 1, 2009; 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$0.7598 to US$0.9107, with translation differences recorded in translation reserve.

FINANCIAL INSTRUMENTS

Commodity Instruments	2010	2011	2012	2013	2014	2015	Total Remaining 31 Dec 10
Nickel Hedges							
Tonnes	3,803	6,198	4,899	3,683	819	-	15,599
$/lb	7.85	7.90	7.89	7.66	7.55	-	7.82
Copper Hedges							
Tonnes	-	162	2,232	2,904	2,922	732	8,952
$/lb	-	3.02	2.87	2.74	2.62	2.57	2.72
Nickel Call Options							
Tonnes	600	1,200	600	-	-	-	1,800
$/lb	6.50	6.50	6.50	-	-	-	6.50
Copper Call Options							
Tonnes	1,800	3,600	900	-	-	-	4,500
$/lb	1.80	1.80	1.80	-	-	-	1.80

The Company is exposed to fluctuations in metal prices (principally nickel and copper), fluctuations in foreign currency and interest rates, in each case, 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 and foreign exchange hedges that underwrite the full value of expected operating costs during the debt service period of its various borrowings. In respect of interest rates risk, the Company has entered into a $100 million USD interest rate swap.

Nickel and copper hedging in support of the Senior Loan was completed in September 30, 2008. The metals hedging position as at December 31, 2010 comprises 15,599t of nickel forward sold at an average price of US$7.82/lb in the period from January 2011 to March 2014, and 8,952t of copper forward sold at an average price of US$2.73/lb in the period from April 2011 to March 2015. The negative mark-to-market value of these hedges was $129.92 million as at December 31, 2010 (compared to $34.36 million negative mark-to-market value of hedges as at December 31, 2009).

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.

On March 20, 2009, the Group sold nickel and copper call options for premium income of US$6.74 million. The 2,400 tonne nickel call option has a strike price of US$14,330.05/tonne (US$6.50/lb) for metal deliveries of 100 tonnes per month over the 24 month period 1 July 2010 to 30 June 2012. The 6,300 tonne copper call option has a strike price of US$3,968.32/tonne (US$1.80/lb) for metal deliveries of 300 tonnes per month over the 21 month period 1 July 2010 to 31 March 2012. As at December 31, 2010 the fair value of the call option liability was US$45.74 million resulting in a loss from changes in the fair value including foreign exchange movements for the year of US$10.92 million. As at December 31, 2009 the fair value of the liability was US$34.81 million.

The production costs for the Santa Rita Operation will be largely denominated in Brazilian Real (BRL). As metal prices are fixed under the nickel and copper hedging arrangements referred to above, the

Company has undertaken currency hedging against sales to mitigate the impact of currency volatility of operating costs (by protecting against an adverse strengthening of the BRL against the USD) over the repayment period of the USD denominated Senior Loan.

As at December 31, 2010 Mirabela has forward exchange contracts to sell US$98.53 million/buy BRL at an average BRL/USD exchange rate of 2.20 over the period between January 2011 and July 2013. These agreements had a positive mark-to market value of $22.66 million as at December 31, 2010 ($16.02 million positive mark-to-market value as at December 31, 2009).

All of the Company's forward exchange contracts are either non-deliverable forwards ("NDF") where, at contract maturity, the difference between the contract's value at the strike price and the prevailing USD/BRL exchange rate is settled in cash in favour of the 'in the money' party. The Company's risks are that it may have insufficient funds to settle the net difference of the NDF in the event that an 'out of the money' contract matures, or that the counterparty fails to deliver on the contract.

The Company has a $100 million facility interest rate swap whereby the Company pays the fixed rate of 3.24% and receives USD 3-month LIBOR rate. The facility commenced on March 31, 2010 and the value of the facility will decrease proportionately with planned repayments of the Senior Loan, to be completely amortised by September 30, 2015. As at December 31, 2010 the interest rate swap had a negative mark-to-market value of $4.39 million (compared to $2.18 million negative mark-to-market as at December 31, 2009), which was recognised as a financial expense in the Company's income statement.

The Company monitors the mark-to-market value of existing metals and foreign exchange contracts, and has the capacity to make trades to limit the extent of a potential future 'out of the money' loss, thereby managing the potential settlement risk.

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 sedar.com and on the Company's website at 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 December 31, 2010 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 year end December 31, 2010 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.

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 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.

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.

THE COMPANY'S FINANCIAL CONDITION

As at December 31, 2010 the Company has a net working capital surplus of $54.16 million, which includes $47.13 million of net commodity derivative liabilities that will be settled by physical delivery of the underlying commodity. For the full year ended December 31, 2010 the Company incurred a loss of $47.62 million. At December 31, 2010 the Company held net assets of $619.34 million. Cash flows from operations and investing activities for 2010 was negative $107.55 million.

There can be no assurance that the Company will not continue to incur losses. Numerous factors, including declining metal prices, 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.

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 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. Mirabela has also hedged a proportion of the foreign exchange exposure in relation to future operating costs of the Santa Rita mine, and may also hedge the costs of inputs to the Santa Rita mine. However, if the prices of these inputs fall below the levels specified in any current or future hedging agreements, Mirabela could lose the cost of ceilings or a fixed price could limit it from receiving the full benefit of positive currency movements or commodity price decreases.

FAILURE TO COMPLY WITH RESTRICTIONS AND COVENANTS IN THE SENIOR LOAN AGREEMENT

In March and April 2009, the Company entered into a credit agreement (the "**Senior Loan Agreement**") with Barclays Bank plc, Credit Suisse International, WestLB AG, Caterpillar Financial Services Corporation and Bayerische Hypo-und Vereinsbank AG (collectively, the "**Lenders**") for the Senior Loan for the principal purpose of funding completion of the construction and commissioning of the Santa Rita Operation.

The Senior Loan Agreement contains covenants and imposes restrictions on the Company's ability to complete certain transactions. For example, the Senior Loan Agreement requires that the Company maintain certain financial ratios, complete the Santa Rita Operation by March 31, 2012, in accordance with the agreed upon mine plan, enter into a port agreement for shipping product, maintain offtake agreements in respect of at least 70% of targeted production and maintain a tangible net worth of at least $200 million. The Senior Loan Agreement also prohibits the Company from paying any dividends or making any other distributions to its shareholders, incurring additional indebtedness or entering into any hedging arrangements other than those expressly permitted thereby. While the Company is currently in compliance with all such covenants and restrictions, a breach by the Company of any covenant or restriction in the Senior Loan Agreement will constitute an event of default under the Senior Loan Agreement, entitling the Lenders to accelerate the payment of amounts due there under. The Senior Loan is secured by all of the Company's assets. An obligation to repay the amount owing under the Senior Loan Agreement before its stated maturity could have an adverse effect on the Company and its financial position.

CHANGES IN THE TERMS OF THE SENIOR LOAN

The terms of the Senior Loan may be revised to achieve "successful syndication". More particularly, to achieve "successful syndication", the Lenders are entitled to change: (i) the pricing of the Senior Loan (including increasing the interest rate margin or the arrangement fee); and (ii) the structural terms of the Senior Loan, in each case, as required to achieve "successful syndication". "Successful syndication" means the reduction in the commitments of each Lender by at least 25% of its initial commitment. The Lenders are obligated to consult with the Company in the exercise of their rights as described above, however any such changes to the Senior Loan are not subject to the Company's approval. There can be no assurance that the Lenders will not exercise any of their rights, as set out above and that such exercise will not have a material adverse effect on the Company and its financial condition.

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. 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.