



Aura Minerals Inc.

**AURA MINERALS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011**

**Dated as of August 10, 2011**

## Table of Contents

1.	BACKGROUND AND CORE BUSINESS .....	3
2.	SECOND QUARTER 2011 FINANCIAL AND OPERATING HIGHLIGHTS .....	4
3.	CORPORATE DEVELOPMENTS & SIGNIFICANT TRANSACTIONS AFFECTING RESULTS OF OPERATIONS .....	6
4.	REVIEW OF MINING OPERATIONS AND DEVELOPMENT AND EXPLORATION PROJECTS.....	7
5.	OUTLOOK .....	17
6.	RESULTS OF OPERATIONS.....	20
7.	SUMMARY OF QUARTERLY RESULTS .....	27
8.	LIQUIDITY AND CAPITAL RESOURCES.....	28
9.	CONTRACTUAL OBLIGATIONS .....	30
10.	OFF-BALANCE SHEET ARRANGEMENTS.....	31
11.	TRANSACTIONS WITH RELATED PARTIES .....	31
12.	PROPOSED TRANSACTIONS .....	32
13.	INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS).....	32
14.	CRITICAL ACCOUNTING ESTIMATES .....	33
15.	FINANCIAL INSTRUMENTS AND DERIVATIVES.....	35
16.	CORPORATE GOVERNANCE .....	37
17.	DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING.....	37
18.	NON-GAAP PERFORMANCE MEASURES .....	38
19.	RISK FACTORS.....	39
20.	DISCLOSURE OF SHARE DATA AS AT AUGUST 10, 2011 .....	40
21.	CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION .....	41
22.	ADDITIONAL INFORMATION .....	42

*This management's discussion and analysis ("MD&A") should be read in conjunction with Aura Minerals Inc.'s (the "Company" or "Aura Minerals") unaudited interim consolidated financial statements for the three and six months ended June 30, 2011 and related notes thereto (the "Financial Statements") which have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS"). In addition, this MD&A should be read in conjunction with the 2010 audited annual consolidated financial statements, the related management discussion and analysis and the 2010 Annual Information Form ("AIF") dated March 30, 2011 as well as other information relating to Aura Minerals as filed on SEDAR at [www.sedar.com](http://www.sedar.com). Unless otherwise noted, references herein to "\$" are to the United States dollar. References to "C\$" are to the Canadian dollar.*

*This MD&A has been prepared as at August 10, 2011 and provides information that management believes is relevant to assessing and understanding the financial condition of the Company and the results of operations and cash flows for the three and six months ended June 30, 2011.*

*The Audit Committee of the Board of Directors of the Company (the "Board"), consisting of three independent directors, has reviewed this MD&A pursuant to its charter and the Board has approved the disclosure contained herein. A copy of this MD&A will be provided to anyone who requests it.*

---

## **1. BACKGROUND AND CORE BUSINESS**

Aura Minerals is a Canadian mid-tier gold-copper production company focused on the exploration, development and operation of gold and base metal projects in the Americas. The Company's operating assets include the San Andres gold mine in Honduras (the "San Andres Mine"), the Sao Francisco gold mine (the "Sao Francisco Mine") and Sao Vicente gold mine (the "Sao Vicente Mine") in Mato Grosso state, Brazil (collectively, the "Brazilian Mines"), and the Aranzazu copper-gold-silver mine (the "Aranzazu Mine") in Zacatecas, Mexico, which commenced commercial production on February 1, 2011. The Company's development asset is the feasibility-stage Serrote de Laje deposit (the "Serrote Deposit") at its wholly-owned copper-gold-iron ore Arapiraca project in the State of Alagoas, Brazil (the "Arapiraca Project"). The Company also has non-core exploration land holdings in Brazil, including iron ore and nickel targets in the Carajas region, State of Para.

Aura Minerals has the objective and vision to build an intermediate gold-copper production company through responsible, sustainable growth. This will be achieved through:

- operating to the highest environmental and safety standards and in a socially responsible manner;
- maximizing returns on the Company's projects through cost management and operational efficiencies;
- advancing projects through development and partnerships; and
- acquiring and developing quality reserves.

The Company is listed on the Toronto Stock Exchange under the symbol ORA.

## 2. SECOND QUARTER 2011 FINANCIAL AND OPERATING HIGHLIGHTS

- Gold production of 38,104 ounces in the second quarter of 2011, representing an increase of 12% from the prior quarter's production of 34,169 ounces. The increase was primarily due to 79% increase in gold production at the Sao Francisco Mine, offset by lower gold recoveries at the San Andres Mine due to the processing of lower grade and recovery mixed ore and a disruption in cyanide supply due to flooding at the supplier's production plant during May 2011;
- Completed the dedicated waste stripping program at the Sao Francisco Mine which started in early December 2010, and allowed the mine to resume normal operations in April 2011 with a sustainable mine plan in place. Since restarting operations, gold production improved month over month with the second quarter production increasing to 12,877 ounces. The new mine plan, higher ore grades, and higher plant throughput rates continue to positively impact operations, resulting in July 2011 production of over 7,000 ounces;
- Record quarterly sales of \$68.8 million in the second quarter of 2011, an increase of 28% over the prior quarter, and comprising net gold sales of \$58.9 million from 39,361 ounces and \$9.9 million from the shipment of 3,504 dry metric tonnes ("DMT") of copper concentrate;
- Realized average price of gold sold from the Company's gold mines of \$1,512 per ounce for the second quarter compares with the average market price of \$1,506 per ounce (London PM Fix);
- On-site average cash cost<sup>1</sup> of \$1,027 per ounce of gold produced from the Company's gold mines in the second quarter of 2011 compared with \$882 per ounce of gold produced in the prior quarter and comprised of the following:

	For the three months ended June 30, 2011		For the six months ended June 30, 2011	
	Ounces Produced	Cash Costs <sup>1</sup>	Ounces Produced	Cash Costs <sup>1</sup>
San Andres Mine	15,965	\$ 758	34,090	\$ 688
Sao Francisco Mine	12,877	\$ 1,168	20,065	\$ 1,040
Sao Vicente Mine	9,262	\$ 1,292	18,118	\$ 1,376
<b>Total / Average</b>	<b>38,104</b>	<b>\$ 1,027</b>	<b>72,273</b>	<b>\$ 958</b>

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

- Continued to ramp up production at the Aranzazu Mine toward targeted levels during the quarter. Production at the Aranzazu Mine for the second quarter 2011 was 1,619,100 pounds of copper, an increase of 72% over the prior quarter's production of 942,900 pounds of copper;
- On-site second quarter cash cost<sup>1</sup> of \$3.28 per pound of payable copper, net of gold and silver credits, representing a 33% decrease from the first quarter cash cost<sup>1</sup> of \$4.87 per pound of

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

payable copper. The decrease was a result of the increased production over the previous quarter, but cash costs<sup>1</sup> continue to reflect lower than expected throughput due to maintenance issues including water supply, lower than expected mill and equipment availability, partially due to the shortage of skilled maintenance personnel, and the impact of processing a partially oxidized material which reduces metal recoveries and concentrate grade;

- Gross profit of \$6.2 million for the second quarter of 2011, compared to a gross profit of \$2.3 million in the first quarter of 2011 and \$10.5 million in the second quarter of 2010;
- Profit for the quarter of \$1.2 million or \$0.01 per share compared to a loss of \$13.4 million or \$0.07 per share in the same quarter in 2010;
- Adjusted profit (loss) and adjusted profit (loss) per share are as follows:

<i>(In thousands of dollars except per share amounts)</i>	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
Net profit (loss) per the Financial Statements	\$ 1,246	\$ (13,394)	\$ 5,609	\$ (14,739)
Unrealized foreign exchange (gains) losses	<b>(2,944)</b>	267	<b>(2,965)</b>	270
Other unrealized losses	<b>365</b>	-	<b>1,077</b>	-
Share-based payment expense	<b>1,996</b>	5,624	<b>3,940</b>	7,521
Writedown of inventory to net realizable value	<b>1,914</b>	-	<b>5,035</b>	-
Gain on restructuring of contractual obligations	-	-	<b>(17,009)</b>	-
Non-recurring transaction costs	-	1,414	-	2,711
Adjusted profit (loss) <sup>1</sup>	\$ 2,577	\$ (6,089)	\$ (4,313)	\$ (4,237)
Adjusted basic and diluted profit (loss) per share <sup>1</sup>	\$ 0.01	\$ (0.03)	\$ (0.02)	\$ (0.02)

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

- Awarded the feasibility study on the Serrote Deposit to SNC Lavalin Inc. subsequent to quarter-end. The feasibility study is underway and is scheduled for completion late in the first quarter of 2012;
- Ended the second quarter of 2011 with \$19.5 million in cash and cash equivalents and \$5 million available under the \$25 million revolving credit facility (“Credit Facility”) established in March 2011; and
- Appointed a Board member, Mr. Tom Ogryzlo, to act as Interim Chief Executive Officer (“CEO”), effective June 6, 2011, replacing Mr. Patrick Downey, who stepped down as President and CEO and resigned from the Board as of that date. Mr. Ogryzlo has over 45 years of experience in the mining and engineering industries. Most recently, he served as Senior Vice President of Latin American Operations for Ram Power Corp. and President and CEO of Ram’s subsidiary, Polaris

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

Geothermal Inc., a geothermal power producer. His previous positions include President and CEO of Black Hawk Mining, a gold producer, President of Kilborn Engineering and Kilborn SNC Lavalin and President of Cerro Matoso S.A., a ferro nickel producer. A search firm has been commissioned to identify and hire a permanent replacement for Mr. Downey.

### **3. CORPORATE DEVELOPMENTS & SIGNIFICANT TRANSACTIONS AFFECTING RESULTS OF OPERATIONS**

#### *Restructuring of Contractual Obligations*

On March 18, 2011, the Company completed the restructuring of the contractual obligations owing to Yamana Gold Inc. (“Yamana”) in connection with the acquisition of the San Andres Mine in 2009 and the acquisition of the Brazilian Mines in 2010 (the “Brazilian Mine Acquisition”). The Company’s contractual obligations included a total of \$64,247,000 in promissory notes and a total of \$43,154,000 in deferred purchase consideration. Under the restructuring, the contractual obligations owing to Yamana were considered paid and satisfied in full, and related security was released, in consideration for:

- i) the issuance of 19,056,113 common shares in the capital of the Company, valued at \$64,146,000, based on the Company’s share price as of March 17, 2011;
- ii) the payment of \$5,000,000, which was made on March 31, 2011; and
- iii) the granting of a net smelter return royalty (“NSR Royalty”) equal to 1.5% on the sales from the San Andres Mine, Sao Francisco Mine and Sao Vicente Mine, up to a cumulative royalty amount of \$16,000,000, commencing on March 1, 2013, provided that the cumulative amount will be extinguished by the payment in cash of: \$12,500,000 if paid on or before March 31, 2012; \$13,650,000 if paid after March 31, 2012, but on or before March 31, 2013; \$14,350,000 if paid after March 31, 2013, but on or before March 31, 2014; and, \$15,050,000 if paid after March 31, 2014, but on or before March 31, 2015, and adjusted by any payments made on account of the NSR Royalty. The Company recorded the NSR Royalty at its estimated fair value of \$12,500,000.

As the book values of the promissory notes and deferred purchase consideration payable as of March 18, 2011 of \$98,655,000 exceeded the fair value of the consideration issued of \$81,646,000, the Company recorded a gain on the restructuring in the statement of income of \$17,009,000 during the first quarter.

#### *Credit Facility*

On March 18, 2011, the Company entered into an agreement with Barclays Bank PLC for a \$25,000,000 revolving Credit Facility to be used for working capital purposes at the Aranzazu Mine and general corporate purposes. As of the date of this MD&A, the Company has drawn down \$20 million on the Credit Facility.

The Credit Facility bears interest at LIBOR plus 2.75% and matures on June 30, 2013. The undrawn portion of the Credit Facility is also subject to a 1.0% per annum commitment fee, payable quarterly. As a condition of the Credit Facility, the Company entered into a program to hedge 6,000 tonnes of

copper from the Aranzazu Mine between May 2011 and the maturity date. The instruments utilized by the Company to implement the program were in the form of zero-cost put/call collars.

#### *Transition to International Financial Reporting Standards*

Effective January 1, 2011, the Company is required to report its financial results under IFRS, including comparative results for the year ended December 31, 2010. As a result, financial reporting information included in this MD&A has been re-stated to reflect the changes made on the transition to the new accounting standards. The effect of the transition on the Company's financial results is included in this MD&A under the heading "*International Financial Reporting Standards*". The terms IFRS and GAAP are used interchangeably throughout this MD&A.

#### *Completion of Waste Stripping Program and Operational Upgrades at the Sao Francisco Mine*

As previously reported, mining of significantly lower than average head grades in 2010 and the waste-bound nature of the Sao Francisco Mine resulted in the Company undertaking a dedicated waste stripping program at the mine, commencing at the end of November 2010. Crushing and processing operations were suspended, as the Company focused solely on waste stripping and completion of upgrades to the crushing and gravity circuits at this operation. Total waste material moved as part of the stripping program was approximately 7.8 million tonnes, of which 5.3 million and 0.8 million tonnes were incurred in the first and second quarters of 2011, respectively. Crushing and processing activities resumed in early April 2011 with a sustainable mine plan in place. Additional information regarding the Sao Francisco Mine and the dedicated waste stripping program can be found in "*Review of Operations and Development and Exploration Projects – Sao Francisco Mine*".

## **4. REVIEW OF MINING OPERATIONS AND DEVELOPMENT AND EXPLORATION PROJECTS**

### ***San Andres Mine***

The San Andres Mine, acquired on August 25, 2009, is an open-pit heap leach gold mine located in the highlands of western Honduras, in the municipality of La Union, Department of Copan about 150 kilometres southwest of the city of San Pedro Sula. The mine has been in production since 1983 and has well developed infrastructure.

Gold production at the San Andres Mine in the second quarter was 15,965 ounces of gold, up 1% from the 15,739 ounces produced in the second quarter of 2010 and down 12% from the 18,125 ounces produced in the first quarter of 2011. Lower gold production during the quarter was attributable to the higher proportion of low-recovery mixed ore than planned and cyanide supply constraints. Requirements for frequent cleaning of the crusher, bins, and conveyors due to wet muck, lower ore movement from the mine, and mine contractor downtime continues to impact production.

The table below sets out selected operating information for the San Andres Mine for the three and six months ending June 30, 2011 and 2010:

<b>Operating Information</b>	<b>Q2 2011</b>	<b>Q2 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
Ore mined (tonnes)	<b>1,103,500</b>	1,059,100	<b>2,416,600</b>	2,276,800
Waste mined (tonnes)	<b>530,200</b>	199,700	<b>816,500</b>	232,100
Total mined (tonnes)	<b>1,633,700</b>	1,258,800	<b>3,233,100</b>	2,508,900
Waste-to-ore ratio	<b>0.48</b>	0.19	<b>0.34</b>	0.10
Ore plant feed (tonnes)	<b>1,103,500</b>	1,062,600	<b>2,420,500</b>	2,306,600
Grade (g/tonne)	<b>0.77</b>	0.73	<b>0.78</b>	0.75
Production (ounces)	<b>15,965</b>	15,739	<b>34,090</b>	35,038
Sales (ounces)	<b>18,845</b>	18,474	<b>37,309</b>	36,508
Average cash cost per ounce of gold produced <sup>1</sup>	<b>\$ 758</b>	\$ 638	<b>\$ 688</b>	\$ 558

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

Total waste and ore mined during the quarter ending June 30, 2011 was 1,633,700 tonnes, slightly higher than the total tonnes mined in the first quarter of 2011, but up 30% over the same period in 2010. Ore tonnes mined in the second quarter of 2011 were 1,103,500, a decrease of 16% over the first quarter of 2011 and 4% higher than the 1,059,100 tonnes of ore mined in the second quarter of 2010. As a result, the San Andres Mine had a waste-to-ore ratio of 0.48 to 1 in the second quarter.

Total plant feed during the second quarter of 2011 was 1,103,500 tonnes of ore, a decrease of 16% over the prior quarter and 4% higher than the tonnes processed in the same period in 2010. Ore plant feed had an average grade of 0.77 grams per tonne ("g/tonne") in the second quarter, which is down slightly from the average grade of 0.79 g/tonne in the prior quarter, but an increase from the 0.73 g/tonne reported in the second quarter of 2010. Gold production is dependent upon ore grade, degree of oxidation and process recoveries, all of which can be expected to fluctuate from period to period. Although commonly reported by mining companies, recovery rates are influenced by changes to inventory levels and the fact that portions of one period's production is based on mining and processing activities of the prior period. Further, given the short time covered by any quarter, recoveries may not be truly indicative of recoveries expected over a longer operating period. The recovery rate for the second quarter of 2011 (calculated as the number of ounces produced during the period to the number of contained ounces stacked during the period) was 58% and compares with a 54% recovery in the first quarter of 2011, and 63% in the same quarter last year. As noted above, the main contributor to the lower gold recoveries in 2011 is the processing of more mixed ore, which characteristically has a lower level of oxidation and lower gold recovery.

As previously reported, the planned mining sequence for 2011 will have a higher proportion of mixed ore mined during the first half of the year. During the third quarter of 2011, mining will commence on the next phase of the upper benches of the Twin Hills pit which has a greater proportion of oxide ore.

Ongoing metallurgical test work at site indicates that mixed ores will have a gold recovery rate in the range of 55 – 65%, while oxide ore will have a higher gold recovery rate in the range of 70 – 80%.

Second quarter 2011 recoveries were also impacted by cyanide supply constraints due to the temporary closure of a key supplier's plant in the United States caused by flooding along the Mississippi River. Although the supplier's facilities resumed full operations in late May, the daily cyanide consumption rate was reduced by 80% for a period of approximately six weeks. This has adversely affected recoveries, and therefore gold production, from mid-May through July. Normal cyanide shipments to the San Andres Mine resumed in late June, which allowed the operation to increase the daily cyanide consumption rate back to normal levels. Gold not produced during this period as a result of the low cyanide application will be recovered in the following months.

Operating cash costs<sup>1</sup> include production costs incurred in any given period, in addition to inventory adjustments that recognize the allocation of costs to and from the Company's in-process leach pad gold inventory. The Company allocates costs incurred to the recoverable ounces stacked on the leach pad in that period and charges each ounce of gold produced on an average cost basis. Accordingly, cash operating costs reflect cash spent in a period, as well as adjustments to reflect the increases or decreases in leach pad inventory. Operating cash costs<sup>1</sup> of \$758 per ounce of gold produced in the second quarter of 2011 were approximately 21% higher than the prior quarter and 19% higher than in the second quarter of 2010. Increased cash costs<sup>1</sup> over the same quarter in 2010 are primarily a result of: the higher strip ratio in the second quarter of 2011; a lower recovery rate; and higher operating costs, which were partly due to increases in consumables required to treat mixed ore.

### ***Sao Francisco Mine***

The Sao Francisco Mine is an open-pit heap leach gold mine located in the western portion of the State of Mato Grosso, Brazil, approximately 560 kilometres west of Cuiaba, the state capital. The mine has been in production since 2006 and has well developed infrastructure.

The table below sets out selected operating information for the Sao Francisco Mine for the second quarter and year-to-date 2011 and 2010:

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

<b>Operating Information</b>	<b>Q2 2011</b>	<b>Q2 2010<sup>2</sup></b>	<b>YTD 2011</b>	<b>YTD 2010<sup>2</sup></b>
Ore mined (tonnes)	<b>972,600</b>	833,800	<b>1,038,500</b>	833,800
Waste mined (tonnes)	<b>2,865,100</b>	2,314,300	<b>2,865,100</b>	2,314,300
Capitalized stripping program (tonnes)	<b>792,500</b>	-	<b>6,072,200</b>	-
Total mined (tonnes)	<b>4,630,200</b>	3,148,100	<b>9,975,800</b>	3,148,100
Waste-to-ore ratio	<b>3.76</b>	2.78	<b>8.61</b>	2.78
Ore plant feed (tonnes) <sup>3</sup>	<b>974,500</b>	782,000	<b>1,001,400</b>	782,000
Grade (g/tonne)	<b>0.77</b>	0.46	<b>0.76</b>	0.46
Production (ounces)	<b>12,877</b>	10,931	<b>20,065</b>	10,931
Sales (ounces)	<b>10,630</b>	6,928	<b>19,712</b>	6,928
Average cash cost per ounce of gold produced <sup>1</sup>	<b>\$ 1,168</b>	\$ 1,125	<b>\$ 1,040</b>	\$ 1,125

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

<sup>2</sup> For the period from May 1, 2010 to June 30, 2010, following the acquisition of the Sao Francisco Mine.

<sup>3</sup> For Q2 2010, ore plant feed includes lower grade ore mined and directly stacked on to leach pads.

Total material moved during the quarter of 4.6 million tonnes included 792,500 tonnes to complete the dedicated stripping program which began in early-December 2010. Including the 1.7 million and 5.3 million tonnes of waste stripping in the fourth quarter 2010 and first quarter 2011, respectively, total waste removed during the dedicated stripping program were 7.8 million tonnes at a total cost of approximately \$21.3 million.

The dedicated stripping program allows access to more higher grade ore. As a result, during the second quarter of 2011, ore mined totaled 972,600 tonnes having an average grade of 0.77 g/tonne, which compare to average grades of 0.42 g/tonne for the period from May 1 to December 31, 2010. Of the ore tonnes mined during the period, approximately 88,000 tonnes of low-grade material were stockpiled as at June 30, 2011.

During the dedicated waste stripping period, the Company put considerable effort in preparing the mine for longer-term, sustainable operations, with an improved pit configuration and layout that would enhance production, reduce waste dilution and improve safety. Upon recommencement of normal operations early in the second quarter of 2011, the Company implemented the new mine plan. A key aspect of this new plan is the stockpiling of low-grade ore nearby the primary crusher and crushing and processing it at the end of the mine life. Previously, the low-grade ore was hauled approximately four kilometres directly to the leach pads from the pit by the mine contractor. Based on current contractor rates, current Brazilian real to US dollar exchange rates and fuel costs, this practice was deemed marginal. Along with longer truck cycle times, this resulted in reduced truck availability for ore and waste movement. Crushing and processing the low-grade ore material at the end of the mine life will result in immediate savings in haulage costs and better recoveries on the low-grade material when it is processed.

During the dedicated stripping period, the Company also undertook a number of plant improvements to increase throughput in the crushing and processing plant. As a result, a total of 974,500 tonnes were crushed and processed in the second quarter, representing an average monthly plant throughput of approximately 325,000 tonnes. This compares to the average monthly throughput in 2010 of approximately 165,000 tonnes. The Company believes the current monthly throughput levels will be further improved upon in the second half of 2011.

In order to fully maintain ore supply, the mining contractor at the Sao Francisco Mine has brought in two additional excavators and twelve trucks. This will ensure that the mine has sufficient capacity to move the ore and keep up with waste stripping requirements.

Gold production at the Sao Francisco Mine is dependent upon ore grade, strip ratios, process recoveries, and plant and equipment availability, all of which can be expected to fluctuate from period to period. The process recovery rate for the second quarter of 2011 was 54%, which compares to 79% in 2010. Calculated recovery rates are heavily influenced by changes to inventory levels, and the lower recovery rate in the second quarter of 2011 is due to the build-up of heap leach inventory upon the restart of operations in April. Once the leach pad inventories have normalized, the calculated recoveries are expected to increase to 2010 levels. Gold production in the second quarter of 2011 was 12,877 ounces, a 79% increase over the prior quarter's production of 7,188 ounces. Gold production in the first quarter of 2011 was derived from ore stacked in 2010, as only nominal ounces stacked during the dedicated waste stripping campaign. Gold production rose in each month within the second quarter and production for July 2011 has risen further to over 7,000 ounces.

Average operating cash costs<sup>1</sup> of gold produced during the quarter were \$1,168 per ounce, which is comparable to the \$1,125 per ounce recorded in the second quarter of 2010, despite inflation and cost escalation in the year, and an 11% strengthening of the Brazilian real from second quarter 2010 to second quarter 2011, as compared to the United States dollar. As the majority of operating costs at the Brazilian Mines are incurred in the local Brazilian reais, the Company estimates that this would result in a corresponding increase in per ounce cash costs<sup>1</sup> of 11%. During the current quarter, the Brazilian real strengthened by a further 4.6% compared to the United States dollar.

The operational changes made at the Sao Francisco Mine, as well as the mining of higher grade ore in the mine are expected to result in lower cash costs<sup>1</sup>. With the return to steady state leach pad operations, full year 2011 cash costs<sup>1</sup> are expected to average between \$1,100 - \$1,200/ounce, with fourth quarter cash costs<sup>1</sup> expected of between \$1,000 - \$1,100 per ounce. These levels of cash costs<sup>1</sup> will provide an improved cash operating margin over prior years' results. Head grades for the crusher-gravity ore in the second quarter increased by approximately 80% over the average head grades processed in 2010.

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

### **Sao Vicente Mine**

The Sao Vicente Mine is an open-pit heap leach gold mine, located approximately 50 kilometres to the north of the Sao Francisco Mine in the western portion of the State of Mato Grosso, Brazil. The mine has been in production since September 2009 and has well developed infrastructure.

The table below sets out selected operating information for the Sao Vicente Mine for the second quarter and year-to-date 2011 and 2010:

<b>Operating Information</b>	<b>Q2 2011</b>	<b>Q2 2010<sup>2</sup></b>	<b>YTD 2011</b>	<b>YTD 2010<sup>2</sup></b>
Ore mined (tonnes)	<b>881,800</b>	562,900	<b>1,683,500</b>	562,900
Waste mined (tonnes)	<b>1,576,100</b>	1,070,000	<b>3,162,000</b>	1,070,000
Total mined (tonnes)	<b>2,457,900</b>	1,632,900	<b>4,845,500</b>	1,632,900
Waste-to-ore ratio	<b>1.79</b>	1.90	<b>1.88</b>	1.90
Ore plant feed (tonnes)	<b>846,900</b>	581,000	<b>1,631,600</b>	581,000
Grade (g/tonne)	<b>0.54</b>	0.49	<b>0.51</b>	0.49
Production (ounces)	<b>9,262</b>	8,634	<b>18,118</b>	8,634
Sales (ounces)	<b>9,886</b>	6,622	<b>19,852</b>	6,622
Average cash cost per ounce of gold produced <sup>1</sup>	<b>\$ 1,292</b>	\$ 893	<b>\$ 1,376</b>	\$ 893

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

<sup>2</sup> For the period from May 1, 2010 to June 30, 2010, following the acquisition of the Sao Vicente Mine.

In the second quarter of 2011, the Company mined 881,800 tonnes of ore and 1,576,100 tonnes of waste. Ore tonnes mined and processed increased relative to the prior two quarters as a result of the rainy season in Brazil coming to an end. The rainy season impacted mining operations in the fourth quarter of 2010 and first quarter of 2011, reducing crushing and gravity plant throughput due to the need to clean plugged transfer chutes. Total material moved in the second quarter of 2011 of 2,457,900 tonnes is at the same monthly rate of material movement as in the two-month period from May 1 to June 30, 2010, in which total material moved was 1,632,900 tonnes.

The average head grade of the ore processed was 0.54 g/tonne, up 15% from the first quarter of 2011 and up 10% over the grades recorded in the two-month period ended June 30, 2010. Higher grade ore located in the bottom of the pit was generally inaccessible in the first quarter due to dewatering issues associated with the excessive rainfall, but is now available for mining.

Total ore crushed and/or stacked in the second quarter of 2011 of 846,900 tonnes is at the same monthly rate as in the two-month period from May 1 to June 30, 2010, in which total ore crushed and/or stacked was 581,000 tonnes. However, total ore crushed and/or stacked in the current quarter is 8% higher than the first quarter of 2011, in which the crushing and gravity plant throughput was affected by the rainy season.

The process recovery rate for the second quarter of 2011 was 63%, which compares to 75% in the prior quarter and 94% in the second quarter of 2010. The fluctuations in recovery rates from quarter to quarter are influenced by changes to inventory levels, variations in mining and processing activities between periods and leach cycle times and final gold recoveries are only determined when leach pad areas are reclaimed and production reconciled. The extension of the rainy season into March also diluted leach solutions and reduced the available free cyanide needed for leaching. To remedy this, cyanide concentration was increased in the second quarter of 2011. As a result, the Sao Vicente Mine produced 9,262 gold ounces in the second quarter of 2011, approximately 5% over the prior quarter's production.

The average cash cost<sup>1</sup> per ounce produced in the second quarter of 2011 was \$1,292 as compared to a cash cost<sup>1</sup> of \$1,464 per ounce in the first quarter of 2011 and \$893 per ounce in the two-month period ended June 30, 2010. The 12% decrease over the prior quarter's cash costs<sup>1</sup> primarily reflects the higher grades, lower strip ratio and the 5% higher gold ounces produced, as well as the benefits of several operational improvements made since acquisition, offset by a further 4.6% strengthening of the Brazilian real during the second quarter relative to the United States dollar. The 45% increase over cash cost<sup>1</sup> per ounce recorded in the two-month period ended June 30, 2010 is a result of the strengthening of the Brazilian real over the year, in-country inflation and general cost escalation, as well as lower recoveries during the current quarter in 2011. As a result of the high production costs during the quarter, the Company recorded a write-down of \$1,423,000 for the three months ended June 30, 2011 to bring product, leach pad, and metal in circuit and gold in process inventories to their net realizable values.

As with the Sao Francisco Mine, the Company's focus for the Sao Vicente Mine has been operational improvements to increase productivity, improve overall gold recovery and lower cash operating costs. The Company is also conducting a definition and expansion drilling program to improve the mine planning and grade control and to increase the resource base. Based on this new drilling, a new block model is being prepared, and will be available for evaluation purposes in the third quarter of 2011. Additionally, in the third quarter of 2011, the Company intends to critically examine the long-term mining and financial operations of the Sao Vicente Mine to best optimize the financial return.

### ***Aranzazu Mine***

The Aranzazu Mine is located near the town of Concepcion del Oro in the state of Zacatecas, Mexico and consists of both open-pit and underground mine operations and an upgraded 2,600 tonnes per day ("tpd") mill, which produces a copper-gold-silver concentrate using flotation. In addition to these assets, the Company also controls approximately 11,380 hectares of exploration concessions centred on the Arroyos Azules underground mine and the historical, past-producing El Cobre area.

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

The Company declared commercial production for the Aranzazu Mine effective February 1, 2011, upon the mine and mill having substantially passed mechanical completion and commissioning. Under the previous accounting and industry standards, commercial production was generally defined as having achieved a specified level of targeted production for a sustained period of approximately three months. The decision to cease capitalizing costs and declare commercial production on February 1, 2011 was in accordance with IAS-16 (International Accounting Standard) which allows capitalization of costs to take place only in respect of the period in which the activities necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are being undertaken. Thus, capitalization of costs ceases when substantially all the activities necessary to get the asset ready for use are complete, even if the asset has not been brought into use. Ready for use is considered when physical construction of the asset is complete. Most companies have generally interpreted this as when commissioning of the plant is substantially completed.

The table below sets out selected operating information for the Aranzazu Mine for the first and second quarters and year-to-date 2011:

<b>Operating Information</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>YTD 2011</b>
Ore mined (tonnes)	105,600	<b>159,200</b>	<b>264,800</b>
Ore milled (tonnes)	126,100	<b>175,100</b>	<b>301,200</b>
Copper grade (%)	0.74%	<b>0.92%</b>	<b>0.84%</b>
Gold grade (g/tonne)	0.30	<b>0.56</b>	<b>0.45</b>
Silver grade (g/tonne)	15.78	<b>14.12</b>	<b>14.81</b>
Copper recovery <sup>1</sup>	46.2%	<b>54.0%</b>	<b>50.7%</b>
Gold recovery	50.7%	<b>57.0%</b>	<b>54.4%</b>
Silver recovery	49.1%	<b>44.5%</b>	<b>46.4%</b>
Concentrate Production:			
Copper concentrate produced (dry metric tonnes ("DMT")):	1,728	<b>2,830</b>	<b>4,558</b>
Copper contained in concentrate (%)	24.8%	<b>26.0%</b>	<b>25.5%</b>
Gold contained in concentrate (g/DMT)	12.4	<b>18.9</b>	<b>16.4</b>
Silver contained in concentrate (g/DMT)	538.8	<b>337.02</b>	<b>413.5</b>
Copper contained in concentrate (pounds)	942,900	<b>1,619,100</b>	<b>2,562,000</b>
Estimated payable copper produced (pounds)	892,700	<b>1,536,500</b>	<b>2,429,200</b>
Estimated payable gold produced (ounces)	601	<b>1,574</b>	<b>2,176</b>
Estimated payable silver produced (ounces)	27,023	<b>25,984</b>	<b>53,007</b>
Average cash cost per payable pound of copper produced, net of gold & silver credits <sup>2,3</sup>	\$4.87	<b>\$3.28</b>	<b>\$3.75</b>

<sup>1</sup> Recoveries based on mixture of sulphide and oxide ores, not primary sulphide ore.

<sup>2</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

<sup>3</sup> For post commissioning period, starting February 1, 2011.

For the three months ended June 30, 2011, a total of 159,200 tonnes of underground and open pit ore were mined, an increase of 51% over the first quarter. This mine production was supplemented by additional tonnage from the historic, high-grade gold ore material in the "Jaime" stockpile, to make up

the 175,100 tonnes processed through the mill during the second quarter. As a result, mill throughput increased 39% over the first quarter. However, mill throughput continued to be impacted by lower than expected mill and equipment availability due to the shortage of skilled maintenance personnel. Certain of these problems had been overcome and ore throughput rates had risen steadily in the second quarter and reached 2,200 – 2,400 tonnes per day by mid-May. The Company has taken measures to correct these maintenance issues by stocking more critical spare parts, bringing in a more experienced maintenance manager and increasing training. As well, the difficulty of processing fine wet ore through the vibrating feeders has caused reduced throughput rates. Alternate feeder arrangements are being investigated. A well experienced mine manager has also been contracted to improve mine production.

The processing of a higher than planned proportion of oxidized material during the second quarter also had a negative impact on metal recoveries and concentrate grade. The mine plan for 2011 includes a combination of both open pit and underground mining and the Company expects to continue mining mixed oxide / sulphide ore in 2011, albeit with oxide components steadily reducing over the last half of the year. Since the end of May, the Company has been mining a higher proportion of sulphide ore which has resulted in improved copper recovery. Subsequent to quarter-end, the Aranzazu Mine was impacted by a water shortage due to the caving of a portion of the main supply well which caused a water pump to be wedged in the well approximately 175 metres below surface. As a result, the operation averaged one-third milling capacity for approximately 16 days during July. The pump was finally extracted and the well has since been cased with a 12 inch diameter steel pipe. The well is now secure and fully operational. The Aranzazu Mine plans to permit and drill a back-up well in the near future to avoid the recurrence of this event.

The average head grades of the ore processed during the quarter ended June 30, 2011 were 0.92% copper, 0.56 g/tonne gold and 14.12 g/tonne silver. This represents an increase of 24% and 86% in copper and gold grades, respectively, and an 11% decrease in silver grade. Similarly, second quarter recoveries increased to 54.0% and 57.0% for copper and gold, respectively, from 46.2% and 50.7%, but silver recoveries decreased from 49.1% to 44.5%. As a result, the Aranzazu Mine produced 2,830 DMT of copper concentrate in the second quarter, containing 1,619,100 pounds of copper (1,536,500 pounds of payable copper). Concentrate tonnes produced increased by 64% over the first quarter and metal content increased by 72% over the first quarter, which is a result of a 26.0% copper concentrate grade in the second quarter as compared to 24.8% in the prior quarter. As previously indicated, upon final commissioning of the re-grind milling circuit and cleaner flotation circuits later in the third quarter, together with the steady state processing of primary sulphide ore, concentrate grades are expected to increase to between 28% and 30%.

The lower production levels during the restart of operations had an adverse impact on cash costs<sup>1</sup> per pound of copper, which averaged \$4.87 per payable pound of copper in the post-commissioning period from February 1 to March 31, 2011. The increases in mine production, mill throughput, copper and gold grades, mill recoveries, and concentrate production and grades, resulted in second quarter cash costs<sup>1</sup>

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

decreasing to \$3.28 per payable pound of copper. This represents a 33% decrease from the first quarter and as the Aranzazu Mine moves toward achieving mill design throughput levels the Company expects cash cost<sup>1</sup> per payable pound to continue to decrease.

Underground mining is also being ramped up with the mining of ore from the Mexicana zone. Underground operations were much slower than expected due to the delay in delivery of mine equipment and the difficulty in hiring suitably qualified mine operations personnel, but considerable improvements were made towards the end of the second quarter. The majority of the fleet has now been delivered and the Company has hired a mining contractor to assist in mine development, as well as the training of the Company's mine personnel. The next stages of underground mine development will continue to be in the Mexicana Zone as well as the high grade BW zone and the AA Sub Level Cave. Ore will be sourced from both open pit and underground during the remainder of 2011 and into 2012, transitioning into full underground operations thereafter.

The Company also believes there is strong potential at depth to increase the resources and subsequently, significantly increase the size of the overall operation. In this regard, a 50,000 metre surface and underground drill program was initiated in 2010 to test the down-dip and along strike potential of the mineralized system beyond the existing resource boundaries as part of an overall plan to investigate the possibility to develop a high tonnage bulk mining operation at the Aranzazu Mine. To date, the Company has released results from 29 deep drill holes located in the "Glory Hole/Tiro Azules" zone. The results demonstrate the resource in this area is still open at depth with grades and widths consistent with the main resource.

Based on the encouraging results both at depth and along strike, the Company will initiate a study to look at alternatives to significantly expand the mine and processing rate of ore. Together with the extensive surface and underground drill program mentioned above, this work will include all necessary geotechnical and engineering studies. Based on the continuity of mineralized intersections and favourable ground conditions, the Company believes that the deposit is suited to a low cost bulk mining scenario such as sub-level caving and long-hole stoping.

Since taking over the Aranzazu Mine in June 2008, the Company has completed 183,166 metres of drilling. Aura Minerals expects to complete another updated resource estimate in the fourth quarter of 2011.

### ***Arapiraca Project***

The Arapiraca Project is located in the central-southern part of the State of Alagoas, Brazil, approximately 15 kilometres northwest of the city of Arapiraca and currently consists of 53 exploration licences totalling 86,400 hectares and one application for a mining concession of 392 hectares.

Aura Minerals announced July 12, 2011 that SNC-Lavalin Inc. and its Brazilian subsidiary, SNC-Lavalin Minerconsult Engenharia Ltda., have been awarded the definitive feasibility study on the advanced-

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

stage Serrote Deposit at its Arapiraca Project. The feasibility study is underway and is scheduled for completion late in the first quarter of 2012. The total cost of the feasibility study is expected to be approximately \$5.6 million and excludes drilling and other fieldwork which was previously completed.

The feasibility study will focus on developing the Serrote Deposit as an open pit mine that will supply sulphide ore to a concentrator at a rate of 12 million tonnes per year, producing copper in concentrate with gold credits, as well as an iron in magnetite concentrate. With all critical permits in place, and with excellent infrastructure nearby the project, the Company expects to commence negotiations for project financing and development during 2012, with a construction decision to follow later that year.

### ***Non-Core Exploration Properties***

The Company's non-core exploration land holdings consist of the Cumaru project, the Inaja Greenstone Belt (the "Inaja Project") and the North Carajas Belt claims, located in the State of Para, Brazil (collectively, the "Para Properties"). In light of their early exploration stage, the Company has placed little focus on the Para Properties and incurs minimal holding costs thereon. The Company is considering options on these properties, such as joint venture agreements or outright sales thereof. In 2009, the Company granted an option to Vale S.A. to earn up to a 70% interest in the Inaja Project (the "Inaja Option").

In connection with the Inaja Option, Vale S.A. has conducted extensive exploration work across the entire area (about 100,000 hectares) of the Inaja Project, including an airborne magnetic survey, detailed geological mapping of iron formations and ultramafic rocks, sampling of stream sediments, and a detailed ground magnetic-radiometric survey. Drilling of prospective targets is ongoing.

## **5. OUTLOOK**

In the first half of 2011, gold prices continued with their upward trend rising from just above \$1,400 per ounce at the start of the year to slightly over \$1,500 per ounce by the end of the second quarter. Gold prices remain well-supported in light of continued concerns over the European Union debt crisis, lack of confidence in the US economic recovery and the downgrading of US debt by Standard & Poor's, and the persistent worries of a worldwide economic slowdown. As a result of these and other factors, strong safe-haven investment demand in gold drove gold prices to record highs subsequent to quarter-end, surpassing the \$1,700 per ounce mark in early August. The Company expects gold prices to be well-supported in the short-to-medium term, causing gold prices to remain well above historical price levels.

The price of copper trended lower in the first and second quarters of 2011, falling 5% from the price level at December 31, 2010 to \$4.22 per pound by June 30, 2011. Since the end of the second quarter, the copper price has been volatile, trading in the \$3.93 - \$4.45 per pound range as of the date of this MD&A. The main contributor to this volatility since the end of June is concerns over the slowing world economy against the backdrop of demand for copper from the emerging markets, particularly China.

The price of commodities, namely gold and copper, is one of the largest factors affecting Aura Minerals' profitability and operating cash flows and the current and future financial performance of the Company is closely related to the prevailing prices of these metals. Other key factors affecting the Company's profitability and operating cash flows include: the levels of production, which are impacted by grades,

strip ratios, labour, plant and equipment availabilities, and process recoveries; and costs, which are impacted by production levels, fixed and variable costs, prices of key consumables, labour, inflation, and exchange rates.

For the San Andres Mine, the Company now expects 2011 production guidance of between 68,000 and 72,000 ounces of gold with consequent cash costs<sup>1</sup> towards the higher end of the previously guided range of \$700 - \$750 per ounce. The reduced guidance is primarily a result of the higher-than-normal percentage of mixed ore which has a lower recovery, disruptions in cyanide deliveries encountered from May through June, and lower levels of ore mined. The Company is working with its mine contractor to address productivity targets and with its main cyanide supplier to ensure adequate deliveries to treat the greater proportion of mixed ore and to catch-up on the delayed leaching of stacked ore arising from the cyanide supply disruption experienced in the second quarter.

Subsequent to the end of the second quarter, the government of Honduras passed a new tax law, including new taxes on revenues. The most significant of the new taxes to the Company is a 5% security tax on the San Andres Mine's export revenues, which is effective from July 8, 2011, the date the new law was passed. The Company is currently in discussions with government agencies in Honduras regarding these significant new taxes and the impact on the Company's operations and the mining industry in Honduras. Gross revenues for the San Andres Mine for the remaining half of 2011 are expected to be in the range of \$55-\$65 million, which will result in additional taxes to be paid of between \$2.8 and \$3.3 million, resulting in a reduction in net revenues and in operating cash flows. To June 30, 2011, the Company had limited exposure to fluctuations in the Honduran lempira, as this currency was pegged to the United States dollar. However, as of late-July 2011, the Honduran lempira went from being a fixed exchange to a floating exchange. As a result, the Company will be exposed to increases or decreases in operating expenses as a result of currency fluctuations as the majority of the mine's costs are denominated in the Honduran lempira.

For the Sao Francisco Mine, the Company has raised its 2011 production guidance to between 60,000 – 65,000 ounces of gold from its previous guidance of between 55,000 – 60,000 ounces of gold. Upon the resumption of normal mining operations early in the second quarter, the Sao Francisco Mine has exceeded its short-term production targets. The Company expects gold production will ramp up in the last half of 2011 as head grades improve from the mining of higher-grade benches and from greater ore movement as the mining contractor deploys more equipment and operational crews beginning in the third quarter of 2011. The combination of better head grades and greater tonnage throughput are expected to result in significant improvements in gold production and cash costs<sup>1</sup> in future years. By mid-2012, the Company anticipates that annual production will reach 100,000 ounces of gold per year at estimated cash costs<sup>1</sup> of between \$900 - \$1,000 per ounce. For the current year, however, taking into consideration the second-quarter re-start and lower initial head grades, the Company's full year cash cost<sup>1</sup> is expected to average between \$1,100 - \$1,200 per ounce. Lower cash cost<sup>1</sup> resulting from higher

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

production on improving head grades will be partially offset by the expected stronger Brazilian real currency in the last half of 2011.

At the Sao Vicente Mine, profitability is being threatened by the rising Brazilian real currency which has appreciated significantly against the US dollar since the start of 2011 and has eroded cost saving benefits from operational improvements implemented by the Company. This pressure on profit margins has been mitigated by a rising gold price in the first half of 2011. In the third quarter of 2011, the Company intends to critically examine the long-term mining and financial operations of the Sao Vicente Mine in order to best optimize the financial return to the Company. For 2011, the Company maintains its annual production guidance of between 42,000 – 45,000 ounces of gold at estimated cash costs<sup>1</sup> of between \$1,250 - \$1,350 per ounce.

Estimated 2011 gold production guidance per mine, with the restart of normal operations at the Sao Francisco Mine in early April, is summarized in the table below:

<b>Gold Production Estimates</b>	
San Andres Mine	68,000 - 72,000 oz
Sao Francisco Mine	60,000 - 65,000 oz
Sao Vicente Mine	42,000 - 45,000 oz
<b>Total</b>	<b>170,000 - 182,000 oz</b>

At the Aranzazu Mine, mechanical issues, mainly with the grinding mills, prevented the operation from achieving the targeted nameplate throughput rate of 2,600 tpd of ore on a sustained basis in the first quarter. Although, these issues were substantially overcome, lower mill and equipment availability, partially due to the lack of skilled maintenance personnel, have continued to impact mill throughput levels. Additionally, the processing of higher than expected proportion of oxidized ore continues to impact metal recoveries and concentrate grades. The Company has taken measures to correct these mechanical and maintenance issues by recently hiring seasoned maintenance and mining managers and is confident that mill and equipment availability will improve, allowing throughput rates to increase. Additionally, the transition to more primary sulphide ore and less oxide material, will allow the Aranzazu Mine to improve copper recoveries and sustain design tonnages.

During the quarter, the Company saw significant improvements in mining and processing rates, copper head grades, process recoveries, concentrate grades, and production levels, as well as significantly lower cash costs<sup>1</sup>.

Due to the water shortage caused by caving of a portion of the main supply well in July and the continued processing of oxidized ore, the Company has revised its 2011 production guidance to between 9 - 10 million pounds of copper, and 6,000 - 8,000 ounces of gold and 130,000 - 140,000 ounces of silver. Cash costs<sup>1</sup> are expected to continue to decrease as production increases quarter by

---

<sup>1</sup> A cautionary note regarding non-GAAP measures is included in Section 18 of this MD&A.

quarter and are estimated at \$1.25 – 1.50 per payable pound of copper, net of by-product credits from gold and silver, once steady state production is achieved.

Total capital expenditure guidance for the balance of 2011 is approximately \$15.3 million, of which \$7.3 million relates to underground development and machinery and equipment at the Aranzazu Mine, \$1.0 million relates to the Sao Francisco Mine, \$3.5 million to the Sao Vicente Mine and \$3.5 million to the San Andres Mine.

Exploration expenses are forecast to be approximately \$5.0 million for the balance of 2011, which primarily includes \$0.7 million at the Aranzazu Mine and approximately \$4.0 million on the Arapiraca Project feasibility study.

The Company believes that the commodity price environment and prospects for its business remain favourable and that the asset base will commence generating positive operating cash flows in the second half of 2011.

## 6. RESULTS OF OPERATIONS

### Comparing the three months ended June 30, 2011 to the three months ended June 30, 2010

#### Sales

Revenue from the sale of gold and metals in concentrate is recognized in the financial statements when title to the product transfers and the rights and obligations of ownership pass to the customer. Incidental revenues from the sale of silver by-products as part of the Company's gold sales are classified within cost of sales. Revenues from sale of metals in concentrate are recorded in the statement of income net of treatment and refining costs paid to counterparties under the terms of the off-take arrangements and are recognized based on quoted market prices in periods subsequent to the date of sale. In accordance with industry practice, the estimated revenue on sale of copper concentrate is recorded based on forward metal prices for the expected date of final settlement. As a result, revenues for concentrate sales include estimated prices for sales in the period, adjusted at period-end based on expected copper prices for final settlement, as well as pricing adjustments for sales that occurred in previous quarters, based on actual prices received. These adjustments also reflect changes in quantities arising from final weight and assay calculations.

Details of sales, cost of goods sold and gross profit are presented below:

<i>(In thousands of dollars)</i>	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010
Sales	\$ 68,764	\$ 38,576
Cost of goods sold	<b>62,527</b>	28,085
Gross profit	<b>\$ 6,237</b>	\$ 10,491

Total net sales for the three months ended June 30, 2011 were \$68,764,000, inclusive of local sales taxes paid on sales at the Company's gold mines of \$602,000. The Company's gross revenue for the quarter is

comprised of sales of gold from the Company's gold mines of \$59,510,000 and copper concentrate sales from the Aranzazu Mine of \$9,856,000.

Of the gross gold sales of \$59,510,000, \$28,406,000 related to the San Andres Mine, \$16,200,000 related to the Sao Francisco Mine, and \$14,904,000 related to the Sao Vicente Mine. For the quarter ended June 30, 2011, the Company sold 39,361 gold ounces from the Company's gold mines at an average realized price of \$1,512 per ounce, which is slightly higher than the market average price for the period of \$1,506 per ounce (London PM Fix).

Sales for the second quarter 2011 at the Aranzazu Mine related to the shipment of 3,504 DMT of copper concentrate. Total concentrate shipment revenues for the quarter were \$9,856,000 or \$2,812 per DMT. The total copper concentrate shipped contained 1,694,212 payable pounds of copper, 1,706 payable ounces of gold and 30,909 payable ounces of silver. The Company realized an average price of \$8,984 per tonne (\$4.07 per pound) of copper, excluding the impact of quarter-end price adjustments, and average realized prices for gold and silver were \$1,519 per ounce and \$36.94 per ounce, respectively. Revenue related to concentrate shipments for the three months ended June 30, 2010 is comprised as follows:

<i>(In thousands of dollars)</i>	<b>For the three months ended June 30, 2011</b>	
Copper revenue, net of treatment and refining charges	\$	<b>5,828</b>
Gold by-product revenue		<b>2,591</b>
Silver by-product revenue		<b>1,142</b>
Price adjustments recorded		<b>295</b>
<b>Total revenue</b>	<b>\$</b>	<b>9,856</b>

Net sales for the quarter ended June 30, 2010 consisted solely of gold sales from the Company's gold mine and totalled \$38,576,000, inclusive of local sales taxes paid of \$335,000. The Company's gross revenue was comprised of sales of \$21,943,000 from the San Andres Mine, \$8,675,000 from the Sao Francisco Mine and \$8,293,000 from the Sao Vicente Mine. For the quarter ended June 30, 2010, the Company sold 32,024 gold ounces at an average realized price of \$1,215 per gold ounce, which compares to a market average price for the same period of \$1,197 per ounce (London PM Fix).

#### *Cost of Goods Sold and Gross Profit*

For the three months ended June 30, 2011, the Company recorded total cost of goods sold of \$62,527,000, of which \$50,995,000 related to the cost of gold sold from the Company's gold mines and \$11,532,000 related to the cost of copper concentrate sold in the period.

Cost of goods sold on gold sales of \$50,995,000 included cash operating costs of \$39,916,000 or \$1,014 per ounce and included a write-down of \$1,914,000, or \$49 per ounce to bring production inventory to its net realizable value. Together with non-cash depletion and amortization charges for the quarter of \$11,079,000 or \$281 per ounce, total cost of goods sold was \$1,295 on a per gold ounce basis.

Cost of goods sold on copper concentrate for the quarter ended June 30, 2011 included cash costs of concentrate sold of \$9,137,000 or \$2,608 per DMT of concentrate and non-cash depletion and

amortization for the period of \$2,395,000 or \$683 per DMT. Accordingly, total cost of goods sold relating to copper concentrate sales was \$11,532,000 or \$3,291 per DMT.

Cost of goods sold for the three months ended June 30, 2010 related solely to gold sold from the Company's gold mines and totalled \$28,085,000 or \$877 per ounce. Of this amount, \$22,645,000, or \$707 per ounce, were cash operating expenses and included a net smelter return royalty of \$120,000 or approximately \$4 per ounce. Non-cash depletion and amortization charges included in cost of goods sold for the quarter were \$5,440,000 or \$170 per ounce.

For the quarter ended June 30, 2011, the Company recorded gross profit of \$6,237,000, as compared to gross profit of \$10,491,000 for the same period in 2010.

#### *Other Expenses and Operating Loss*

Other expenses for the three months ended June 30, 2011 include general and administrative expenses of \$6,962,000 and exploration expenses of \$2,833,000. For the three months ended June 30, 2010, other expenses included general and administrative expenses of \$10,449,000 and exploration expenses of \$6,599,000.

General and administrative expenses relate primarily to the running of the Company's corporate offices in Canada and Brazil. For the three months ended June 30, 2011, such costs totalled \$6,962,000 and include: salaries, wages and benefits of \$2,635,000; share-based payment expense of \$1,996,000; professional and consulting fees of \$1,028,000; and general and administrative expenses of \$582,000. The remaining \$721,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$491,000, and amortization expense of \$230,000.

General and administrative expenses for the three months ended June 30, 2010 of \$10,449,000 include: salaries, wages and benefits of \$1,640,000; share-based payment expense of \$5,624,000; transaction costs associated with the Brazilian Mine Acquisition of \$1,414,000; professional and consulting fees of \$269,000; and general and administrative expenses of \$708,000. The remaining \$794,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$586,000, and amortization expense of \$208,000.

For the three months ended June 30, 2011, the Company incurred \$2,833,000 in exploration costs, consisting of \$1,086,000 related to the Arapiraca Project, \$602,000 relating to the Aranzazu Mine, \$944,000 relating to the Brazilian Mines, \$113,000 relating to the San Andres Mine, and \$88,000 on other non-core projects.

For the quarter ended June 30, 2010, the Company incurred \$6,599,000 in exploration costs, consisting of \$2,064,000 related to the Arapiraca Project, \$3,547,000 related to the Aranzazu Mine, \$764,000 related to the Brazilian Mines, \$147,000 related to the San Andres Mine, and \$77,000 on other non-core projects.

For the three months ended June 30, 2011, the Company recorded an operating loss of \$3,558,000, which compares to an operating loss of \$6,557,000 for the three months ended June 30, 2010.

### *Finance and Other Income and Expenses, Taxes, and Net Profit (Loss)*

For the three months ended June 30, 2011, the Company incurred finance costs of \$1,034,000, recorded interest and other income of \$74,000 on the Company's cash and cash equivalents, and recorded other net gains of \$1,282,000. For the three months ended June 30, 2010, the Company incurred finance costs of \$1,342,000, recorded interest and other income of \$173,000 on the Company's cash and cash equivalents, and recorded other net losses of \$1,937,000.

Finance costs for the three months ended June 30, 2011 of \$1,034,000 included \$794,000 in accretion expense on the Company's provisions for mine closure and restoration and other long-term liabilities, and \$239,000 in interest expense on borrowings under the Credit Facility. Finance costs for the three months ended June 30, 2010 of \$1,342,000 included \$815,000 in accretion expense on the mine closure and restoration provisions and other long-term liabilities, and \$524,000 in interest expense on the promissory notes payable.

Other gains for the three months ended June 30, 2011 of \$1,282,000 consisted primarily of foreign exchange gains of \$1,192,000, an unrealized loss of \$365,000 on the Company's copper collar contracts, and gains on the undesignated portion of the Company's cash flow hedges settled during the quarter of \$829,000. Other losses for the three months ended June 30, 2010 totalled \$1,937,000 and consisted solely of foreign exchange losses.

Income tax recovery for the three months ended June 30, 2011 totalled \$4,482,000 and consisted of a net recovery of \$547,000 in current income taxes related to the San Andres Mine as a result of the tax benefit of a successful application for the reduction in 2010 taxes payable received in the quarter offsetting current taxes liable on income earned in the current quarter, and \$3,935,000 in deferred income tax recovery, relating to the reversal of deferred tax liabilities set up in prior periods, as well as the effect of foreign exchange fluctuations on the deferred tax balances. Income tax expense for the three months ended June 30, 2010 totalled \$3,731,000 and consisted of \$2,726,000 in current income tax expense related to the San Andres Mine and \$1,005,000 in deferred income tax expense.

For the three months ended June 30, 2011, the Company recorded a profit of \$1,246,000, which compares to a loss of \$13,394,000 for the three months ended June 30, 2010.

### *Other comprehensive loss*

Other comprehensive loss for the three months ended June 30, 2011 totalled \$1,214,000 and consisted of a loss on the translation of foreign subsidiaries from their functional currencies into the Company's reporting currency of \$495,000, and decrease in fair value on the Company's cash flow hedges, net of tax impact, of \$719,000. Other comprehensive loss for the three months ended June 30, 2010 totalled \$2,138,000 and consisted of a loss on the translation of foreign subsidiaries of \$3,299,000 and an increase in the fair value of cash flow hedges, net of tax impact, of \$1,161,000.

## Comparing the six months ended June 30, 2011 to the six months ended June 30, 2010

### Sales

Results of operations for the Aranzazu Mine for the six months ended June 30, 2011 are included from February 1, 2011, the date commissioning was substantially complete and commercial production was declared. Costs incurred to that date, to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management, less revenues incurred to that date, have been capitalized.

Details of sales, cost of goods sold and gross profit are presented below:

<i>(In thousands of dollars)</i>	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
Sales	\$ 122,553	\$ 58,367
Cost of goods sold	<b>114,046</b>	39,017
Gross profit	<b>\$ 8,507</b>	\$ 19,350

Total net sales for the six months ended June 30, 2011 were \$122,553,000, inclusive of local sales taxes paid on sales at the Company's gold mines of \$1,133,000. The Company's gross revenue for the six-month period is comprised of sales of gold from the Company's gold mines of \$111,607,000 and copper concentrate sales from the Aranzazu Mine, from February 1, 2011, of \$12,079,000.

Of the gross gold sales of \$111,607,000, \$54,062,000 related to the San Andres Mine, \$28,889,000 related to the Sao Francisco Mine, and \$28,656,000 related to the Sao Vicente Mine. For the six months ended June 30, 2011, the Company sold 76,873 gold ounces from the Company's gold mines at an average realized price of \$1,452 per ounce, which is slightly higher than the market average price for the same period of \$1,445 per ounce (London PM Fix).

Total sales for the six months ended June 30, 2011 at the Aranzazu Mine related to the shipment of 4,744 DMT of copper concentrate. Total concentrate shipment revenues for the six month period were \$13,059,000 or \$2,753 per DMT. The total copper concentrate shipped contained 2,274,339 payable pounds of copper, 2,169 payable ounces of gold and 44,170 payable ounces of silver. The Company realized an average price of \$9,149 per tonne (\$4.15 per pound) of copper, excluding the impact of period end price adjustments, and average realized prices for gold and silver were \$1,490 per ounce and \$35.41 per ounce, respectively. Of the concentrate sales made in the six months ended June 30, 2011, 367 DMT containing 183,223 payable pounds of copper, 153 ounces of gold and 3,313 ounces of silver, were sold prior to the declaration of commercial production on February 1, 2011. As indicated above, the net revenue related to these sales of \$980,000 was applied against the cost of the property, plant and equipment for the period and was not included in the statement of income.

Revenue related to concentrate shipments for the six months ended June 30, 2011 is comprised as follows:

<i>(In thousands of dollars)</i>	<b>For the six months ended June 30, 2011</b>	
Copper revenue, net of treatment and refining charges	\$	<b>8,033</b>
Gold by-product revenue		<b>3,232</b>
Silver by-product revenue		<b>1,564</b>
Price adjustments recorded		<b>230</b>
<b>Total revenue</b>	<b>\$</b>	<b>13,059</b>
Less: pre-production revenue applied against property, plant and equipment cost		<b>(980)</b>
<b>Total revenue recorded in the statement of income</b>	<b>\$</b>	<b>12,079</b>

Net sales for the six months ended June 30, 2010 consisted solely of gold sales from the Company's gold mines and totalled \$58,367,000, inclusive of local sales taxes paid of \$591,000. The Company's gross revenue was comprised of sales of \$41,990,000 from the San Andres Mine, \$8,675,000 from the Sao Francisco Mine and \$8,293,000 from the Sao Vicente Mine. For the six months ended June 30, 2010, the Company sold 50,058 gold ounces at an average realized price of \$1,178 per gold ounce, which compares to a market average price for the same period of \$1,153 per ounce (London PM Fix).

#### *Cost of Goods Sold and Gross Profit*

For the six months ended June 30, 2011, the Company recorded total cost of goods sold of \$114,046,000, of which \$97,536,000 related to the cost of gold sold from the Company's gold mines and \$16,510,000 related to the cost of copper concentrate sold in the period.

Cost of goods sold on gold sales of \$97,536,000 included cash operating costs of \$75,931,000 or \$988 per ounce and included a write-down of \$3,329,000, or \$43 per ounce to bring production inventory to its net realizable value. Together with non-cash depletion and amortization charges for the period of \$21,605,000 or \$281 per ounce, total cost of goods sold was \$1,269 on a per gold ounce basis.

Cost of goods sold on copper concentrate for the six months ended June 30, 2011 included cash costs of concentrate sold of \$12,981,000 or \$2,736 per DMT of concentrate, and included a write-down of \$1,706,000, or \$360 per DMT of concentrate. Together with non-cash depletion and amortization for the period of \$3,529,000 or \$744 per DMT, total cost of goods sold relating to copper concentrate sales was \$16,510,000 or \$3,480 per DMT.

Cost of goods sold for the six months ended June 30, 2010 related solely to gold sold from the Company's gold mines and totalled \$39,017,000 or \$779 per ounce. Of this amount, \$32,138,000, or \$642 per ounce, were cash operating expense and included a net smelter return royalty of \$221,000 or approximately \$4 per ounce. Non-cash depletion and amortization charges included in cost of goods sold for the period were \$6,879,000 or \$137 per ounce.

For the six months ended June 30, 2011, the Company recorded gross profit of \$8,507,000, as compared to gross profit of \$19,350,000 for the same period in 2010.

### *Other Expenses and Operating Loss*

Other expenses for the six months ended June 30, 2011 include general and administrative expenses of \$13,931,000 and exploration expenses of \$6,726,000. For the six months ended June 30, 2010, other expenses included general and administrative expenses of \$16,682,000 and exploration expenses of \$11,691,000.

General and administrative expenses relate primarily to the running of the Company's corporate offices in Canada and Brazil. For the six months ended June 30, 2011, such costs totalled \$13,931,000 and include: salaries, wages and benefits of \$4,996,000; share-based payment expense of \$3,940,000; professional and consulting fees of \$2,007,000; and general and administrative expenses of \$1,321,000. The remaining \$1,667,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$1,171,000, and amortization expense of \$496,000.

General and administrative expenses for the six months ended June 30, 2010 of \$16,682,000 include: salaries, wages and benefits of \$3,020,000; share-based payment expense of \$7,521,000; transaction costs associated with the Brazilian Mine Acquisition of \$2,711,000; professional and consulting fees of \$682,000; and general and administrative expenses of \$1,192,000. The remaining \$1,556,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$1,159,000, and amortization expense of \$397,000.

For the six months ended June 30, 2011, the Company incurred \$6,726,000 in exploration costs, consisting of \$1,984,000 related to the Arapiraca Project, \$1,796,000 relating to the Aranzazu Mine, \$2,438,000 relating to the Brazilian Mines, \$328,000 relating to the San Andres Mine, and \$180,000 on other non-core projects.

For the six months ended June 30, 2010, the Company incurred \$11,691,000 in exploration costs, consisting of \$5,298,000 related to the Arapiraca Project, \$4,811,000 related to the Aranzazu Mine, \$1,232,000 related to the Brazilian Mines, \$147,000 related to the San Andres Mine and \$203,000 on other non-core projects.

For the six months ended June 30, 2011, the Company recorded an operating loss of \$12,150,000, which compares to an operating loss of \$9,023,000 for the six months ended June 30, 2010.

### *Finance and Other Income and Expenses, Taxes, and Net Profit (Loss)*

For the six months ended June 30, 2011, the Company incurred finance costs of \$2,323,000, recorded interest and other income of \$239,000 on the Company's cash and cash equivalents, recorded a gain on the restructuring of its contractual obligations of \$17,009,000 (See *Corporate Developments and Significant Transactions Affecting Results of Operations – Restructuring of Contractual Obligations*"), and recorded other net gains of \$2,111,000. For the six months ended June 30, 2010, the Company incurred finance costs of \$1,815,000, recorded interest and other income of \$277,000 on the Company's cash and cash equivalents, and recorded other net gains of \$463,000.

Finance costs for the six months ended June 30, 2011 of \$2,323,000 included \$1,531,000 in accretion expense on the Company's provisions for mine closure and restoration and other long-term liabilities,

and \$720,000 in interest expense on the promissory notes payable until the restructuring of the Company's contractual obligations in March 2011 and interest expense on borrowings under the Credit Facility. Finance costs for the six months ended June 30, 2010 of \$1,815,000 included \$1,068,000 in accretion expense on the mine closure and restoration provisions and other long-term liabilities, and \$742,000 in interest expense on the promissory notes payable.

Other gains for the six months ended June 30, 2011 of \$2,111,000 consisted primarily of foreign exchange gains of \$2,445,000, an unrealized loss of \$1,077,000 on the Company's copper collar contracts, and a gain on the undesignated portion of the Company's cash flow hedges of \$1,176,000 settled during the six month period. Other gains for the six months ended June 30, 2010 totalled \$463,000 and consisted solely of foreign exchange gains.

Income tax recovery for the six months ended June 30, 2011 totalled \$723,000 and consisted of \$2,113,000 in current income tax expense related to the San Andres Mine, and \$2,836,000 in deferred tax recovery, which primarily relates to the effect of changes in foreign exchange rates on deferred tax balances. Income tax expense for the six months ended June 30, 2010 totalled \$4,641,000 and consisted of \$5,112,000 in current income tax expense related to the San Andres Mine and a deferred income tax recovery of \$471,000.

For the six months ended June 30, 2011, the Company recorded a profit of \$5,609,000, which compares to a loss of \$14,739,000 for the six months ended June 30, 2010.

#### *Other comprehensive income*

Other comprehensive loss for the six months ended June 30, 2011 totalled \$2,267,000 and consisted of a loss on the translation of foreign subsidiaries from their functional currencies into the Company's reporting currency of \$1,403,000, and a decrease in fair value on the Company's cash flow hedges, net of tax impact, of \$864,000. Other comprehensive income for the six months ended June 30, 2010 totalled \$2,219,000 and consisted of a gain on the translation of foreign subsidiaries of \$1,058,000 and an increase in the fair value of cash flow hedges, net of tax, of \$1,161,000.

## **7. SUMMARY OF QUARTERLY RESULTS**

The following table sets forth selected unaudited interim consolidated financial information for the Company for each of the eight most recently completed quarters. Each of the 2010 quarters below have been restated to include relevant adjustments on the Company's transition to IFRS while the 2009 financial information is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

For the Quarters Ended: (In thousands of US dollars, except per share information)	June 30, 2011 (unaudited)	March 31, 2011 (unaudited)	December 31, 2010 (unaudited)	September 30, 2010 (unaudited)	June 30, 2010 (unaudited)	March 31, 2010 (unaudited)	December 31, 2009 (unaudited)	September 30, 2009 <sup>(3)</sup> (unaudited) (restated)
Sales revenue	68,764	53,789	57,735	47,550	38,576	19,791	19,601	6,855
Working capital <sup>(4)</sup>	62,816	42,303	50,202	81,906	105,218	153,249	40,526	57,780
Property, plant and equipment	371,303	375,445	358,710	370,061	358,250	200,277	182,627	169,173
Profit (loss) <sup>(1)</sup>	1,246	4,363	(26,369)	(18,062)	(12,625)	(1,345)	(5,911)	(13,173)
Profit (loss) per share (basic and diluted) <sup>(2)</sup>	\$ 0.01	\$ 0.02	\$ (0.13)	\$ (0.09)	\$ (0.06)	\$ (0.01)	\$ (0.04)	\$ (0.09)

<sup>(1)</sup> For the quarter ended March 31, 2011, inclusive of a gain on the restructuring of contractual obligations of \$17,009,000 and related deferred tax expense of \$1,650,000. For the quarter ended December 31, 2010, net of impairment charges of \$24,957,000. For the quarter ended March 31, 2009, net of an impairment charge of \$8,167,000 and a related deferred income tax recovery of \$2,777,000.

<sup>(2)</sup> For quarters ending prior to March 31, 2011, net loss per share on a diluted basis is the same as net loss per share on an undiluted basis, as all factors, which were considered in the calculation, are anti-dilutive.

<sup>(3)</sup> Effective October 1, 2009, the Company changed its reporting currency from the Canadian dollar to the United States dollar. Accordingly, information for the quarter ended September 30, 2009 has been restated to reflect the Company's results as if they had been historically reported in United States dollars.

<sup>(4)</sup> Working capital as at March 31, 2010 included restricted cash of \$56,866,000.

The factors that have caused period to period variations include: several significant financings over the periods presented; the acquisition of the San Andres Mine on August 25, 2009; and the acquisition of the Brazilian Mines on April 30, 2010. Results for the quarters commencing with the quarter ended September 30, 2009 include revenues and operating expenses of the San Andres Mine acquired on August 25, 2009. Quarterly results for the quarters commencing with the quarter ended June 30, 2010 include revenues and operating expenses of the Brazilian Mines acquired on April 30, 2010. Operating costs at the Aranzazu Mine for the quarter ended September 30, 2009 are reflected as costs of operations in care and maintenance. Operating costs at the Aranzazu Mine for the period from October 1, 2009 through January 31, 2011 were capitalized into assets under construction within property, plant and equipment as the mine was under construction during this period. Quarterly results commencing for the quarter ended March 31, 2011 reflect revenues and operating expenses of the Aranzazu Mine from February 1, 2011, the date commissioning was substantially complete and commercial production was declared.

For further explanation of period to period variations, see *“Review of Mining Operations and Development and Exploration Projects”* and *“Results of Operations”*.

## 8. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents used in operating activities during the three months ended June 30, 2011 were \$471,000 while cash and cash equivalents generated from operating activities in the six months ended June 30, 2011 were \$2,984,000. Cash and cash equivalents used in investing activities during the three and six months ended June 30, 2011 were \$10,580,000 and \$36,824,000, respectively, and consisted primarily of \$10,880,000 and \$37,124,000, respectively, for the acquisition of property, plant and equipment for cash. Such expenditures related to the capitalization of the stripping program costs

at the Sao Francisco Mine, capitalized operating costs to the declaration of commercial production on February 1, 2011 at the Aranzazu Mine, underground development at the Aranzazu Mine, and other equipment and plant additions and expenditures during the periods.

Cash and cash equivalents generated from financing activities during the three and six months ended June 30, 2011 were \$19,051,000 and \$15,497,000, respectively, and included \$20,000,000 draw-down on the Credit Facility, net of related transaction costs of \$908,000. Cash generated from financing activities for the six month period also included \$1,911,000 in proceeds from the exercise of warrants in the period, offset by \$5,000,000 in cash paid on the restructuring of the Company's contractual obligations, as further described in *"Corporate Developments and Significant Transactions Affecting Results of Operations – Restructuring of Contractual Obligations."*

Included in cash and cash equivalents at June 30, 2011 are \$580,000 denominated in Canadian dollars, \$4,828,000 denominated in Brazilian reais, \$1,268,000 denominated in Honduran lempiras and \$618,000 denominated in Mexican pesos, which are subject to foreign currency rate fluctuations. The Company's remaining cash and cash equivalents are denominated in United States dollars and are not subject to foreign currency rate fluctuations. In conducting operations, the Company makes payments as appropriate from time to time in each of the above currencies and all proceeds of gold and copper concentrate sales are received in United States dollars. Accordingly, depending upon the planned spending levels on its Brazilian properties, and depending upon the timing of expenditures and receipts at the San Andres Mine, the Brazilian Mines, and the Aranzazu Mine operations, the Company will be subject to foreign currency rate fluctuations between these currencies and the United States dollar.

In early 2011, the Company completed commissioning of the Aranzazu Mine plant and re-commenced operations. To June 30, 2011, total capital expenditures incurred in the period on the Aranzazu Mine infrastructure and mine development were \$10.4 million, of which \$2.1 million related to capitalized stripping costs at the mine's open pits. For the remainder of 2011, the Company expects that the cost of underground mine development and other machinery and equipment at the Aranzazu Mine will be approximately \$7.3 million.

Other significant capital expenditures made in the six month period ended June 30, 2011 included \$6.6 million in equipment and infrastructure at the Brazilian Mines and \$16.0 million in respect of the capitalized stripping costs at the Sao Francisco Mine. Remaining 2011 capital expenditures for the balance of the year include an estimated \$1.0 million at the Sao Francisco Mine, \$3.5 million at the Sao Vicente Mine and \$3.5 million at the San Andres Mine.

Exploration spending in the six months ended June 30, 2011 totalled \$6.7 million and for the remainder of 2011, exploration is expected to be approximately \$5.0 million, of which \$0.7 million is expected to be incurred at the Aranzazu Mine. Additionally, the Company expects to spend approximately \$5.6 million for the feasibility study at the Serrote Deposit at its Arapiraca Project, of which \$4.0 million is expected to be incurred in the second half of 2011.

During the first quarter of 2011, the Company sought and obtained the Credit Facility in order to ensure added flexibility and liquidity during the first half of 2011 while the Aranzazu Mine ramped up to full production levels and while the stripping program at Sao Francisco was completed. As of June 30, 2011

and the date of this MD&A, the Company has drawn down \$20 million of the available \$25 million Credit Facility. During the quarter ended June 30, 2011, working capital increased by \$20,513,000 to \$62,816,000, and includes cash and cash equivalents of \$19,477,000 at quarter end. The working capital increase is primarily attributable to the inventory build-up at the Sao Francisco Mine following the resumption of normal operations early in the second quarter.

The Company's ongoing liquidity needs will be funded from current cash and cash equivalents, funds available under the Credit Facility and operating cash flows. With production levels increasing at the San Andres Mine in the second half of 2011, following the resumption of normalized cyanide deliveries and the mining of a greater proportion of oxide ore, the Company expects strong cash flows from this unit. Similarly, the Company expects stronger cash flows from the Aranzazu Mine in the last half of the year as a result of: the mining of reduced oxide ore components; commissioning of the re-grind milling circuit and cleaner flotation circuits later in the third quarter; increasing concentrate grades; and increasing mill recoveries. Further, with the operational improvements made at the Sao Francisco Mine and a new mine plan based on higher head grades and increased production levels, the Company has started to realize stronger cash flows from this unit commencing late in the second quarter of 2011. As a result, based on the Company's current expectations from its operating mines, and combined with strong metal prices, the Company believes it is fully financed to achieve its near-term growth objectives. This includes the financing of the Serrote Deposit feasibility study, but not additional expenditures associated with the development and construction of the project. Nonetheless, the Company has recently taken steps to increase the Credit Facility up to \$15 million and expects to finalize the increase in the third quarter of 2011.

## 9. CONTRACTUAL OBLIGATIONS

For the six months ended June 30, 2011 and as of August 10, 2011, the Company has not entered into any contractual obligations that are outside of the ordinary course of business.

The Company's contractual obligations included the following as at June 30, 2011:

<i>(In thousands of US dollars)</i>	<b>Total</b>	<b>2011</b>	<b>2012-2013</b>	<b>2014-2015</b>	<b>After 2015</b>
NSR Royalty	\$ 12,500	\$ Nil	\$ 12,500	\$ Nil	\$ Nil
Operating leases (premises and other)	612	240	372	Nil	Nil
Credit Facility	20,000	Nil	20,000	Nil	Nil
Capital lease obligations	8	8	Nil	Nil	Nil
Commitments related to capital projects ongoing	6,717	6,717	Nil	Nil	Nil
Mine closure and restoration	41,987	1,355	4,159	30,514	5,959
<b>Total contractual obligations</b>	<b>\$ 81,824</b>	<b>8,320</b>	<b>37,031</b>	<b>30,514</b>	<b>5,959</b>

The above table includes the Company's estimated obligation to reclaim the San Andres Mine, the Brazilian Mines, and the Aranzazu Mine following completion of mining activities at those sites. The Company has engaged specialized environmental consultants familiar with the Company's operations to provide estimates of the costs necessary to comply with existing reclamation standards in Brazil, Mexico and Honduras and to estimate the Company's mine closure and restoration obligations at each location. Based on the specialists' conclusions, the undiscounted amounts of the estimated obligations for restoration and closure of the operations, adjusted by estimated annual inflation at each location, are approximately \$41,987,000. While IFRS requires the Company to recognize the fair value for the mine closure and restoration obligation using a risk-free discount rate, the amount reflected in the above table represents the undiscounted amounts estimated at the time of payment. Ongoing reclamation costs incurred as part of normal mining operations are expensed as incurred.

On March 18, 2011, the Company secured a \$25,000,000 revolving Credit Facility to be used for working capital purposes at the Aranzazu Mine and general corporate purposes. As of June 30, 2011, and as of the date of this MD&A, the Company had drawn \$20 million on the Credit Facility. The Credit Facility matures on June 30, 2013.

The NSR Royalty is payable at 1.5% on the sales from the San Andres Mine and the Brazilian Mines, up to a cumulative royalty amount of \$16,000,000, commencing on March 1, 2013, provided that the cumulative amount will be extinguished by the payment in cash of: \$12,500,000 if paid on or before March 31, 2012; \$13,650,000 if paid after March 31, 2012, but on or before March 31, 2013; \$14,350,000 if paid after March 31, 2013, but on or before March 31, 2014; and \$15,050,000 if paid after March 31, 2014, but on or before March 31, 2015, and adjusted by any payments made on account of the NSR Royalty. The Company has recorded this NSR Royalty at its estimated fair value of \$12,500,000 and has reflected this amount in the 2012-2013 period in the above table.

Other contractual obligations include an underlying 1% NSR royalty on copper production from the Aranzazu Mine, when, during any calendar month, the monthly average copper price as quoted by the LME equals or exceeds \$2.00 per pound, and underlying NSR's of 1.0% on gold, 0.75% on copper and 4% on all other mineral production from the Arapiraca Project. The Company also has NSR's on certain of its non-core projects.

## **10. OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements as of June 30, 2011, other than as described in "Contractual Obligations", relating to certain royalty obligations in respect of the Aranzazu Mine, the Arapiraca Project and certain other non-core projects.

## **11. TRANSACTIONS WITH RELATED PARTIES**

During the six months ended June 30, 2011, the Company was not party to any transactions with related parties, except as described in *"Corporate Developments and Significant Transactions Affecting Results of Operations – Restructuring of Contractual Obligations"*, whereby the Company completed the restructuring of certain obligations arising from the acquisition of the San Andres Mine and the Brazilian Mine Acquisition. This restructuring was considered a related party transaction given that the Company and Yamana have one common director, who recused himself from participating in the decisions and

voting matters with respect to the transaction, and that Yamana beneficially owned and exercised control over 23,344,261 common shares of the Company, representing approximately 11.2% of the common shares outstanding prior to the Debt Restructuring. As of the date of the MD&A, Yamana currently owns and exercises control over 43,775,374 common shares of the Company, representing approximately 19.2% of the common shares outstanding.

## 12. PROPOSED TRANSACTIONS

There are no ongoing or proposed asset or business acquisitions or dispositions currently under consideration.

## 13. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Effective January 1, 2011, the Canadian Accounting Standards Board required all public companies in Canada to adopt IFRS for interim and annual financial statements beginning on or after January 1, 2011. As the Company is required to present comparative financial information, the effective transition date for conversion to IFRS was January 1, 2010. The Company's first reporting period under IFRS was the three months ended March 31, 2011, and full disclosure of the impact of the Company's transition to IFRS can be found in notes 2, 3 and 30 to the Company's financial statements for the three months ended March 31, 2011, and within the Company's MD&A for the three months ended March 31, 2011, both as filed on SEDAR.

Note 29 to the Financial Statements includes further details on the significant transition adjustments between Canadian accounting principles and IFRS.

### Transition adjustments

As a result of the transition to IFRS, the Company recorded the following adjustments to shareholders' equity as of June 30, 2010:

<i>(In thousands of United States dollars)</i>	<b>June 30, 2010</b>
<b>Shareholders' equity, as previously reported under Canadian GAAP</b>	<b>\$ 349,445</b>
Recognition of deferred purchase consideration payable	(11,802)
Adjustment for fair value of employee benefit obligations, net of tax	1,128
Provision for mine closure and restoration	(295)
Translation of foreign subsidiaries	4,065
	<b>\$ 342,541</b>

The changes made to previously reported comprehensive income (loss) for the three and six months ended June 30, 2010 were as follows:

<i>(In thousands of United States dollars)</i>	<b>For the three months ended June 30, 2010</b>	<b>For the six months ended June 30, 2010</b>
<b>Comprehensive loss previously reported under Canadian GAAP</b>	<b>\$ (12,167)</b>	<b>\$ (13,437)</b>
Accretion expense on deferred purchase consideration payable	(143)	(282)
Change in value of employee benefits provision	146	85
Change in value of provision for mine closure and restoration	(155)	(70)
Gain (loss) on translation of subsidiaries	(3,299)	1,058
Other adjustments	86	126
<b>Comprehensive loss under IFRS</b>	<b>\$ (15,532)</b>	<b>\$ (12,520)</b>

The Company's statement of cash flows did not change significantly under IFRS. The Company has presented interest paid on long-term debt as a financing activity, whereas under Canadian GAAP it was recorded as an operating activity. This change resulted in \$499,000 for the three months and \$720,000 for the six months ended June 30, 2010 in interest payments being reclassified from operating to financing cash flows. There was no net impact on cash and cash equivalents as the result of this change.

#### **14. CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities as well as the reported revenues and expenses during the reporting period. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. The Company's accounting policies relating to work-in-process inventory valuation, depreciation and depletion of mineral property, plant and equipment and site reclamation and closure accruals are critical accounting policies that are subject to estimates and assumptions regarding reserves, recoveries, future metal prices and future mining activities. All estimates used are subject to periodic review and are adjusted as appropriate. Life of mine plans are prepared each year, so all estimates relating to mining activities, reserves, recoveries and gold prices are re-assessed annually, or more frequently as determined by management. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the Financial Statements materially and involve a significant level of judgment by management.

The Company's significant accounting policies are described in note 3 to the Company's financial statements for the three months ended March 31, 2011. Management's critical accounting estimates are applied in the accounting for provisions for mine closure and restoration, allocation of the purchase price for the Brazilian Mines, including any related goodwill, the impairment of long-lived assets and goodwill, and determination of proven and probable reserves.

### **Provisions for mine closure and restoration**

The amounts recorded for mine closure and restoration obligations are based on estimates prepared by third party environmental specialists, if available, in the jurisdictions in which the Company operates or by environmental specialists within the Company. These estimates are based on remediation activities that are required by environmental laws, the expected timing of cash flows, and the credit-adjusted risk-free interest rate on which the estimated cash flows have been discounted. These estimates also include an assumption on the rate at which costs may inflate in future periods. Actual results could differ from these estimates. The estimates on which these fair values are calculated require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices.

### **Determination of the fair values of assets acquired and liabilities assumed in business combinations**

IFRS requires the Company to record the identifiable assets and liabilities acquired as part of a business combination at their fair values. The determination of these fair values requires extensive judgment, and is prepared based on information available at the reporting date. The Company makes these determinations with the assistance of independent third party valuers, who provide fair values by property class as well as for the mineral interests and intangible assets.

### **Impairment of long-lived assets**

Management of the Company reviews and evaluates the carrying value of long-lived assets for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. If the total estimated future cash flows on a discounted cash flow basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a long-lived asset is impaired, it is written down to its estimated fair value.

For the three and six months ended June 30, 2011, the Company did not identify any indicators of impairment for any of its long-lived assets, and as such no impairment analysis was prepared for the quarter or the six months then ended.

During the year ended December 31, 2010, the Company determined that some indicators of impairment existed at the Brazilian Mines as a result of high costs of production and low production levels. As such, the Company performed an impairment analysis on the value of the long-lived assets and goodwill amounts related to the Sao Francisco Mine and the Sao Vicente Mine. The analysis consisted of the use of a discounted cash flow model to evaluate the recoverability of each of the mine's assets and goodwill. The Company's analysis determined that, as of December 31, 2010, the goodwill and mineral property at the Sao Vicente Mine were impaired and as such, the Company recorded an impairment charge of \$24,276,000, of which \$6,071,000 related to goodwill and \$18,205,000 related to mineral property to bring these assets to their estimated fair values as of this date. The Company determined that the assets and goodwill at the Sao Francisco Mine were recoverable, and as such no impairment was identified at this property. The estimated future cash flows utilized in the cash flow

model incorporated the Company's best estimates of future gold production, long-term gold price and estimates of operating costs and fluctuations in the exchange rates between the United States dollar and the Brazilian real. The Company discounted these cash flows using a 6% discount rate in order to obtain the estimated fair values of the mines.

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur, which may adversely affect management's estimate of the net cash flows expected to be generated from its properties.

## **15. FINANCIAL INSTRUMENTS AND DERIVATIVES**

### ***Financial instruments***

Financial instruments that potentially subject the Company to interest rate and credit risk consist of cash and cash equivalents, accounts receivable, and long-term debt. In order to manage credit risk, the Company deposits cash and cash equivalents with high credit quality financial institutions.

As at June 30, 2011, the Company had drawn down a total of \$20,000,000 under the Credit Facility. Pursuant to the terms of the Credit Facility, the Company is required to maintain a total debt/EBITDA ratio of not more than one to one for each reporting period. As at June 30, 2011, the Company was in compliance with this financial covenant.

As at June 30, 2011, the Company's credit risk is primarily related to the recovery of value added taxes and trade accounts receivable. The Company's \$4,568,000 in trade accounts receivable includes \$4,547,000 related to copper concentrate sales at the Aranzazu Mine, which is due from a single customer. Of the \$5,843,000 in value added taxes receivable at June 30, 2011, \$1,529,000 is due in Honduras, \$4,193,000 is due in Mexico, and \$121,000 is due in Canada.

The sale of gold is at spot prices in world markets. Also, as cash receipts following the gold sales are usually at same-day value, the Company does not consider credit risk associated with gold sales to be a significant risk. Further, the Company maintains separate and sufficient insurance and requires the transporters of its gold doré and the refiners to carry sufficient insurance to prevent loss during transportation or the refining process.

The Company is subject to credit risk related to trade receivables from the sale of metal in concentrate as its sale of concentrate to date has been made to a single customer. The Company believes that its credit risk exposure on sales of concentrate is limited as the Company sells its product to a large, international purchaser with a high credit rating.

The Company is subject to price risk from fluctuations in market prices of gold, copper and other metals. In addition, in respect of metals in concentrate, there is a time lag between the time of initial payment on shipment and final settlement pricing, and changes in the price of gold, copper and other metals during this period impact the Company's revenues and working capital position. As a condition of the Credit Facility, the Company entered into a program to hedge 6,000 tonnes of copper from the Aranzazu Mine, between May 2011 and the maturity date on June 30, 2013.

A 10% change in the average gold price for the period, with all other variables held constant, would have impacted the Company's income for the three and six months ended June 30, 2011 by approximately \$5,500,000 and \$10,100,000, respectively. With the Aranzazu Mine having just completed commissioning during the six-month period, a 10% change in the average copper price for the period, with all other variables held constant, would have impacted the Company's income for the three and six months ended June 30, 2011 by \$690,000 and \$865,000, respectively. A 10% change in the price of silver would not have a significant impact on the Company's income for the three or six month periods.

### ***Foreign exchange***

As the Company's primary operating activities are in Honduras, Mexico and Brazil, foreign exchange risk exposures arise from transactions denominated in foreign currencies. Financial instruments that impact the Company's net loss or other comprehensive loss due to currency fluctuations include: cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities denominated in Canadian dollars, Honduran lempiras, Brazilian reais or Mexican pesos. The Company's net revenues from its Honduran, Brazilian and Mexican operations, including treatment charges and royalties are substantially denominated in United States dollars, however, the majority of all other operating expenses are in Honduran lempiras, Brazilian reais and Mexican pesos, respectively. At June 30, 2011, the Company had cash and cash equivalents of \$19,477,000, of which \$580,000 was held in Canadian dollars, \$12,183,000 in United States dollars, \$4,828,000 in Brazilian reais, \$1,268,000 in Honduran lempiras, and \$618,000 in Mexican pesos. To June 30, 2011, the Company had limited exposure to fluctuations in the Honduran lempira, as this currency was pegged to the United States dollar. However, as of late-July 2011, the Honduran lempira went from being a fixed exchange currency to a floating exchange currency. As a result, fluctuations in this currency going forward could also expose the Company to currency risk. Significant fluctuations in the Mexican peso, Brazilian real, or Canadian dollar could also expose the Company to currency risk.

### ***Cash flow hedges***

In light of the Brazilian Mine Acquisition, the Company established a hedging facility during the first quarter of 2010, such that it will be able to enter into financial instruments to hedge against the risk of an increase in the value of the Brazilian real against the United States dollar. The Company subsequently entered into several forward contracts to hedge against the risk of an increase in the value of the Brazilian real versus the United States dollar, with respect to a portion of the expected real-denominated operating expenditures at the Brazilian Mines.

On May 4, 2011, the Company closed out its remaining forward currency contracts totalling 29,823,000 Brazilian reais for total cash proceeds of \$4,060,000. The portion of this gain which was part of the effective hedge of \$1,940,000 remains deferred in the Company's other comprehensive income until such time as the underlying hedged item, being operating expenditures at the Brazilian Mines, is expected to be recognized in the statement of income. As of June 30, 2011, the total gain which remains deferred in other comprehensive income is \$1,773,000. The gain will be released as the underlying hedged items are recognized in the statement of income through July 2012.

On August 18, 2011, the Company entered into new currency forward contracts to hedge against the risk of a future increase in the value of the Brazilian real against the United States dollar. Currency contracts to sell United States dollar / purchase Brazilian real for 20 million United States dollars at an average exchange rate of 1.6478 Brazilian real to the United States dollar have been designated against forecasted Brazilian reais denominated expenditures for the period from October 2011 to July 2012. The Company may enter into additional forward contracts to hedge against the risk of the Brazilian real; however, the Company is not aware of any forward contracts or similar products to hedge against the strengthening of the Honduran lempira, following the de-pegging of this currency to the United States dollar subsequent to quarter end.

### ***Copper collar contracts***

The Company entered into contracts with Barclay's Bank PLC to hedge a total of 6,000 tonnes of copper from the Aranzazu Mine between May 1, 2011 and June 30, 2013. The derivative instruments entered into were in the form of zero-cost put/call collars with a floor price of \$3.25 per pound of copper and a ceiling price averaging \$5.08 per pound of copper. These instruments were entered into to satisfy the Company's hedging requirements under the terms of the Credit Facility. The put/call collar contracts for May to July 2011 have expired unexercised with no resulting gains or losses recognized by the Company.

These derivatives are not designated as hedges by the Company, and are marked to their market values at the end of each reporting date. Adjustments to the market value are included in the statement of income in other gains and losses. For the three and six months ended June 30, 2011, the Company recorded unrealized losses of \$365,000 and \$1,077,000, respectively, with respect to the copper collar contracts.

## **16. CORPORATE GOVERNANCE**

The Company's Board and its committees substantially follow the recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The current Board is comprised of six individuals, five of whom are neither executive officers nor employees of the Company and are unrelated in that they are independent of management. The Audit Committee is currently comprised of three directors who are independent of management.

The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited annual consolidated financial statements prior to their submission to the Board for approval. The Audit Committee meets with management quarterly to review the consolidated financial statements including the MD&A and to discuss other financial, operating and internal control matters. The Company also retains external auditors to perform quarterly reviews of its interim consolidated financial statements and audit its annual consolidated financial statements.

## **17. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### ***Internal controls over financial reporting***

The Company's management is responsible for designing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Based on a review of

the internal control procedures as of December 31, 2010 and ongoing review and monitoring of these procedures, and as there were no changes in ICFR in the six months ended June 30, 2011 which have materially affected or are reasonably likely to materially affect ICFR, management of the Company believes its internal controls and procedures are appropriately designed effectively in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

#### ***Disclosure controls and procedures***

The Company's management is also responsible for the design and effectiveness of disclosure controls and procedures ("DC&P") to provide reasonable assurance that material information related to the Company is made known to the Company's certifying officers. The Company's Interim Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2010 and have concluded that these procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them. There were no changes in DC&P in the six months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, its DC&P.

#### **18. NON-GAAP PERFORMANCE MEASURES**

The Company has included in this document certain non-GAAP performance measures, including the total cash costs of gold per ounce and of copper per pound, and adjusted earnings or loss and adjusted earnings or loss per share. These non-GAAP measures do not have any standardized meaning within IFRS and therefore may not be comparable to similar measures presented by other companies. The Company believes that these measures provide investors with additional information which is useful in evaluating the Company's performance. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

#### ***Cash costs per ounce of gold produced and per pound of copper produced***

Cash costs are presented as they represent an industry standard method of comparing certain costs on a per unit basis. Total cash costs of gold produced include on-site mining, processing and, administration costs, off-site refining and royalty charges, reduced by silver by-product credits, but exclude amortization, reclamation, and exploration costs, as well as capital expenditures. Total cash costs of gold produced are divided by ounces to arrive at per ounce cash costs. Similarly, total cash costs of copper produced include the above costs, and are net of gold and silver by-products, but include offsite treatment and refining charges. Total cash costs of copper produced are divided by pounds produced to arrive at per pound cash costs.

The following table provides a reconciliation from the Financial Statements to total cash cost per ounce of gold produced:

<i>(In thousands of dollars except for ounces of gold and total cash cost per ounce)</i>	<b>For the quarter ended June 30, 2011</b>	For the quarter ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
Cost of goods sold	\$ 50,995	\$ 28,085	\$ 97,536	\$ 39,017
Less: Amortization and depletion	(11,079)	(5,440)	\$ (21,605)	\$ (6,879)
Inventory movements and adjustments	(794)	7,399	(6,663)	7,395
Total cash cost	\$ 39,122	\$ 30,044	\$ 69,268	\$ 39,533
Gold ounces produced	38,104	35,304	72,273	54,603
Average cash cost per ounce of gold produced	\$ 1,027	\$ 851	\$ 958	\$ 724

The following table provides a reconciliation from the Financial Statements to the total cash cost per pound of payable copper produced:

<i>(In thousands of dollars except for pounds of copper and total cash cost per pound)</i>	<b>For the quarter ended June 30, 2011</b>	<b>For the period February 1 to June 30, 2011</b>
Cost of goods sold	\$ 11,532	\$ 16,510
Less: Amortization and depletion	(2,395)	(3,529)
Inventory movements and adjustments	(1,583)	(1,006)
Cash production costs	\$ 7,554	\$ 11,975
Less: Estimated by-product credits	(3,377)	(4,997)
Plus: Estimated selling costs	863	1,216
Total cash costs net of by-product credits	\$ 5,041	\$ 8,194
Payable copper pounds produced	1,536,500	2,186,300
Average cash cost per payable copper pound produced	\$ 3.28	\$ 3.75

### ***Adjusted earnings or loss and adjusted earnings or loss per share***

Adjusted earnings or loss and adjusted earnings or loss per share are calculated by taking the Company's net profit (loss) and excluding the following items net of any tax impact: (a) non-recurring revenue and expense items; (b) share-based payment expense; (c) unrealized foreign exchange gains and losses; (d) unrealized gains and losses on derivative financial instruments; and (e) impairment losses. A reconciliation of net earnings or loss to adjusted earnings or loss and adjusted earnings or loss per share is included under the heading "Second Quarter 2011 Financial and Operating Highlights".

### **19. RISK FACTORS**

The operations of the Company are speculative due to the high-risk nature of its business which is the acquisition, financing, exploration, development and operation of mineral properties. The risk factors set forth in the Company's annual information form ("AIF") dated March 30, 2011, a copy of which is filed on SEDAR at [www.sedar.com](http://www.sedar.com), could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

## 20. DISCLOSURE OF SHARE DATA AS AT AUGUST 10, 2011

- (a) shares authorized: an unlimited number of common shares without par value.
- (b) shares issued and outstanding: 228,019,651 common shares.
- (c) stock options outstanding as at August 10, 2011:

Expiry Date	Exercise Price (C\$)	Outstanding Stock Options
August 15, 2011	5.80	47,500
August 20, 2011	3.16	37,500
August 22, 2011	3.75	16,000
August 22, 2011	0.775	7,500
August 22, 2011	3.50	1,250
August 31, 2011	3.84	25,000
October 31, 2011	3.16	50,000
December 31, 2011	4.95	360,000
December 31, 2011	3.50	100,000
March 30, 2012	3.85	360,000
March 30, 2012	3.75	916,000
May 17, 2012	5.90	300,000
May 31, 2012	4.63	250,000
June 24, 2012	5.90	100,000
June 24, 2012	7.85	20,000
June 24, 2012	4.95	20,000
June 24, 2012	0.775	50,000
June 24, 2012	3.50	40,000
June 24, 2012	3.98	100,000
June 26, 2012	7.10	100,000
July 16, 2012	6.90	50,000
July 19, 2012	7.85	440,000
August 23, 2012	5.90	30,000
September 25, 2012	6.60	30,000
December 6, 2012	5.80	12,400
January 28, 2013	4.95	400,000
January 29, 2013	4.95	120,000
May 13, 2013	7.50	900,000
August 14, 2013	5.35	183,000
December 30, 2013	0.775	1,835,999
September 11, 2014	3.16	780,000
October 19, 2014	3.26	20,000
November 2, 2014	3.23	760,000

Expiry Date	Exercise Price (C\$)	Outstanding Stock Options
December 14, 2014	4.19	80,000
February 8, 2015	3.63	90,000
February 17, 2015	3.91	90,000
March 15, 2015	4.00	200,000
March 29, 2015	3.84	131,250
April 9, 2015	3.50	2,010,000
April 12, 2015	3.52	60,000
April 19, 2015	3.34	100,000
May 28, 2015	4.24	90,000
June 7, 2015	4.25	250,000
August 20, 2015	3.70	205,000
September 7, 2015	3.70	270,000
November 19, 2015	3.74	70,000
December 1, 2015	3.84	80,000
December 13, 2015	3.98	100,000
January 10, 2016	3.68	320,000
April 11, 2016	2.63	20,000
April 12, 2016	2.63	1,511,000
June 24, 2016	2.21	40,000
July 5, 2016	2.15	100,000
Total:		<b>14,279,399</b>

(d) 125,853 restricted share units with an expiry date of April 12, 2011 were outstanding.

(e) there were no warrants outstanding.

## 21. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains or incorporates by reference “forward-looking information” under applicable Canadian securities legislation. Except for statements of historical fact relating to the Company, information contained herein constitutes forward-looking statements, including any information as to the Company’s strategy, plans or future financial or operating performance. Forward-looking statements are characterized by words such as “plan,” “expect”, “budget”, “target”, “project”, “intend”, “believe”, “anticipate”, “estimate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions, assumptions and estimates of management considered reasonable at the date the statements are made, and are inherently subject to a variety of risks and uncertainties and other known and unknown factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include, but are not limited to, the impact of general business and economic conditions, global liquidity and credit availability on the timing of cash flows and the values of assets and liabilities based on projected future conditions, fluctuating metal prices (such as gold, copper, silver, nickel and iron ore), currency exchange rates (such as the

Canadian dollar, Brazilian real, Mexican peso and the Honduran lempira versus the United States Dollar), possible variations in ore grade or recovery rates, changes in accounting policies, changes in the Company's corporate resources, changes in project parameters as plans continue to be refined, changes in project development and production time frames, the possibility of project cost overruns or unanticipated costs and expenses, higher prices for fuel, steel, power, labour and other consumables contributing to higher costs and general risks of the mining industry, failure of plant, equipment or processes to operate as anticipated, unexpected changes in mine life, final pricing for concentrate sales, unanticipated results of future studies, seasonality and unanticipated weather changes, costs and timing of the development of new deposits, success of exploration activities, successful completion of proposed acquisitions, permitting time lines, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation and labour disputes, as well as those risk factors discussed or referred to in the Company's AIF under the heading "*Item 4 – Risk Factors*". Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates, assumptions or opinions should change, except as required by applicable law. The reader is cautioned not to place undue reliance on forward-looking statements. The forward-looking information contained herein is presented for the purpose of assisting investors in understanding the Company's expected financial and operational performance and results as at and for the periods ended on the dates presented in the Company's plans and objectives and may not be appropriate for other purposes.

## **22. ADDITIONAL INFORMATION**

Additional information relating to the Company including, the Company's AIF, is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.auraminerals.com](http://www.auraminerals.com).