



Aura Minerals Inc.

**AURA MINERALS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

**Dated as of November 14, 2011**

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*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 nine months ended September 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. Unless otherwise noted, references herein to "\$" are to the United States dollar. References to "C\$" are to the Canadian dollar.*

*Effective January 1, 2011, the Company was required to report its financial results under IFRS, including comparative results for the year ended December 31, 2010. As a result, comparative financial reporting information included in this MD&A has been restated 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.*

*This MD&A has been prepared as at November 14, 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 nine months ended September 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.*

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## **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 Arapiraca copper-gold-iron ore 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. THIRD QUARTER 2011 FINANCIAL AND OPERATING HIGHLIGHTS

- Gold production of 44,022 ounces in the third quarter of 2011, representing an increase of 16% from the prior quarter's production of 38,104 ounces. The increase was primarily due to a 45% increase in gold production at the Sao Francisco Mine and a 28% increase in gold production at the Sao Vicente Mine, offset by lower gold production at the San Andres Mine as a result of the onset of the rainy season and the continued mining of lower recovery mixed ore;
- Completed the first full quarter of production following completion of the dedicated waste stripping program at the Sao Francisco Mine in early April 2011. Since restarting operations, gold production has improved, with the third quarter production increasing to 18,665 ounces;
- Sales revenue of \$80.1 million in the third quarter of 2011, an increase of 16% over the prior quarter, and comprising net gold sales of \$71.2 million from 42,859 ounces and \$8.9 million from the shipment of 4,000 dry metric tonnes ("DMT") of copper concentrate;
- Realized average price of gold sold from the Company's gold mines of \$1,683 per ounce for the third quarter of 2011 compares with the average market price of \$1,702 per ounce (London PM Fix);
- On-site average cash cost<sup>1</sup> of \$1,181 per ounce of gold produced from the Company's gold mines in the third quarter of 2011 compared with \$1,027 per ounce of gold produced in the prior quarter and comprised of the following:

	For the three months ended September 30, 2011		For the nine months ended September 30, 2011	
	Ounces Produced	Cash Costs <sup>1</sup>	Ounces Produced	Cash Costs <sup>1</sup>
San Andres Mine	13,579	\$ 943	47,669	\$ 761
Sao Francisco Mine	18,665	\$ 1,304	38,730	\$ 1,167
Sao Vicente Mine	11,778	\$ 1,263	29,896	\$ 1,332
Total / Average	44,022	\$ 1,181	116,295	\$ 1,043

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

- Production at the Aranzazu Mine for the third quarter 2011 of 2,276,800 pounds of copper, an increase of 41% over the prior quarter's production of 1,619,100 pounds of copper;
- On-site third quarter cash cost<sup>1</sup> of \$2.53 per pound of payable copper, net of gold and silver credits, representing a 23% decrease from the second quarter cash cost<sup>1</sup> of \$3.28 per pound of payable copper. The decrease was a result of the increased production over the prior quarter despite lower than expected throughput in July due to water supply issues caused by a minor wall failure of the main supply well early that month;
- Gross profit of \$12.0 million for the third quarter of 2011, compared to a gross profit of \$6.2 million for the second quarter of 2011 and a gross loss of \$5.6 million for the third quarter of 2010;

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

- Loss for the quarter of \$37.3 million or \$0.16 per share compared to a loss of \$16.8 million or \$0.08 per share in the same quarter in 2010. Net loss for the quarter includes an impairment charge of \$38.5 million against the long-lived assets and goodwill at the Sao Francisco Mine and the long-lived assets at the Sao Vicente Mine, as further described in *“Corporate Developments and Significant Transactions Affecting Results of Operations – Long-lived Asset and Goodwill Impairment – Sao Vicente Mine and Sao Francisco Mine”*;
- 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 Sept 30, 2011</b>	<b>For the three months ended Sept 30, 2010</b>	<b>For the nine months ended Sept 30, 2011</b>	<b>For the nine months ended Sept 30, 2010</b>
Net loss per the Financial Statements	\$ (37,264)	\$ (16,827)	\$ (31,655)	\$ (31,566)
Unrealized foreign exchange losses (gains)	(216)	626	(3,181)	896
Other unrealized gains and losses	(528)	-	549	-
Share-based payment expense	2,620	2,228	6,560	9,749
Writedown of inventory to net realizable value	1,928	3,188	6,963	3,188
Impairment charge - Brazilian mines	38,534	-	38,534	-
Gain on restructuring of contractual obligations	-	-	(17,009)	-
Non-recurring transaction costs	-	(376)	-	2,335
Adjusted profit (loss) <sup>1</sup>	\$ 5,074	\$ (11,161)	\$ 761	\$ (15,398)
Adjusted basic and diluted profit (loss) per share <sup>1</sup>	\$ 0.02	\$ (0.05)	\$ 0.00	\$ (0.08)

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

- Ended the third quarter of 2011 with \$20.6 million in cash and cash equivalents and \$5 million available under the \$25 million revolving credit facility (“Credit Facility”);
- Continued work on the feasibility study for the Serrote Deposit, which is scheduled for completion late in the first quarter of 2012;
- Updated the resource estimate on October 17, 2011 for the Aranzazu Mine (see *“Review of Mining Operations and Development and Exploration Projects – Aranzazu Updated Mineral Resource”*) and, as a result, a preliminary economic assessment study will be undertaken based on evaluating an expanded throughput rate of up to 5,000 tonnes per day (“tpd”); and
- Subsequent to the quarter end, appointed Mr. James M. “Jim” Bannantine, a Civil and Mechanical Engineer and an MBA, as President and Chief Executive Officer (“CEO”) and as a member of the Board of Directors effective October 18, 2011. Mr. Tom Ogryzlo will be stepping down as Interim CEO following a brief transition period and will remain a director of Aura Minerals.

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

#### *Credit Facility*

On March 18, 2011, the Company entered into an agreement for a \$25,000,000 revolving credit facility (the "Credit Facility") which is being used for working capital purposes at the Aranzazu Mine and general corporate purposes. As at September 30, 2011 and 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 production 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.

#### *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 1.7 million tonnes were moved in 2010 and 6.1 million tonnes were moved in the first half of 2011. 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".

#### *Long-lived Asset and Goodwill Impairment – Sao Vicente Mine and Sao Francisco Mine*

On November 10, 2011, the Company announced updated resource and reserve estimates for the Sao Francisco Mine and Sao Vicente Mine. In updating the mineral resource and reserve estimates for each of the Brazilian Mines, the Company has reinterpreted the geological models used to estimate the mineral resources and reserves. This has resulted in new geological block models that are more tightly constrained to current drilling data and better reflect the discontinuous nature of the mineralization at each mine. Through this process, the Company has developed a new mine plan for each Brazilian Mine to improve reconciliation and confidence in the mine plan production forecasts. However, the reinterpretation of the geological models and the use of updated mine design parameters, including higher costs and subsequently cut-off grades reflecting current operating experience, have resulted in a reduction in the mineral resource and reserve estimates at the Brazilian Mines.

In conjunction with the completion of the updated mineral resource and reserve estimates, the Company announced that updated mine plans for the Brazilian Mines had been prepared. The new mine plans, which included the shortened mine lives and reductions in mineral reserves and resources

at each of the Brazilian Mines, are considered a triggering event for the purpose of assessing whether the carrying value of the Brazilian Mines' long-lived assets and related goodwill are impaired.

In accordance with the applicable accounting standards, the Company conducted impairment tests whereby the carrying values of the Sao Vicente Mine and the Sao Francisco Mine's property, plant and equipment, including mineral properties, and goodwill, were compared to each of the mine's fair values using the value-in-use methodology. Even though the Sao Francisco Mine and the Sao Vicente Mine were acquired as part of a single transaction, the Company is required to perform the asset impairment analysis at the lowest level for which separately identifiable cash inflows exist. As such, the impairment analysis was performed separately for each of the Brazilian Mines. In carrying out the review of the Brazilian Mines' long-lived assets and goodwill for impairment, the Company utilized discounted cash flow models incorporating estimates or assumptions that include such factors as long-term gold prices, mine lives and mine plans, recovery rates, operating costs, capital and reclamation costs, tax rates, exchange rates, inflation rates and discount rates. In the case of the Company's analysis, these factors were based on assumptions and inputs, including mine lives based on the updated mineral resource and reserve estimates disclosed by the Company on November 10, 2011, and included consensus gold price assumptions as of September 30, 2011, and a discount rate of 8%.

The Company's analysis concluded that the long-lived assets of the Sao Vicente Mine and the long-lived assets and goodwill of the Sao Francisco Mine were impaired, and as a result, the Company recorded an impairment charge during the quarter ended September 30, 2011. The Company's estimate of future cash flows is subject to risks and uncertainties and therefore could change in the future if the underlying assumptions change.

Based on the results of the impairment analysis, the Company recorded an impairment charge of \$14,369,000 for the quarter ended September 30, 2011 for the Sao Vicente Mine's property, plant and equipment, which consisted of a reduction in the value of the mineral properties of \$5,104,000 and a reduction in plant and machinery of \$9,265,000. In addition, the Company recorded an impairment charge of \$24,165,000 for the Sao Francisco Mine, which consisted of a reduction in the goodwill of \$18,214,000 and a reduction of mineral properties included in property, plant and equipment of \$5,951,000.

#### **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 a well-developed infrastructure.

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

<b>San Andres Mine Operating Information</b>	<b>Q3 2011</b>	<b>Q3 2010</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
Ore mined (tonnes)	<b>945,500</b>	1,172,700	<b>3,362,100</b>	3,449,500
Waste mined (tonnes)	<b>392,500</b>	406,900	<b>1,208,900</b>	639,000
Total mined (tonnes)	<b>1,338,000</b>	1,579,600	<b>4,571,000</b>	4,088,500
Waste-to-ore ratio	<b>0.42</b>	0.35	<b>0.36</b>	0.19
Ore plant feed (tonnes)	<b>945,500</b>	1,158,600	<b>3,366,000</b>	3,465,200
Grade (g/tonne)	<b>0.73</b>	0.67	<b>0.77</b>	0.72
Production (ounces)	<b>13,579</b>	16,133	<b>47,669</b>	51,171
Sales (ounces)	<b>12,758</b>	13,963	<b>50,067</b>	50,471
Average cash cost per ounce of gold produced <sup>1</sup>	<b>\$ 943</b>	\$ 709	<b>\$ 761</b>	\$ 606

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

Gold production at the San Andres Mine in the third quarter of 2011 was 13,579 ounces of gold, down 16% from the 16,133 ounces produced in the third quarter of 2010 and down 15% from the 15,965 ounces produced in the second quarter of 2011. Lower gold production during the quarter was primarily attributable to the continued impact of processing lower-recovery mixed ore, cyanide supply constraints experienced early in the quarter and the onset of the rainy season which typically results in lower ore movement from the mine and downtime associated with handling of wet ore and cleaning of chutes. The Company has taken mitigating steps to improve production, including: hiring an experienced general manager; expanding its suppliers of cyanide; and replacing the wobbler during the first quarter of 2012 with a vibrating grizzly screen ahead of the primary jaw crusher to improve plant throughput and efficiency.

Total waste and ore mined during the quarter ending September 30, 2011 was 1,338,000 tonnes, a decrease of 18% from the prior quarter and 15% from the same period in 2010. Ore tonnes mined in the third quarter of 2011 were 945,500, a decrease of 14% compared with the second quarter of 2011 and a decrease of 19% from the ore mined in the third quarter of 2010. As a result, the San Andres Mine had a waste-to-ore ratio of 0.42 to 1.00 in the third quarter.

Total plant feed during the third quarter of 2011 was 945,500 tonnes of ore, a decrease of 14% from the prior quarter and 18% lower than the tonnes processed in the same quarter in 2010. Ore plant feed had an average grade of 0.73 grams per tonne ("g/tonne") in the third quarter, which is down slightly from the average grade of 0.77 g/tonne in the prior quarter, but an increase from the 0.67 g/tonne reported in the third 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 third quarter of 2011 (calculated as the number of ounces produced during the period to the number of contained ounces stacked during the period) was 61% and compares with a 58% recovery in the second quarter of 2011 and 65% 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.

The planned mining sequence for 2011 had a higher proportion of mixed ore mined during the first half of the year. During the third quarter of 2011, mining commenced 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%.

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 and gold-in-circuit 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 \$943 per ounce of gold produced in the third quarter of 2011 were approximately 24% higher than the prior quarter and 33% higher than in the third 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 third 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 a well-developed infrastructure.

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

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

<b>Sao Francisco Mine</b>				
<b>Operating Information</b>	<b>Q3 2011</b>	<b>Q3 2010</b>	<b>YTD 2011</b>	<b>YTD 2010<sup>2</sup></b>
Ore mined (tonnes)	<b>1,658,700</b>	1,224,700	<b>2,697,200</b>	2,058,500
Waste mined (tonnes)	<b>3,704,900</b>	2,759,800	<b>6,569,900</b>	5,074,100
Capitalized stripping program (tonnes)	-	790,500	<b>6,072,200</b>	790,500
Total mined (tonnes)	<b>5,363,600</b>	4,775,000	<b>15,339,300</b>	7,923,100
Waste-to-ore ratio	<b>2.23</b>	2.90	<b>4.69</b>	2.85
Ore plant feed (tonnes) <sup>3</sup>	<b>1,193,800</b>	1,233,200	<b>2,195,200</b>	2,015,200
Grade (g/tonne)	<b>0.60</b>	0.37	<b>0.67</b>	0.40
Production (ounces)	<b>18,665</b>	12,424	<b>38,730</b>	23,355
Sales (ounces)	<b>18,691</b>	6,928	<b>38,403</b>	21,057
Average cash cost per ounce of gold produced <sup>1</sup>	<b>\$ 1,304</b>	\$ 1,682	<b>\$ 1,167</b>	\$ 1,421

<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 September 30, 2010, following the acquisition of the Sao Francisco Mine.

<sup>3</sup> For Q3 2010, ore plant feed includes lower grade ore mined and directly stacked on to leach pads.

Total material moved during the third quarter of 2011 was 5,363,600 tonnes, an increase of 16% over the prior quarter and 12% higher than the third quarter of 2010. Total ore mined during the third quarter of 2011 was 1,658,700 tonnes, and included 293,900 tonnes of higher-grade ore which was added to the stockpile of 104,000 tonnes of previously mined higher-grade ore, in preparation for the rainy season which starts later in the fourth quarter and lasts through the first quarter of 2012. Additionally, approximately 200,000 tonnes of low-grade material were stockpiled and reserved for processing at the end of the mine life. The stockpiling of this low-grade material nearby the crusher and crushing and processing it at the end of the mine life, is expected to reduce haulage costs in the current periods and result in better recoveries on the low-grade material when it is processed. As at September 30, 2011, the total volume of stockpiled low-grade material is approximately 288,000 tonnes.

Year-to-date material moved includes 6.1 million tonnes of waste moved in order to complete the dedicated stripping program which began in early-December 2010. The total waste removed during the dedicated stripping program was 7.8 million tonnes at a total cost of \$21.3 million.

During the third quarter of 2011, ore processed had an average grade of 0.60 g/tonne. This compares to an average grade of 0.37 g/tonne for the third quarter of 2010 and an average grade of 0.77 g/tonne in the second quarter of 2011.

During the third quarter of 2011, a total of 1,193,800 tonnes were crushed and processed, representing an average monthly plant throughput of approximately 398,000 tonnes. This compares to the average monthly throughput in the prior quarter of 325,000 tonnes and average monthly throughput in the third quarter of 2010 of approximately 411,000 tonnes.

In order to fully maintain ore supply, the mining contractor at the Sao Francisco Mine increased its fleet by two excavators and twelve trucks during the third quarter. 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 and quantity, 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 third quarter of 2011 was 99%, which compares to 54% in the prior quarter and 85% in 2010. Gold production in the third quarter of 2011 was 18,665 ounces, a 45% increase over the prior quarter's production of 12,877 ounces and an increase of 50% over the same quarter in 2010.

Average cash costs<sup>1</sup> of gold produced during the quarter were \$1,304 per ounce, approximately 12% higher than the second quarter of 2011, and 22% lower than the \$1,682 recorded in the third quarter of 2010. Cash costs<sup>1</sup> per ounce in the current quarter were negatively impacted by an increase in the mining contractor rates, general inflation and cost escalation, and the continued strength of the Brazilian real as compared to the United States dollar throughout much of the quarter. The Brazilian real weakened towards the end of September 2011, and remains weaker to the date of this MD&A.

The dedicated stripping program was to have permitted access to higher grade ore. Although second quarter 2011 ore grades processed of 0.77 g/tonne were approximately 80% higher than the average grades processed in 2010 of 0.42 g/tonne, third quarter ore grades were reduced to 0.60 g/tonne. Based on the expectation of mining higher grade ore and the return to steady state leach pad operations, the Company previously reported that it expected cash costs<sup>1</sup> would be lowered to between \$1,100 - \$1,200 per ounce for the full year 2011, with fourth quarter cash costs<sup>1</sup> expected of between \$1,000 - \$1,100 per ounce. The Company further expected that by mid-2012, upon mining even higher head grades, the mine would achieve an annual production rate of 100,000 ounces of gold and cash costs<sup>1</sup> of between \$900 - \$1,000 per ounce. However, with the updated mine plan for the Sao Francisco Mine, based on the new mineral resource and reserve estimates, the Company is revising its projections. Key aspects for the new mine plan at the Sao Francisco Mine include: (i) a reduced mine life from 2015 to the second half of 2014, with leaching operations expected to continue into 2015; (ii) a life of mine strip ratio of approximately 2.8 : 1, a reduction from the current life of mine strip ratio of approximately 3.7 : 1; (iii) a reduction in the average reserve grade by approximately 29%; and, (iv) total gold recovery from 2012-2014 under the new mine plan of approximately 236,000 ounces. Consequently, the mining and processing of lower grade ore material during the first half of 2012 is expected to result in increased cash costs<sup>1</sup> to above \$1,500 per ounce. However, cash costs<sup>1</sup> are expected to decrease to less than \$1,200 per ounce in the second half of 2012 and further decrease to under \$1,000 per ounce in 2013 and 2014 as progressively higher grade ore material is mined as the pit deepens.

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<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 a well-developed infrastructure.

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

<b>Sao Vicente Mine Operating Information</b>	<b>Q3 2011</b>	<b>Q3 2010</b>	<b>YTD 2011</b>	<b>YTD 2010<sup>2</sup></b>
Ore mined (tonnes)	<b>827,900</b>	1,015,300	<b>2,511,500</b>	1,578,200
Waste mined (tonnes)	<b>1,307,900</b>	1,121,600	<b>4,469,800</b>	2,191,600
Deferred stripping (tonnes)	-	545,800	-	545,800
Total mined (tonnes)	<b>2,135,800</b>	2,682,700	<b>6,981,300</b>	4,315,600
Waste-to-ore ratio	<b>1.58</b>	1.64	<b>1.78</b>	1.73
Ore plant feed (tonnes)	<b>643,700</b>	1,008,500	<b>2,275,400</b>	1,589,500
Grade (g/tonne)	<b>0.56</b>	0.47	<b>0.52</b>	0.47
Production (ounces)	<b>11,778</b>	9,908	<b>29,896</b>	18,542
Sales (ounces)	<b>11,410</b>	10,995	<b>31,262</b>	17,617
Average cash cost per ounce of gold produced <sup>1</sup>	<b>\$ 1,263</b>	\$ 1,091	<b>\$ 1,332</b>	\$ 998

<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 September 30, 2010, following the acquisition of the Sao Vicente Mine.

In the third quarter of 2011, the Company mined 827,900 tonnes of ore and 1,307,900 tonnes of waste. Of the ore tonnes mined in the quarter, 155,900 were added to the ore stockpiles in preparation for the upcoming rainy season. Total material moved in the third quarter of 2011 of 2,135,800 tonnes is 13% lower than the prior quarter and 20% lower than the third quarter of 2010 primarily due to lower equipment availability.

The average head grade of the ore processed was 0.56 g/tonne, up 4% from the second quarter of 2011 and up 19% over the same quarter in 2010. The increase in ore grade is the result of accessing higher grade ore located in the bottom of the pit, which was generally inaccessible early in 2011 due to dewatering issues associated with the excessive rainfall.

Total ore crushed and/or stacked in the third quarter of 2011 of 643,700 tonnes was 24% lower than the prior quarter and 36% lower than the third quarter of 2010. As a result of the lower contained ounces stacked during the quarter, the process recovery rate for the third quarter of 2011 was 101%, which compares to 63% in the prior quarter and 65% in the third 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. As a result, the Sao Vicente Mine produced 11,778 gold ounces in the third quarter of 2011, an increase of approximately 27% over

the prior quarter's production and an increase of 19% over production recorded in the third quarter of 2010.

The average cash cost<sup>1</sup> per ounce produced in the third quarter of 2011 was \$1,263 as compared to a cash cost<sup>1</sup> of \$1,292 per ounce in the second quarter of 2011 and \$1,091 per ounce in the third quarter of 2010. The slight decrease in cash costs<sup>1</sup> for the current quarter as compared to the prior quarter is primarily the result of higher production in the current quarter. The 16% increase in cash cost<sup>1</sup> per ounce recorded in the third quarter of 2011 as compared to the third quarter of 2010 is primarily a result of the strengthening of the Brazilian real, in-country inflation and general cost escalation. As a result of the high production costs during the quarter, the Company recorded a write-down of \$432,000 for the three months ended September 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 updated the mine plan for the Sao Vicente Mine, based on the new mineral resource and reserve estimates. Key aspects for the new mine plan at the Sao Vicente Mine include: (i) a reduced mine life from 2014 to mid-2013, with leaching operations expected to continue through to the end of 2013; (ii) reduced waste tonnes mined from 33.9 million tonnes in the current three-year mine plan to approximately 5.0 million tonnes over 2012-2013, or by approximately 85%, and a reduction in the strip ratio from approximately 4.3 : 1 to 1.5 : 1; (iii) a 20% increase in the average reserve grade from 0.70 g/tonne to 0.84 g/tonne; and, (iv) total gold recovery in 2012-2013 under new mine plan is expected to be between 55,000 to 60,000 ounces. Consequently, the Company expects that the reduced mining and haulage costs associated with considerably less waste and the elimination of two rainy seasons, which have historically resulted in low production and high cost quarters, are expected to result in cash cost<sup>1</sup> of between \$1,200 - \$1,300 per ounce for 2012, which would otherwise be expected to be much higher under the current mine plan.

#### ***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.

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

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

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, second and third quarters and year-to-date 2011:

<b>Aranzazu Mine</b>				
<b>Operating Information</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>	<b>YTD 2011</b>
Ore mined (tonnes)	105,600	159,200	<b>189,300</b>	<b>454,100</b>
Ore milled (tonnes)	126,100	175,100	<b>169,800</b>	<b>471,000</b>
Copper grade (%)	0.74%	0.92%	<b>0.88%</b>	<b>0.85%</b>
Gold grade (g/tonne)	0.30	0.56	<b>0.53</b>	<b>0.48</b>
Silver grade (g/tonne)	15.78	14.12	<b>10.33</b>	<b>13.20</b>
Copper recovery <sup>1</sup>	46.2%	54.0%	<b>69.7%</b>	<b>57.6%</b>
Gold recovery	50.7%	57.0%	<b>56.6%</b>	<b>55.2%</b>
Silver recovery	49.1%	44.5%	<b>51.0%</b>	<b>48.1%</b>
Concentrate Production:				
Copper concentrate produced (dry metric tonnes ("DMT")):	1,728	2,830	<b>4,263</b>	<b>8,821</b>
Copper contained in concentrate (%)	24.8%	26.0%	<b>24.2%</b>	<b>24.9%</b>
Gold contained in concentrate (g/DMT)	12.4	18.9	<b>12.8</b>	<b>14.7</b>
Silver contained in concentrate (g/DMT)	538.8	337.02	<b>223.34</b>	<b>321.6</b>
Copper contained in concentrate (pounds)	942,900	1,619,100	<b>2,276,800</b>	<b>4,838,800</b>
Estimated payable copper produced (pounds)	892,700	1,536,500	<b>2,170,800</b>	<b>4,600,000</b>
Estimated payable gold produced (ounces)	601	1,574	<b>1,540</b>	<b>3,715</b>
Estimated payable silver produced (ounces)	27,023	25,984	<b>23,698</b>	<b>76,705</b>
Average cash cost per payable pound of copper produced, net of gold & silver credits <sup>2,3</sup>	\$4.87	\$3.28	<b>\$2.53</b>	<b>\$3.14</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 September 30, 2011, a total of 189,300 tonnes of underground and open pit ore were mined, an increase of 19% over the second quarter, reflecting increases in mining of both open-pit and underground ore. A total of 169,800 tonnes were milled in the quarter, a decrease of 3% from the second quarter, which included approximately 16,000 tonnes from the historic, high grade gold

ore in the Jaime stockpile. Additionally, mill throughput in the quarter continued to be impacted by lower than expected mill and equipment availability due in part to a water shortage caused by the caving of a portion of the main supply well. As a result, the operation averaged one-third milling capacity for approximately 16 days during July. The Aranzazu Mine is in the process of getting approval to drill a back-up well to avoid the recurrence of this event. In addition, the difficulty of processing fine wet ore through the vibrating feeders has caused reduced throughput rates and alternate feeder arrangements are being investigated.

The processing of a higher than planned proportion of oxidized ore material in 2011 has also had a negative impact on concentrate grade, although copper recoveries have increased quarter over quarter as the proportion of oxidized material decreased. 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 the fourth quarter.

The average head grades of the ore processed during the quarter ended September 30, 2011 were 0.88% copper, 0.53 g/tonne gold and 10.33 g/tonne silver. This represents decreases of 4%, 5% and 27% in copper, gold and silver grades, respectively. Third quarter recoveries increased to 69.7% and 51.0% for copper and silver, respectively, from 54.0% and 44.5% in the second quarter, and gold recoveries were unchanged. As a result, the Aranzazu Mine produced 4,263 DMT of copper concentrate in the third quarter, containing 2,276,800 pounds of copper (2,170,800 pounds of payable copper). As compared with the second quarter of 2011, concentrate tonnes produced increased by 51% and metal content increased by 41%, primarily the result of improved recoveries.

Cash costs<sup>1</sup> per payable pound of copper have steadily decreased quarter over quarter as production continues to increase, recoveries improve and the Aranzazu Mine moves towards design levels for throughput and concentrate production. Cash costs<sup>1</sup> in the third quarter of \$2.53 per payable pound represent a 23% decrease from the second quarter of 2011 despite being adversely impacted by the water supply shortage in July, which reduced production during that month.

Underground mining continues to be ramped up with the mining of ore from the Mexicana and BW zones. Underground operations were initially 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 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 Zone. Ore will be sourced from both open pit and underground during the remainder of 2011 and 2012, transitioning into full underground operations thereafter.

### **Aranzazu Updated Resource Estimate**

On October 17, 2011, the Company issued updated resource estimates using a 0.8% copper cut-off grade (the "2011 Aranzazu Resource Estimate"). The updated resource estimate is based on (i) in-fill drilling of the deposit in order to increase the confidence level for the overall system and ensure a

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

minimum of 25 metre centres for ongoing reserve estimates; and, (ii) deep drilling that has extended the mineralization at depth. Since the September 2010 resource estimate<sup>1</sup>, the Company has completed an additional 56,665 metres of drilling in 224 drill holes prior to the May 20, 2011 cut-off date for the updated resource estimate. Since taking over the Aranzazu Mine in June 2008, the Company has completed a total of 108,052 metres of drilling in 471 drill holes. The cut-offs are based on copper grades only. The 2011 Aranzazu Resource Estimate will be included in a National Instrument 43-101 ("NI 43-101") compliant report to be filed on SEDAR.

**Aranzazu Resource Estimate - 0.8% Cu only cut-off**

Category	Cut-off Grade Copper (%)	Tonnes ('000)	Copper (%)	Copper ('000 lbs)	Gold (g/t)	Gold ('000 oz.)	Silver (g/t)	Silver ('000 oz)
Measured	0.8	8,338	1.36	250,215	0.82	219	14.06	3,768
Indicated	0.8	9,432	1.63	338,523	0.56	171	21.45	6,504
<b>Measured and Indicated</b>	<b>0.8</b>	<b>17,770</b>	<b>1.50</b>	<b>588,738</b>	<b>0.68</b>	<b>390</b>	<b>17.98</b>	<b>10,272</b>
Inferred	0.8	5,808	1.40	178,902	0.58	94	17.64	3,295

The tonnes of measured and indicated resources for the updated 0.8% Cu cut-off estimate have increased by 25% as compared to the September 2010 resources estimate and based on similar average copper, gold and silver grades.

Based on the wide and continuous mineralization system further demonstrated by the 2011 Aranzazu Resource Estimate, suitable ground conditions and the fact that the Aranzazu Mine has a large and expanding resource base open along strike and at depth, the Company will be initiating a preliminary economic assessment study based on evaluating an expanded throughput rate up to 5,000 tpd. A throughput rate beyond 5,000 tpd would require a new concentrator location. Preliminary work has already started, but the bulk of the study will take place during the first half of 2012. The expansion would be based on a low cost bulk mining scenario such as long-hole open stoping.

**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.

The definitive feasibility study being prepared by SNC-Lavalin Inc. and its Brazilian subsidiary, SNC-Lavalin Minerconsult Engenharia Ltda., on the advanced-stage Serrote Deposit at the Company's Arapiraca Project is ongoing 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.

<sup>1</sup> The September 2010 resource estimate is contained in the technical report dated October 25, 2010, and entitled "NI 43-101 Technical Report and Resource Estimate on the Aranzazu Property, Zacatecas State, Mexico" prepared for Aura Minerals by William J. Lewis, B.Sc., P.Geo of Micon International Limited.

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, and assuming a positive result of the feasibility study, 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 three quarters of 2011, gold prices continued with their upward trend rising from just above \$1,400 per ounce at the start of the year and reaching record highs of over \$1,900 per ounce during the third quarter of 2011 before dropping to \$1,620 per ounce at the end of the quarter. Gold prices remain well-supported in light of continued concerns over the European Union debt crisis, low U.S. interest rates, and the persistent worries of a worldwide economic slowdown. 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 has been volatile throughout 2011, trading within a range of \$3.16 - \$4.46 per pound. Since the end of the third quarter, copper prices have remained volatile and have traded in the range of \$3.08 – \$3.64 per pound as of the date of this MD&A. The main contributors to this volatility appear to be concern over Eurozone debt, fears of a recession in the U.S. and Europe, and a slowdown of growth in China and other major emerging economies.

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

For the San Andres Mine, the Company is lowering 2011 production guidance to approximately 63,000 – 66,000 ounces of gold from 68,000 – 72,000 ounces of gold with per ounce cash costs<sup>1</sup> for the fourth quarter production in the \$800 – \$850 range and full year cash costs<sup>1</sup> guidance of \$770 – \$790 per ounce. The reduced guidance for 2011 is a result of higher strip ratios and the higher-than-normal percentage of clay altered mixed ore which has a lower recovery. Increased cash costs<sup>1</sup> guidance is due to the lower ounces produced than previously guided and general cost escalation on certain inputs such as cyanide.

During the third 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 was a 5% security tax on the San Andres Mine's export revenues, which was to be effective from July 8, 2011. However, later in the third quarter, the government of Honduras suspended the collection of this tax while it addressed and discussed concerns from the business community in the country. The government subsequently passed a new law in October 2011 which reduced this tax rate. The San Andres Mine's export revenues are subject to the new tax rate of 2% commencing early October 2011.

The updated mine plan prepared for the Sao Francisco Mine, based on the updated mineral resource and reserve estimates, has resulted in significant revisions to 2011 guidance. For the Sao Francisco Mine, the Company has reverted back to its original 2011 production guidance of between 55,000 – 60,000 ounces of gold from the 60,000 – 65,000 ounces of gold estimated after the second quarter. Also, with the estimated 29% reduction in average grades for 2012, as compared to the mine plan which was based on the previous mineral reserves and resources, the Company's preliminary projected guidance for 2012 is expected to be 75,000 – 80,000 ounces of gold, with cash costs<sup>1</sup> during the first half of 2012 of above \$1,500 per ounce. However, cash costs<sup>1</sup> are expected to decrease to less than \$1,200 per ounce in the second half of 2012 and further decrease to under \$1,000 per ounce in 2013 and 2014 as progressively higher grade ore material is mined as the pit deepens.

At the Sao Vicente Mine, the Company expects to be within its 2011 production guidance and produce between 42,000 – 43,000 ounces of gold, as well as its estimated cash costs<sup>1</sup> of \$1,250 - \$1,350 per ounce. As a result of the new mine plan at the Sao Vicente Mine, the Company expects that the reduced mining and haulage costs associated with considerably less waste and the elimination of two rainy seasons, are expected to reduce cash costs<sup>1</sup> to between \$1,200 - \$1,300 per ounce for 2012.

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

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

## Gold Production Estimates

San Andres Mine	63,000 - 66,000 oz
Sao Francisco Mine	55,000 - 60,000 oz
Sao Vicente Mine	42,000 - 43,000 oz
<b>Total</b>	<b>160,000 - 169,000 oz</b>

During the third quarter, the Company saw significant improvements in mining and processing rates, process recoveries, and production levels, as well as significantly lower cash costs<sup>1</sup> at the Aranzazu Mine. Copper grades mined to date have been below the resource average grades and the continued mining of mixed oxide / sulphide ore has also had a negative impact on metal production. The Company has revised its 2011 production guidance for the Aranzazu Mine to between 7 - 8 million pounds of copper, and 5,000 - 6,000 ounces of gold and 110,000 - 120,000 ounces of silver, with fourth quarter cash costs<sup>1</sup> expected to be between \$1.75 – \$2.25 per payable pound of copper, net of by-product credits from gold and silver.

Total capital expenditure guidance for the fourth quarter of 2011 is approximately \$6.5 million, of which \$3.7 million relates to underground development and machinery and equipment at the Aranzazu Mine and, \$2.8 million relates to the San Andres Mine. Exploration expenses are forecast to be approximately \$2.8 million for the fourth quarter of 2011, primarily relating to the Arapiraca Project feasibility study.

## 6. RESULTS OF OPERATIONS

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

#### *Revenue*

Revenue from the sale of gold and metals in concentrate is recognized in the financial statements when 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, refining and penalty charges 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 revenue, cost of goods sold and gross profit are presented below:

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

<i>(In thousands of dollars)</i>	<b>For the three months ended September 30, 2011</b>		For the three months ended September 30, 2010	
Revenue	\$	<b>80,137</b>	\$	47,550
Cost of goods sold		<b>68,120</b>		53,127
Gross profit (loss)	\$	<b>12,017</b>	\$	(5,577)

Total net revenues for the three months ended September 30, 2011 were \$80,137,000, inclusive of local sales taxes paid on sales at the Company's gold mines of \$914,000. The Company's gross revenue for the quarter is comprised of sales of gold from the Company's gold mines of \$72,119,000 and copper concentrate sales from the Aranzazu Mine of \$8,932,000.

Of the gross gold sales of \$72,119,000, \$21,418,000 related to the San Andres Mine, \$31,508,000 related to the Sao Francisco Mine, and \$19,193,000 related to the Sao Vicente Mine. For the quarter ended September 30, 2011, the Company sold 42,859 gold ounces from the Company's gold mines at an average realized price of \$1,683 per ounce, slightly lower than the market average price for the period of \$1,702 per ounce (London PM Fix).

Sales for the third quarter 2011 at the Aranzazu Mine related to the shipment of 4,000 DMT of copper concentrate. Total concentrate shipment revenues for the quarter were \$8,932,000 or \$2,233 per DMT. The total copper concentrate shipped contained 2,028,268 payable pounds of copper, 1,473 payable ounces of gold and 24,532 payable ounces of silver. The Company recorded an average price of \$8,113 per tonne (\$3.68 per pound) of copper, excluding the impact of price adjustments in the quarter, and average prices for gold and silver were \$1,730 per ounce and \$36.21 per ounce, respectively. Revenue related to concentrate shipments for the three months ended September 30, 2011 is comprised as follows:

<i>(In thousands of dollars)</i>	<b>For the three months ended September 30, 2011</b>	
Copper revenue, net of treatment and refining charges	\$	<b>6,511</b>
Gold by-product revenue		<b>2,549</b>
Silver by-product revenue		<b>888</b>
Price adjustments recorded		<b>(1,016)</b>
<b>Total revenue</b>	<b>\$</b>	<b>8,932</b>

Net sales for the quarter ended September 30, 2010 consisted solely of gold sales from the Company's gold mines and totalled \$47,550,000, inclusive of local sales taxes paid of \$487,000. The Company's gross revenue was comprised of sales of \$17,062,000 from the San Andres Mine, \$17,430,000 from the Sao Francisco Mine and \$13,545,000 from the Sao Vicente Mine. For the quarter ended September 30, 2010, the Company sold 39,087 gold ounces at an average realized price of \$1,229 per gold ounce, which compares to a market average price for the same period of \$1,227 per ounce (London PM Fix).

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

For the three months ended September 30, 2011, the Company recorded total cost of goods sold of \$68,120,000, of which \$57,572,000 related to the cost of gold sold from the Company's gold mines and \$10,548,000 related to the cost of copper concentrate sold in the period.

Cost of goods sold on gold sales of \$57,572,000 included cash operating costs of \$48,598,000 or \$1,134 per ounce and included a write-down of \$1,788,000, or \$42 per ounce to bring production inventory, including low-grade stockpiles, to its net realizable value. Together with non-cash depletion and amortization charges for the quarter of \$8,974,000 or \$209 per ounce, total cost of goods sold was \$1,343 on a per gold ounce basis.

Cost of goods sold on copper concentrate for the quarter ended September 30, 2011 included cash operating costs of concentrate sold of \$7,592,000 or \$1,898 per DMT of concentrate. Together with non-cash depletion and amortization for the period of \$2,956,000 or \$739 per DMT, total cost of goods sold relating to copper concentrate sales was \$10,548,000 or \$2,637 per DMT.

Cost of goods sold for the three months ended September 30, 2010 related solely to gold sold from the Company's gold mines and totalled \$53,127,000 or \$1,359 per ounce. Of this amount, \$45,452,000, or \$1,163 per ounce, were cash operating expenses and included a write-down of \$3,188,000 to bring inventory to its net realizable value. Non-cash depletion and amortization charges included in cost of goods sold for the quarter were \$7,675,000 or \$196 per ounce.

For the quarter ended September 30, 2011, the Company recorded a gross profit of \$12,017,000, as compared to gross loss of \$5,577,000 for the same period in 2010.

### *Other Expenses, Impairment Charge and Operating Loss*

Other expenses for the three months ended September 30, 2011 include general and administrative expenses of \$7,010,000 and exploration expenses of \$2,698,000. For the three months ended September 30, 2010, other expenses included general and administrative expenses of \$6,104,000 and exploration expenses of \$6,655,000.

General and administrative expenses relate primarily to the running of the Company's corporate offices in Canada and Brazil. For the three months ended September 30, 2011, such costs totalled \$7,010,000 and include: salaries, wages and benefits of \$2,260,000; share-based payment expense of \$2,620,000; professional and consulting fees of \$608,000; and general and administrative expenses of \$919,000. The remaining \$603,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$360,000, and amortization expense of \$243,000.

General and administrative expenses for the three months ended September 30, 2010 of \$6,104,000 include: salaries, wages and benefits of \$1,912,000; share-based payment expense of \$2,228,000; professional and consulting fees of \$553,000; and general and administrative expenses of \$243,000. The remaining \$1,168,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$741,000, and amortization expense of \$803,000, which includes amortization at the Aranzazu Mine while in care and maintenance, offset by an adjustment to the transaction costs associated with the acquisition of the Brazilian Mines of \$376,000.

For the three months ended September 30, 2011, the Company incurred \$2,698,000 in exploration costs, consisting of \$1,744,000 related to the Arapiraca Project, \$295,000 relating to the Aranzazu Mine, \$547,000 relating to the Brazilian Mines, \$71,000 relating to the San Andres Mine, and \$41,000 on other non-core projects.

For the three months ended September 30, 2010, the Company incurred \$6,655,000 in exploration costs, consisting of \$1,310,000 related to the Arapiraca Project, \$3,753,000 related to the Aranzazu Mine, \$1,491,000 related to the Brazilian Mines, and \$101,000 on other non-core projects.

For the three months ended September 30, 2011, the Company recorded an impairment charge of \$38,534,000 related to the long-lived assets and goodwill at the Sao Francisco Mine and the long-lived assets at the Sao Vicente Mine (See *“Corporate Developments and Significant Factors Affecting Results of Operations – Long-lived Asset and Goodwill Impairment – Sao Vicente Mine and Sao Francisco Mine”*).

As a result, for the three months ended September 30, 2011, the Company recorded an operating loss of \$36,225,000, which compares to an operating loss of \$18,336,000 for the three months ended September 30, 2010.

#### *Finance Costs, Other Income and Expenses, Taxes, and Net Loss*

For the three months ended September 30, 2011, the Company incurred finance costs of \$1,148,000, recorded interest and other income of \$19,000 and recorded other net gains of \$1,035,000. For the three months ended September 30, 2010, the Company incurred finance costs of \$1,364,000, recorded interest and other income of \$465,000, and recorded other net gains of \$4,414,000.

Finance costs for the three months ended September 30, 2011 of \$1,148,000 included \$906,000 in accretion expense on the Company's provisions for mine closure and restoration and other long-term liabilities and \$242,000 in costs primarily related to interest expense on borrowings under the Credit Facility and amortization of the transaction costs associated with the Credit Facility. Finance costs for the three months ended September 30, 2010 of \$1,364,000 included \$846,000 in accretion expense on the mine closure and restoration provisions and other long-term liabilities, and \$518,000 in interest expense on the promissory notes payable.

Other gains for the three months ended September 30, 2011 of \$1,035,000 consisted primarily of foreign exchange gains of \$1,172,000, an unrealized loss on foreign currency contracts of \$5,259,000 and an unrealized gain of \$5,208,000 on the Company's copper collar contracts. Other gains for the three months ended September 30, 2010 totalled \$4,414,000 and included foreign exchange gains of \$2,808,000, gains of \$876,000 related to the undesignated portion of the Company's cash flow hedges and gains on marketable securities of \$730,000.

Income tax expense for the three months ended September 30, 2011 totalled \$945,000 and consisted of \$1,770,000 in current income taxes related to the San Andres Mine and \$825,000 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 September 30, 2010 totalled \$2,006,000 and consisted of \$1,285,000 in current income tax expense related to the San Andres Mine and \$721,000 in deferred income tax expense.

For the three months ended September 30, 2011, the Company recorded a loss of \$37,264,000, which compares to a loss of \$16,827,000 for the three months ended September 30, 2010.

*Other comprehensive income (loss)*

Other comprehensive loss for the three months ended September 30, 2011 totalled \$2,335,000 and consisted of a loss on the translation of foreign subsidiaries from their functional currencies into the Company's presentation currency of \$1,912,000 and a decrease in fair value on the Company's cash flow hedges, net of tax impact, of \$423,000. Other comprehensive income for the three months ended September 30, 2010 totalled \$5,216,000 and consisted of a gain on the translation of foreign subsidiaries of \$3,505,000 and an increase in the fair value of cash flow hedges, net of tax impact, of \$1,711,000.

**Comparing the nine months ended September 30, 2011 to the nine months ended September 30, 2010**

*Revenues*

Results of operations for the Aranzazu Mine for the nine months ended September 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 revenue, cost of goods sold and gross profit are presented below:

<i>(In thousands of dollars)</i>	<b>For the nine months ended September 30, 2011</b>	For the nine months ended September 30, 2010
Revenues	\$ 202,690	\$ 105,917
Cost of goods sold	182,166	92,144
Gross profit	\$ 20,524	\$ 13,773

Total net revenues for the nine months ended September 30, 2011 were \$202,690,000, inclusive of local sales taxes paid on sales at the Company's gold mines of \$2,047,000. The Company's gross revenue for the nine-month period is comprised of sales of gold from the Company's gold mines of \$183,726,000 and copper concentrate sales from the Aranzazu Mine, from February 1, 2011, of \$21,011,000.

Of the gross gold sales of \$183,726,000, \$75,479,000 related to the San Andres Mine, \$60,396,000 related to the Sao Francisco Mine, and \$47,851,000 related to the Sao Vicente Mine. For the nine months ended September 30, 2011, the Company sold 119,732 gold ounces from the Company's gold mines at an average realized price of \$1,534 per ounce, which is equal to the market average price for the same period (London PM Fix).

Total sales for the nine months ended September 30, 2011 at the Aranzazu Mine related to the shipment of 8,744 DMT of copper concentrate. Total concentrate shipment revenues for the nine month period were \$21,965,000 or \$2,512 per DMT. The total copper concentrate shipped contained 4,302,607 payable pounds of copper, 3,642 payable ounces of gold and 68,702 payable ounces of silver.

The Company recorded an average price of \$8,664 per tonne (\$3.93 per pound) of copper, \$1,587 per ounce of gold and \$35.70 per ounce of silver, excluding the impact of price adjustments during the quarter. Of the concentrate sales made in the nine months ended September 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 \$954,000 was applied against the cost of the property, plant and equipment for the period and was not included in the statement of income (loss).

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

<i>(In thousands of dollars)</i>	<b>For the nine months ended September 30, 2011</b>	
Copper revenue, net of treatment and refining charges	\$	14,544
Gold by-product revenue		5,781
Silver by-product revenue		2,453
Price adjustments recorded		(813)
<b>Total revenue</b>	<b>\$</b>	<b>21,965</b>
Less: pre-production revenue applied against property, plant and equipment cost		(954)
<b>Total revenue recorded in the statement of income</b>	<b>\$</b>	<b>21,011</b>

Net revenue for the nine months ended September 30, 2010 consisted solely of gold sales from the Company's gold mines and totalled \$105,917,000, inclusive of local sales taxes paid of \$1,078,000. The Company's gross revenue was comprised of sales of \$59,052,000 from the San Andres Mine, \$26,105,000 from the Sao Francisco Mine and \$21,838,000 from the Sao Vicente Mine. For the nine months ended September 30, 2010, the Company sold 89,145 gold ounces at an average realized price of \$1,200 per gold ounce, which compares to a market average price for the same period of \$1,178 per ounce (London PM Fix).

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

For the nine months ended September 30, 2011, the Company recorded total cost of goods sold of \$182,166,000, of which \$155,107,000 related to the cost of gold sold from the Company's gold mines and \$27,059,000 related to the cost of copper concentrate sold in the period.

Cost of goods sold on gold sales of \$155,107,000 included cash operating costs of \$124,528,000 or \$1,040 per ounce and included a write-down of \$5,117,000, 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 \$30,579,000 or \$255 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 nine months ended September 30, 2011 included cash costs of concentrate sold of \$20,573,000 or \$2,456 per DMT of concentrate, and included a write-down of \$1,846,000, or \$220 per DMT of concentrate. Together with non-cash depletion and amortization for

the period of \$6,486,000 or \$774 per DMT, total cost of goods sold relating to copper concentrate sales was \$27,059,000 or \$3,230 per DMT.

Cost of goods sold for the nine months ended September 30, 2010 related solely to gold sold from the Company's gold mines and totalled \$92,144,000 or \$1,033 per ounce. Of this amount, \$77,582,000, or \$870 per ounce, were cash operating expense and included a net smelter return royalty of \$221,000 or approximately \$2 per ounce. The net smelter return royalty ceased being payable in mid-2010. Non-cash depletion and amortization charges included in cost of goods sold for the period were \$14,562,000 or \$163 per ounce.

For the nine months ended September 30, 2011, the Company recorded gross profit of \$20,524,000, as compared to gross profit of \$13,773,000 for the same period in 2010.

#### *Other Expenses, Impairment Charge and Operating Loss*

Other expenses for the nine months ended September 30, 2011 include general and administrative expenses of \$20,941,000 and exploration expenses of \$9,424,000. For the nine months ended September 30, 2010, other expenses included general and administrative expenses of \$22,786,000 and exploration expenses of \$18,346,000.

General and administrative expenses relate primarily to the running of the Company's corporate offices in Canada and Brazil. For the nine months ended September 30, 2011, such costs totalled \$20,941,000 and include: salaries, wages and benefits of \$7,256,000; share-based payment expense of \$6,560,000; professional and consulting fees of \$2,615,000; and general and administrative expenses of \$2,240,000. The remaining \$2,270,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$1,531,000, and amortization expense of \$739,000.

General and administrative expenses for the nine months ended September 30, 2010 of \$22,786,000 include: salaries, wages and benefits of \$4,932,000; share-based payment expense of \$9,749,000; transaction costs associated with the Brazilian Mine Acquisition of \$2,335,000; professional and consulting fees of \$1,235,000; and general and administrative expenses of \$1,435,000. The remaining \$3,100,000 relates to other general expenditures, which include travel expenses, directors' fees, and investor relations and filing fees, totalling \$1,900,000, and amortization expense of \$1,200,000, which includes amortization at the Aranzazu Mine while in care and maintenance.

For the nine months ended September 30, 2011, the Company incurred \$9,424,000 in exploration costs, consisting of \$3,728,000 related to the Arapiraca Project, \$2,091,000 relating to the Aranzazu Mine, \$2,985,000 relating to the Brazilian Mines, \$399,000 relating to the San Andres Mine, and \$221,000 on other non-core projects.

For the nine months ended September 30, 2010, the Company incurred \$18,346,000 in exploration costs, consisting of \$6,608,000 related to the Arapiraca Project, \$8,564,000 related to the Aranzazu Mine, \$2,723,000 related to the Brazilian Mines, \$139,000 related to the San Andres Mine and \$312,000 on other non-core projects.

For the nine months ended September 30, 2011, the Company recorded an impairment charge of \$38,534,000 related to the long-lived assets and goodwill at the Sao Francisco Mine and the long-lived assets at the Sao Vicente Mine (See “*Corporate Developments and Significant Factors Affecting Results of Operations – Long-lived Asset and Goodwill Impairment – Sao Vicente Mine and Sao Francisco Mine*”).

As a result, for the nine months ended September 30, 2011, the Company recorded an operating loss of \$48,375,000, which compares to an operating loss of \$27,359,000 for the nine months ended September 30, 2010.

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

For the nine months ended September 30, 2011, the Company incurred finance costs of \$3,471,000, recorded interest and other income of \$258,000, recorded a gain on the restructuring of its contractual obligations of \$17,009,000 (See “*Transactions with Related Parties*” below), and recorded other net gains of \$3,146,000. For the nine months ended September 30, 2010, the Company incurred finance costs of \$3,179,000, recorded interest and other income of \$709,000, and recorded other net gains of \$4,910,000.

Finance costs for the nine months ended September 30, 2011 of \$3,471,000 included \$2,437,000 in accretion expense on the Company’s provisions for mine closure and restoration and other long-term liabilities, \$807,000 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, and \$227,000 in other interest and finance costs which primarily relates to the amortization of the transaction costs associated with the Credit Facility. Finance costs for the nine months ended September 30, 2010 of \$3,179,000 included \$1,914,000 in accretion expense on the mine closure and restoration provisions and other long-term liabilities, and \$1,260,000 in interest expense on the promissory notes payable.

Other gains for the nine months ended September 30, 2011 of \$3,146,000 consisted primarily of foreign exchange gains of \$3,617,000, an unrealized gain of \$4,131,000 on the Company’s copper collar contracts, a gain on the undesignated portion of the Company’s cash flow hedges of \$1,176,000, and a loss on foreign currency contracts of \$5,259,000. Other gains for the nine months ended September 30, 2010 totalled \$4,910,000 and consisted primarily of foreign exchange gains of \$3,271,000 and gains of \$1,241,000 on the undesignated portion of the Company’s cash flow hedges.

Income tax expense for the nine months ended September 30, 2011 totalled \$222,000 and consisted of \$3,882,000 in current income tax expense related to the San Andres Mine, and \$3,660,000 in deferred tax recovery, which primarily relates to deferred tax assets recognized for the Aranzazu Mine during the period and the effect of changes in foreign exchange rates on deferred tax balances. Income tax expense for the nine months ended September 30, 2010 totalled \$6,647,000 and consisted of \$6,397,000 in current income tax expense related to the San Andres Mine and a deferred income tax expense of \$250,000.

For the nine months ended September 30, 2011, the Company recorded a loss of \$31,655,000, which compares to a loss of \$31,566,000 for the nine months ended September 30, 2010.

### Other comprehensive income (loss)

Other comprehensive loss for the nine months ended September 30, 2011 totalled \$4,602,000 and consisted of a loss on the translation of foreign subsidiaries from their functional currencies into the Company's presentation currency of \$3,315,000, and a decrease in fair value on the Company's cash flow hedges, net of tax impact, of \$1,287,000. Other comprehensive income for the nine months ended September 30, 2010 totalled \$7,435,000 and consisted of a gain on the translation of foreign subsidiaries of \$4,563,000 and an increase in the fair value of cash flow hedges, net of tax, of \$2,872,000.

## 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	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sept 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009
<i>(in thousands of US dollars, except per share information)</i>								
<i>Unaudited</i>								
<b>Sales revenue</b>	\$ 80,137	\$ 68,764	\$ 53,789	\$ 57,735	\$ 47,550	\$ 38,576	\$ 19,791	\$ 19,601
<b>Working capital <sup>(2)</sup></b>	\$ 66,667	\$ 62,816	\$ 42,303	\$ 50,202	\$ 81,906	\$ 105,218	\$ 153,249	\$ 40,526
<b>Property, plant and equipment</b>	\$ 334,471	\$ 371,303	\$ 375,445	\$ 358,710	\$ 370,061	\$ 358,250	\$ 200,277	\$ 182,627
<b>Profit (loss)<sup>(1)</sup></b>	\$ (37,264)	\$ 1,246	\$ 4,363	\$ (26,369)	\$ (16,827)	\$ (12,625)	\$ (1,345)	\$ (5,911)
<b>Profit (loss) per share (basic and diluted)</b>	\$ (0.16)	\$ 0.01	\$ 0.02	\$ (0.13)	\$ (0.08)	\$ (0.06)	\$ (0.01)	\$ (0.04)
<b>Adjusted profit (loss)</b>	\$ 5,074	\$ 884	\$ (5,197)	\$ 1,470	\$ (11,161)	\$ (6,089)	\$ 1,852	\$ (4,980)
<b>Adjusted profit (loss) per share (basic and diluted)</b>	\$ 0.02	\$ 0.00	\$ (0.02)	\$ 0.01	\$ (0.05)	\$ (0.03)	\$ 0.01	\$ (0.03)

<sup>(1)</sup> For the quarter ended March 31, 2011, inclusive of a gain on the restructuring of contractual obligations of \$17,009,000. For the quarter ended September 30, 2011, net of impairment charges of \$38,534,000. 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> 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 and the acquisition of the Brazilian Mines on April 30, 2010. 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 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 generated from operating activities during the three and nine months ended September 30, 2011 were \$8,336,000 and \$11,320,000, respectively. Cash and cash equivalents used in investing activities during the three and nine months ended September 30, 2011 were \$6,553,000 and \$43,377,000, respectively, and consisted primarily of \$7,803,000 and \$44,207,000, 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 nine months ended September 30, 2011 were \$333,000 and \$15,830,000, respectively, and included \$20,000,000 draw-down on the Credit Facility in the second quarter of 2011, net of related transaction costs of \$956,000. Cash generated from financing activities for the nine month period also included \$1,911,000 and \$579,000 in proceeds from the exercise of options and warrants, respectively, in the period, offset by \$5,000,000 in cash paid on the restructuring of the Company’s contractual obligations, as further described in *“Transactions with Related Parties.”*

Included in cash and cash equivalents at September 30, 2011 are \$507,000 denominated in Canadian dollars, \$10,874,000 denominated in Brazilian reais, \$3,591,000 denominated in Honduran lempiras and \$197,000 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 September 30, 2011, total capital expenditures incurred in the period on the Aranzazu Mine infrastructure and mine development were \$15.0 million, of which \$3.4 million related to capitalized stripping costs at the mine’s open pits. For the fourth quarter of 2011, the Company expects that the cost of underground mine development and other machinery and equipment at the Aranzazu Mine will be approximately \$3.7 million.

Other significant capital expenditures made in the nine month period ended September 30, 2011 included \$9.8 million in equipment and infrastructure at the Brazilian Mines, \$16.0 million in respect of the capitalized stripping costs at the Sao Francisco Mine and \$5.0 million at the San Andres Mine. Remaining 2011 capital expenditures for the fourth quarter of 2011 include an estimated \$2.8 million at the San Andres Mine.

Exploration spending in the nine months ended September 30, 2011 totalled \$9.4 million and fourth quarter 2011 exploration is expected to be approximately \$2.8 million, the majority of which relates to the feasibility study at the Serrote Deposit at its Arapiraca Project. The total cost of this study is expected to be approximately \$5.6 million.

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 September 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 September 30, 2011, working capital increased by \$3,851,000 to \$66,667,000, and includes cash and cash equivalents of \$20,576,000 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, operating cash flows, and funds available under the Credit Facility, if necessary. With improved results at the Aranzazu Mine, combined with positive cash margins at each of the Company's gold operations, continued strong metal prices, and reduced levels of capital expenditures expected for the balance of 2011, 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, for which project financing will be required. Subsequent to quarter end, on October 28, 2011, the Company received a commitment letter from another lender to become a party to the Credit Facility, such that the Credit Facility would be amended to allow for an increase to \$45 million on the same terms and conditions, save for a new covenant to allow the new lender to satisfactorily assess the existing resources and mine plan at the Aranzazu Mine, within 90 days of the commitment letter. The Company expects to be in a position to finalize the documentation and close the amended credit facility in December 2011.

## 9. CONTRACTUAL OBLIGATIONS

For the nine months ended September 30, 2011 and as of November 14, 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 September 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>
Net smelter return royalty	\$ 12,500	\$ Nil	\$ 12,500	\$ Nil	\$ Nil
Operating leases (premises and other)	470	98	372	Nil	Nil
Credit Facility	20,000	Nil	20,000	Nil	Nil
Commitments related to capital projects on-going	2,095	2,095	Nil	Nil	Nil
Mine closure and restoration	31,413	192	2,899	11,781	16,541
<b>Total contractual obligations</b>	<b>\$ 66,478</b>	<b>\$ 2,385</b>	<b>\$ 35,771</b>	<b>\$ 11,781</b>	<b>\$ 16,541</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 \$31,413,000. 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 the \$25,000,000 Credit Facility which is being used for working capital purposes at the Aranzazu Mine and general corporate purposes. As of September 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 net smelter return royalty ("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. Further details on the NSR Royalty are set out below in "Transactions with Related Parties".

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 September 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 nine months ended September 30, 2011, the Company was not party to any transactions with related parties, except for the restructuring of the Company's 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 restructuring of the contractual obligations was completed on March 18, 2011. The Company's contractual obligations as of March 18, 2011 included a total of \$64,247,000 in promissory notes and a total of \$43,154,000 in deferred purchase consideration. Under the terms of the restructuring, the contractual obligations were considered paid and satisfied in full, and related security was released, in consideration for: the issuance of 19,056,113 common shares in the capital of the Company, the payment of \$5,000,000 and the granting of a 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 and subject to the Company's right to extinguish the NSR Royalty obligation by the payment of cash, as described further in "Contractual Obligations". 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 September 30, 2010:

<i>(In thousands of United States dollars)</i>	<b>September 30, 2010</b>
<b>Shareholders' equity, as previously reported under Canadian GAAP</b>	<b>\$ 337,757</b>
Recognition of deferred purchase consideration payable	(11,948)
Adjustment for fair value of employee benefit obligations, net of tax	1,105
Provision for mine closure and restoration	(320)
Translation of foreign subsidiaries	7,571
	<b>\$ 334,165</b>

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

<i>(In thousands of United States dollars)</i>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
<b>Comprehensive loss previously reported under Canadian GAAP</b>	<b>\$ (14,914)</b>	<b>\$ (28,351)</b>
Accretion expense on deferred purchase consideration payable	(146)	(428)
Change in value of employee benefits provision	(23)	62
Change in value of provision for mine closure and restoration	(23)	(93)
Gain (loss) on translation of subsidiaries	3,505	4,563
Other adjustments	(10)	116
<b>Comprehensive loss under IFRS</b>	<b>\$ (11,611)</b>	<b>\$ (24,131)</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 \$87,000 for the three months and \$807,000 for the nine months ended September 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.

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 that 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.

On November 10, 2011, the Company announced that updated business plans for the Brazilian Mines had been prepared in conjunction with the completion of updated mineral resource and reserve estimates. (See *"Corporate Developments and Significant Factors Affecting Results of Operations – Long-lived Asset and Goodwill Impairment – Sao Vicente Mine and Sao Francisco Mine"*). The shortened mine lives and the decrease in mineral reserves and resources at each of the Brazilian Mines are considered a triggering event for the purpose of assessing whether the carrying value of the Brazilian Mines' long-lived assets and related goodwill are impaired. As such, the Company performed an additional impairment analysis as of September 30, 2011 on the value of the long-lived assets and goodwill amounts related to the Sao Francisco Mine and the Sao Vicente Mine, consisting of discounted cash flow models to evaluate the recoverability of each of such assets. The Company's analysis concluded that the long-lived assets at the Sao Vicente Mine were impaired and, as a result, the Company recorded an impairment charge of \$14,369,000 on the property, plant and equipment in the quarter ended September 30, 2011 which consisted of a reduction in the value of mineral properties of \$5,104,000 and a reduction of plant and machinery of \$9,265,000. The Company also concluded that the property, plant and equipment, as well as the entire goodwill, of the Sao Francisco Mine were impaired and as such recorded an impairment charge of \$24,165,000 in the quarter ended September

30, 2011, which consisted of a reduction of goodwill of \$18,214,000 and a reduction of mineral properties of \$5,951,000. The estimated future cash flows utilized in the cash flow models incorporated the Company's best estimates of future gold production based on the new mine plans developed for each of the Brazilian Mines, long-term consensus gold prices 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 an 8% 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 September 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 September 30, 2011, the Company was in compliance with this financial covenant.

As at September 30, 2011, the Company's credit risk is primarily related to the recovery of value added taxes and trade accounts receivable. The Company's \$5,372,000 in trade accounts receivable includes \$5,273,000 related to copper concentrate sales at the Aranzazu Mine, which is due from a single customer. Of the \$3,763,000 in value added taxes receivable at September 30, 2011, \$783,000 is due in Honduras, \$2,901,000 is due in Mexico, and \$79,000 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 production 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 nine months ended September 30, 2011 by approximately \$6,200,000 and \$16,300,000, respectively. 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 nine months ended September 30, 2011 by \$1,611,000 and \$746,000, respectively. A 10% change in the price of silver would not have a significant impact on the Company's income for the three or nine 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 September 30, 2011, the Company had cash and cash equivalents of \$20,576,000, of which \$507,000 was held in Canadian dollars, \$5,407,000 in United States dollars, \$10,874,000 in Brazilian reais, \$3,591,000 in Honduran lempiras, and \$197,000 in Mexican pesos. In previous quarters, 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. During the current quarter fluctuations in the Honduran lempira were minimal, however fluctuations in this currency going forward could 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 5, 2011, the Company closed out its unsettled currency contracts, remaining at the time, totalling 29,823,000 Brazilian reais for total cash proceeds of \$4,060,000. The portion of this gain which was designated as an effective hedge and deferred in other comprehensive income totalled \$1,940,000.

As of September 30, 2011, the total gain which remains deferred in other comprehensive income totals \$844,000, inclusive of the deferred tax impact of \$336,000.

During the third quarter of 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 40 million United States dollars at an average exchange rate of 1.6849 Brazilian real to the United States dollar were designated at inception as cash flow hedges against forecasted Brazilian reais denominated expenditures for the period from October 2011 to August 2012. However, as of September 30, 2011, the Company determined through its effectiveness testing that the hedges did not meet the accounting requirements for effective cash flow hedges and as such has recorded the unrealized losses on these contracts into the statement of income (loss) for the third quarter of 2011.

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 during the quarter.

#### **Copper collar contracts**

The Company entered into contracts with Barclay's Bank PLC to hedge a total of 6,000 tonnes of copper production 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 September 2011 have expired unexercised with no resulting gains or losses recognized by the Company. As at September 30, 2011 a total of 4,846 tonnes of copper production remain outstanding under the copper collar contracts.

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 (loss) in other gains and losses. For the three and nine months ended September 30, 2011, the Company recorded unrealized gains of \$5,208,000 and \$4,131,000, 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 seven 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**

The Company's management is responsible for designing and maintaining adequate internal controls over financial reporting ("ICFR"), under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Management is also responsible for the design and effectiveness of disclosure controls and procedures ("DC&P"), under the supervision of the CEO and CFO, to provide reasonable assurance that material information related to the Company is made known to the Company's certifying officers. Based on a review of the ICFR and DC&P as of December 31, 2010 and ongoing review and monitoring of these procedures, and as there were no changes in ICFR or DC&P in the nine months ended September 30, 2011 which have materially affected or are reasonably likely to materially affect ICFR or DC&P, management of the Company believes its internal controls and procedures are appropriately designed and effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner, and that material information relating to the Company is made known to them.

#### **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 produced 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 Sept 30, 2011</b>	For the quarter ended Sept 30, 2010	<b>For the nine months ended Sept 30, 2011</b>	For the nine months ended Sept 30, 2010
Cost of goods sold	\$ 57,572	\$ 53,127	\$ 155,107	\$ 92,144
Less: Amortization and depletion	<b>(8,974)</b>	(7,683)	<b>\$ (30,579)</b>	\$ (14,562)
Inventory movements and adjustments	<b>3,413</b>	(2,325)	<b>(3,249)</b>	5,155
Total cash cost	<b>\$ 52,011</b>	\$ 43,119	<b>\$ 121,279</b>	\$ 82,737
Gold ounces produced	<b>44,022</b>	38,465	<b>116,295</b>	93,068
Average cash cost per ounce of gold produced	<b>\$ 1,181</b>	\$ 1,121	<b>\$ 1,043</b>	\$ 889

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 Sept 30, 2011</b>	<b>For the period February 1 to Sept 30, 2011</b>
Cost of goods sold	\$ 10,548	\$ 27,059
Less: Amortization and depletion	<b>(2,956)</b>	<b>(6,486)</b>
Inventory movements and adjustments	<b>570</b>	<b>(436)</b>
Cash production costs	<b>\$ 8,162</b>	<b>\$ 20,137</b>
Less: Estimated by-product credits	<b>(3,707)</b>	<b>(8,704)</b>
Plus: Estimated selling costs	<b>1,038</b>	<b>2,253</b>
Total cash costs net of by-product credits	<b>\$ 5,493</b>	<b>\$ 13,686</b>
Payable copper pounds produced	<b>2,170,800</b>	<b>4,357,100</b>
Average cash cost per payable copper pound produced	<b>\$ 2.53</b>	<b>\$ 3.14</b>

### **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 "Third 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 NOVEMBER 14, 2011

(a) shares authorized: an unlimited number of common shares without par value.

(b) shares issued and outstanding: 228,042,156 common shares.

(c) stock options outstanding as at November 14, 2011:

Expiry Date	Exercise Price (C\$)	Outstanding Stock Options
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 5, 2012	2.63	1,032
August 23, 2012	5.90	30,000
September 25, 2012	6.60	30,000
September 28, 2012	2.63	5,000
September 30, 2012	7.50	200,000
September 30, 2012	3.50	100,000
September 30, 2012	2.63	8,750
October 14, 2012	3.16	100,000
October 14, 2012	2.63	2,250
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	700,000
August 14, 2013	5.35	183,000
December 30, 2013	0.775	1,835,999
September 11, 2014	3.16	680,000
October 19, 2014	3.26	20,000

Expiry Date	Exercise Price (C\$)	Outstanding Stock Options
November 2, 2014	3.23	760,000
December 14, 2014	4.19	80,000
February 8, 2015	3.64	85,000
February 17, 2015	3.91	90,000
March 15, 2015	4.00	200,000
March 29, 2015	3.84	123,750
April 9, 2015	3.50	1,910,000
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 12, 2016	2.63	1,423,750
June 24, 2016	2.21	40,000
July 5, 2016	2.15	100,000
August 22, 2016	1.87	1,260,000
October 27, 2016	1.70	480,000
Total:		<b>15,736,931</b>

(d) 110,848 restricted share units with an expiry date of December 31, 2013 were outstanding and 250,000 restricted share units with an expiry date of December 31, 2014 were outstanding.

(e) there were no warrants outstanding.

## 21. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This document contains "forward-looking information" within the meaning of Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. This information and these statements, referred to herein as "forward-looking statements" are made as of the date of this news release or as of the effective date of information described in this news release, as applicable. Forward-looking statements relate to future events or future performance and reflect current estimates, predictions, expectations or beliefs regarding future events and include, without limitation, statements with respect to: (i) the amount of mineral reserves and mineral resources; (ii) the amount of future production over any period; (iii) the amount of waste tonnes mined; (iv) the amount of mining and haulage costs; (v) cash costs; (vi) operating costs; (vii) strip ratios and mining rates; (viii) expected grades and ounces of metals and minerals; (ix) expected processing recoveries; (x) expected time frames; (xi) prices of metals and

minerals; (xii) mine life; and (xiii) anticipated gold hedge programs. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "projects", "estimates", "envisages", "assumes", "intends", "strategy", "goals", "objectives" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

All forward-looking statements are based on the Company's or its consultants' current beliefs as well as various assumptions made by and information currently available to them. These assumptions include, without limitation: (i) the presence of and continuity of metals at the Brazilian Mines at modeled grades; (ii) the capacities of various machinery and equipment; (iii) the availability of personnel, machinery and equipment at estimated prices; (iv) exchange rates; (v) metals and minerals sales prices; (vi) appropriate discount rates; (vii) tax rates and royalty rates applicable to the mining operations; (viii) cash costs; (ix) anticipated mining losses and dilution; (x) metals recovery rates, (xi) reasonable contingency requirements; and (xiii) receipt of regulatory approvals on acceptable terms. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Many forward-looking statements are made assuming the correctness of other forward looking statements, such as statements of net present value and internal rate of return, which are based on most of the other forward-looking statements and assumptions herein. The cost information is also prepared using current values, but the time for incurring the costs will be in the future and it is assumed costs will remain stable over the relevant period.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward-looking statements will not be achieved or that assumptions do not reflect future experience. We caution readers not to place undue reliance on these forward-looking statements as a number of important factors could cause the actual outcomes to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates assumptions and intentions expressed in such forward-looking statements. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, but specifically include, without limitation, risks relating to variations in the mineral content within the material identified as mineral reserves and mineral resources from that predicted, changes in development or mining plans due to changes in logistical, technical or other factors, 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 Annual Information Form, dated March 30, 2011, under the heading "*Item 4.2 – Risk Factors*", in the annual financial statements and management's discussion and analysis of the Company for the year ended December 31, 2010, in the Sao Francisco Technical Report, in the Sao Vicente Technical Report and in the technical reports relating to each of the Brazilian Mines expected to be filed by the Company within 45 days. The foregoing list of factors that may affect future results is not exhaustive.

When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on behalf of the Company, except as required by law.

The forward-looking statements 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. The reader is also cautioned that mineral resources that are not mineral reserves do not have demonstrated economic viability.

## **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).