Aura Minerals Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

Dated as of August 14, 2013

This management's discussion and analysis ("MD&A") should be read in conjunction with Aura Minerals Inc.'s (the "Company" or "Aura Minerals") unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2013 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 2012 audited consolidated financial statements, the related management discussion and analysis and the 2012 Annual Information Form ("AIF") dated March 20, 2013, as well as other information relating to Aura Minerals as filed on the Company's profile 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. Tables are expressed in thousands of United States dollar, except where otherwise noted.

This MD&A has been prepared as at August 14, 2013 and provides information that management believes is relevant to assessing and understanding the financial condition of the Company and the results of operations and cash flows for the three and six months ended June 30, 2013.

The Audit Committee, consisting of three independent directors of the Board of Directors of the Company, 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.

Statements herein are subject to the risks and uncertainties identified in the Risk Factors and Cautionary Note regarding Forward-Looking Information sections of this MD&A.

1. BACKGROUND AND CORE BUSINESS

Aura Minerals is a Canadian mid-tier gold-copper production company focused on the operation and development of gold and copper projects in the Americas. The Company is listed on the Toronto Stock Exchange under the symbol ORA. The Company's assets include:

- *The San Andres Gold Mine ("San Andres")* – An open-pit heap leach gold mine located in the highlands of western Honduras, in the municipality of La Union, Department of Copan approximately 150 kilometres southwest of the city of San Pedro Sula. The mine has been in production since 1983;
- *The Sao Francisco Gold Mine ("Sao Francisco")* – An open-pit heap leach gold mine located in the State of Mato Grosso, Brazil, approximately 560 kilometres west of Cuiaba, the state capital. The mine has been in production since 2006;
- *The Sao Vicente Gold Mine ("Sao Vicente")* – An open-pit heap leach gold mine located approximately 50 kilometres to the north of Sao Francisco in the State of Mato Grosso, Brazil. The mine has been in production since 2009;
- *The Aranzazu Copper Mine ("Aranzazu")* – An open-pit and underground mine operation with a 2,600 tonnes per day ("tpd") mill, producing a copper-gold-silver concentrate using flotation, located near the town of Concepcion del Oro in the state of Zacatecas, Mexico. The Company also controls approximately 11,380 hectares of exploration concessions centred on the Arroyos Azules underground mine and the past-producing El Cobre area. The mine has been in commercial production since February 1, 2011. In July 2012, the Company announced that it had received the results from the Aranzazu preliminary economic assessment study ("PEA") which evaluates a process plant feed rate expansion to a larger facility;

- *The Serrote da Laje Project ("Serrote")* – A wholly-owned, development-stage copper-gold-iron project which is the Company's core development asset. The Serrote 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 24 exploration licences totalling 40,899 hectares, 11 exploration applications totalling 19,622 hectares and one mining concession totalling 400 hectares. In September 2012, the Company announced the results from the feasibility study describing the scope, design and viability of developing Serrote based on an open pit mining operation with a copper concentrator operating at 19,000 tonnes per day and producing approximately 66 million pounds of copper and 13,000 gold ounces as a by-product per year; and
- *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, all located in the State of Para, Brazil (collectively, the "Para Properties"). 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"). This option is still in good standing.

Aura Minerals is focused on responsible, sustainable growth and strives to operate to the highest environmental and safety standards and in a socially responsible manner at all of its operations.

2. SECOND QUARTER 2013 FINANCIAL AND OPERATING HIGHLIGHTS

- Net sales revenue in the second quarter of 2013 increased 12% over the second quarter of 2012. Revenue detail is as follows:

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
San Andres, *(oz)*	**17,281**	13,880	**31,515**	26,558
Sao Francisco, *(oz)*	**25,555**	16,438	**51,256**	31,930
Sao Vicente, *(oz)*	**8,660**	10,324	**17,527**	19,381
Total ounces sold	**51,496**	40,642	**100,298**	77,869
Realized average gold price per ounce ("oz")	**$ 1,441**	$ 1,601	**$ 1,535**	$ 1,643
Gold sales revenues *(in '000's) net of local sales taxes*	**$ 73,020**	$ 63,782	**$ 151,561**	$ 125,400
Copper concentrate sales *(in '000's)*	**$ 8,236**	$ 8,812	**$ 18,280**	$ 22,790
Total net sales *(in '000's)*	**$ 81,256**	$ 72,594	**$ 169,841**	$ 148,190

The average realized prices per oz for the quarters ended June 30, 2013 and 2012 in the above table compare to the average market prices (London PM Fix) of $1,415 and $1,610 per oz, respectively.

Copper concentrate sales are from the shipment of 6,301 dry metric tonnes ("DMT") and 5,338 DMT of copper concentrate for the quarters ended June 30, 2013 and 2012, respectively;

- Gold oz production in the second quarter of 2013 was 24% higher compared to the second quarter of 2012. Gold production and cash costs[1] for the three and six months ended June 30, 2013 and 2012 are as follows:

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Oz Produced		**Cash Costs[1]**	Oz Produced		Cash Costs[1]
San Andres	**15,374**	**$**	**1,146**	18,131	$	918
Sao Francisco	**26,771**		**1,053**	15,826		1,752
Sao Vicente	**10,280**		**1,153**	8,404		1,581
Total / Average	**52,425**	**$**	**1,100**	42,361	$	1,361

	For the six months ended June 30, 2013			For the six months ended June 30, 2012		
	Oz Produced		**Cash Costs[1]**	Oz Produced		Cash Costs[1]
San Andres	**31,088**	**$**	**1,131**	31,517	$	1,008
Sao Francisco	**52,423**		**1,190**	31,175		2,083
Sao Vicente	**19,328**		**1,273**	17,256		1,567
Total / Average	**102,839**	**$**	**1,188**	79,948	$	1,548

- Copper production at Aranzazu for the second quarter of 2013 and 2012 was 3,205,000 pounds and 2,960,700 pounds, respectively, an increase of 8%. On-site average cash cost[1] per pound of payable copper produced, net of gold and silver credits was $3.63 for the second quarter of 2013 compared to $2.92 for the second quarter of 2012;
- Gross margin of $(14.5) million and $(8.3) million for the three months ended June 30, 2013 and 2012, respectively;
- Loss of $50.1 million or $0.22 per share for the second quarter of 2013 compared to a loss of $11.5 million or $0.05 per share for the second quarter of 2012. The loss for the second quarter of 2013 includes an impairment charge of $16.0 million on the Sao Francisco Mine and $40.2 million on the San Andres Mine resulting from the consensus gold price declining significantly to below the gold price assumptions used in the most recent annual impairment tests; and
- Operating cash flow[1] of $11.1 million for the second quarter of 2013 compared to $3.2 million for the second quarter of 2012.

[1] A cautionary note regarding non-GAAP measures is included in Section 17 of this MD&A.

3. REVIEW OF MINING OPERATIONS AND DEVELOPMENT PROJECTS

San Andres, Honduras

The table below sets out selected operating information for San Andres for the three and six months ended June 30, 2013 and 2012:

	Q2 2013	Q2 2012	**YTD 2013**	YTD 2012
Ore mined (tonnes)	**1,518,489**	1,201,300	**2,895,091**	2,289,900
Waste mined (tonnes)	**971,980**	480,900	**1,947,987**	1,153,800
Total mined (tonnes)	**2,490,469**	1,682,200	**4,843,078**	3,443,700
Waste-to-ore ratio	**0.64**	0.40	**0.67**	0.50
Ore plant feed (tonnes)	**1,466,616**	1,235,900	**2,874,288**	2,302,000
Grade (g/tonne)	**0.64**	0.73	**0.60**	0.71
Production (oz)	**15,374**	18,131	**31,088**	31,517
Sales (oz)	**17,281**	13,880	**31,515**	26,558
Average cash cost per oz of gold produced[1]	**$ 1,146**	$ 918	**$ 1,131**	$ 1,008

Total ore and waste mined during the second quarter 2013 was 48% higher than the comparable quarter. During the second quarter of 2013, ore mined was 26% higher than the comparable quarter and waste mined was 102% higher. The waste-to-ore ratio was 60% higher when comparing the second quarters of 2013 and 2012. The increase in the waste and ore tonnes moved resulted from the mining contractor bringing in a larger rigid body 65 tonne truck in June which has increased efficiency and lowered unit costs.

Total plant feed during the second quarter of 2013 was 19% higher than the tonnes processed in the same quarter in 2012. The ore plant feed average grade for the second quarter 2013 decreased by 12% compared to the second quarter of 2012, due to lower grade areas mined in 2013. Mining in the Cerro Cortez area continues to yield higher grades than originally expected and will be closely monitored.

Gold production at San Andres in the second quarter of 2013 decreased by 15% over the comparable period primarily due to significantly below average recoveries. The cause of the below average recoveries has been identified as being located in the ADR plant and a solution is being implemented and is in progress.

Average cash cost per oz of gold produced[1] in the second quarter of 2013 increased 25% over the second quarter of 2012.

The 15,000 metre drilling program for 2013 is continuing with priority on near term production targets with higher grades.

[1] A cautionary note regarding non-GAAP measures is included in Section 17 of this MD&A.

Sao Francisco, Brazil

The table below sets out selected operating information for Sao Francisco for the three and six months ended June 30, 2013 and 2012:

	Q2 2013	Q2 2012	**YTD 2013**	YTD 2012
Ore mined (tonnes)	**1,384,640**	1,544,600	**2,774,731**	2,362,200
Waste mined (tonnes)	**1,771,169**	3,173,300	**3,529,991**	7,094,800
Total mined (tonnes)	**3,155,809**	4,717,900	**6,304,722**	9,457,000
Waste-to-ore ratio (Includes deferred stripping waste)	**1.28**	2.05	**1.27**	3.00
Ore plant feed (tonnes)	**1,389,054**	1,126,900	**2,899,078**	2,197,100
Grade (g/tonne)	**0.71**	0.57	**0.64**	0.53
Production (oz)	**26,771**	15,826	**52,423**	31,175
Sales (oz)	**25,555**	16,438	**51,256**	31,930
Average cash cost per oz of gold produced[1]	**$ 1,053**	$ 1,752	**$ 1,190**	$ 2,083

Total material moved during the second quarter of 2013 was 33% lower than the second quarter of 2012. The waste-to-ore ratio was 38% lower than the comparable period in 2012 because of the reduced strip ratio as the pit deepened and higher ore tonnes were encountered outside the block model. Material moved is lower due to restrictions resulting from the tightening of the pit and longer haul distances of both waste and ore.

Total plant feed during the second quarter of 2013 was 23% higher than the same quarter in 2012. The ore plant feed average grade for the second quarter of 2013 was 25% higher than the second quarter of 2012.

Gold production in the second quarter of 2013 was 49% higher than the second quarter of 2012 due to higher plant throughput and grade and the recovery of additional gold from the staged leach on the heap. The second quarter of 2012 operations continued to reflect that quarter's recovery to normalized operations from the structural failure of the primary crusher feed bin in early February 2012, which resulted in Sao Francisco not having use of the primary crusher for 47 days during the first quarter of 2012. The structural issues were rectified and the repaired crusher was re-installed in late-March 2012 and resumed operation.

Average cash cost per oz of gold produced[1] in the second quarter of 2013 was 40% lower than the second quarter of 2012. The higher average cash cost per oz of gold produced[1] in the second quarter of 2012 was primarily due to lower leached gold after the structural failure of the primary crusher during the first quarter of 2012 while Q2 2013's average cash cost was also improved by the weakening of the Brazilian real.

Mining is expected to continue to the end of August 2014 as exploration drilling in Q1 and Q2 of 2013 has located additional mineralized material below the ramp in the northwest area of the pit. An updated reconciliation indicates that certain waste and low grade zones could potentially convert to additional plant feed. Indications are that the plant processing at SF could extend to Q4 2014 as a result.

[1] A cautionary note regarding non-GAAP measures is included in Section 17 of this MD&A.

Sao Vicente, Brazil

The table below sets out selected operating information for Sao Vicente for the three and six months ended June 30, 2013 and 2012:

	Q2 2013	Q2 2012	**YTD 2013**	YTD 2012
Ore mined (tonnes)	**939,046**	483,200	**1,553,306**	787,400
Waste mined (tonnes)	**312,065**	998,200	**1,116,727**	1,986,100
Total mined (tonnes)	**1,251,111**	1,481,400	**2,670,033**	2,773,500
Waste-to-ore ratio	**0.33**	2.07	**0.73**	2.52
Ore plant feed (tonnes)	**702,938**	630,700	**1,290,683**	1,130,900
Grade (g/tonne)	**0.56**	0.56	**0.56**	0.61
Production (oz)	**10,280**	8,404	**19,328**	17,256
Sales (oz)	**8,660**	10,324	**17,527**	19,381
Average cash cost per oz of gold produced[1]	**$ 1,153**	$ 1,581	**$ 1,273**	$ 1,567

Total material moved in the second quarter of 2013 was 16% lower than the second quarter of 2012 and the waste-to-ore ratio decreased by 84%.

The average head grade of the ore processed was consistent for the second quarter of 2013 as compared to 2012.

Total ore crushed and stacked in the second quarter of 2013 was 11% higher than during the second quarter of 2012.

During the second quarter of 2013, 22% more gold oz were produced as compared to the second quarter of 2012.

The average cash cost per oz of gold produced[1] in the second quarter of 2013 was 27% lower than the average cash cost[1] in the second quarter of 2012.

There is sufficient feed material in stockpiles to keep the plant full at 120,000 tonnes per month until late 2013. The heap leach pads will continue to operate with cyanide addition in early 2014, while we continue to irrigate the heap.

[1] A cautionary note regarding non-GAAP measures is included in Section 17 of this MD&A.

Aranzazu, Mexico

The table below sets out selected operating information for Aranzazu for three and six months ended June 30, 2013 and 2012:

	Q2 2013	Q2 2012	**YTD 2013**	YTD 2012
Ore mined (tonnes)	**254,700**	191,000	**472,900**	424,900
Ore milled (tonnes)	**215,800**	218,500	**389,500**	411,100
Copper grade (%)	**0.89%**	0.85%	**0.92%**	0.92%
Gold grade (g/tonne)	**0.44**	0.46	**0.46**	0.50
Silver grade (g/tonne)	**15.94**	12.78	**15.77**	12.02
Copper recovery[1]	**75.4%**	70.8%	**78.2%**	74.2%
Gold recovery	**61.4%**	62.7%	**64.1%**	66.5%
Silver recovery	**48.4%**	46.5%	**47.9%**	56.4%
Concentrate production:				
Copper concentrate produced (DMT)	**6,184**	5,602	**11,621**	11,785
Copper contained in concentrate (%)	**23.5%**	24.0%	**24.2%**	24.3%
Gold contained in concentrate (g/DMT)	**9.3**	10.4	**9.5**	11.0
Silver contained in concentrate (g/DMT)	**267.6**	238.5	**253.8**	245.2
Copper contained in concentrate (pounds)	**3,205,000**	2,960,700	**6,210,000**	6,306,200
Estimated payable copper produced (pounds)	**3,035,300**	2,806,900	**5,890,800**	5,982,500
Estimated payable gold produced (oz)	**1,650**	1,695	**3,180**	3,782
Estimated payable silver produced (oz)	**47,156**	37,481	**83,446**	81,372
Average cash cost per payable pound of copper produced, net of gold and silver credits [2]	**$ 3.63**	$ 2.92	**$ 3.66**	$ 2.67

[1] Recoveries based on a mixture of sulphide and oxide ores, not primary sulphide ores.

[2] A cautionary note regarding non-GAAP measures is included in section 17 of this MD&A.

For the three months ended June 30, 2013, ore mined and ore milled were 33% higher and 1% lower than the comparative period in 2012.

The 5% decrease in copper grades for the three months ended June 30, 2013 compared to the three months ended June 30, 2012 was primarily due to the blending of ore from four distinct zones to reduce the arsenic feed grades. Copper concentrate production increased by 10% in the second quarter of 2013 as compared to the second quarter of 2012 and the copper recovery increased by 6%.

Average cash cost per payable pound of copper produced[1] for the three months ended June 30, 2013 increased by 24% as compared to the three months ended June 30, 2012.

The average arsenic level in the copper concentrate was 1.05% during the three months ended June 30, 2013.

[1] A cautionary note regarding non-GAAP measures is included in Section 17 of this MD&A.

In February 2013, a partial roasting facility package was selected and awarded, with an expected delivery time of 46 weeks. Detailed engineering, procurement and arsenic stabilization engineering commenced but has now been placed on hold pending the outcome of the financing discussions. Aranzazu continues with a program of blending to ensure that the value is maximized from the sale of concentrates. The basic engineering design for the planned processing plant expansion is advancing well and expected to be completed in August 2013. A new fresh water system, coarse ore feeder redesign and a high solids thickener are also part of the engineering design package.

Serrote

The Serrote project early development phase is proceeding well. During the six months ended June 30, 2013, the Company's wholly-owned subsidiary Mineração Vale Verde Ltda. received R$45 million (approximately $20 million) (the "Bridge Loan") from Banco Itaú BBA S.A. ("Itaú"). The Bridge Loan is being used by the Company for community resettlement, engineering, long-lead equipment procurement and early site improvements. Community resettlement is proceeding well, with resettlement in areas of early construction substantially complete. Basic engineering is complete, and engineering of long lead equipment has been awarded.

The Company has also retained Itaú as a financial advisor to assist in structuring on a best efforts basis and subject to customary terms and conditions, including market conditions, long-term project financing for the Serrote project. The Company is considering options to maximize the value of Serrote including, but not limited to, a disposal of a majority interest in the project equity and has appointed Itaú and RBC Capital Markets to manage this process.

Brazilian Mines – Value Maximization

The Company has been investigating multiple options to maximize the disposal and closure value of the assets of the Brazilian Mines, including selling the plant and equipment and utilizing key members of their operating teams our other locations.

Non-core exploration properties

The Company is considering options on the Para Properties, such as joint venture or royalty agreements or an outright sale thereof.

National Instrument 43-101 Compliance

Unless otherwise indicated, Aura Minerals has prepared the technical information in this MD&A ("Technical Information") based on information contained in the technical reports and news releases (collectively the "Disclosure Documents") available under the Company's profile on SEDAR at www.sedar.com. Each Disclosure Document was prepared by or under the supervision of a qualified person (a "Qualified Person") as defined in National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*. Readers are encouraged to review the full text of the Disclosure Documents which qualify the Technical Information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents. The disclosure of Technical Information in this MD&A has been reviewed and approved by Bruce Butcher, P. Eng., Vice President, Technical Services.

4. OUTLOOK AND STRATEGY

Aura Minerals' future profitability, operating cash flows and financial position will be closely related to the prevailing prices of gold and copper. Key factors influencing the price of gold and copper include the supply of and demand for these commodities, the relative strength of currencies (particularly the U.S. dollar) and macroeconomic factors such as current and future expectations for inflation and interest rates. Management believes that the short-to-medium term economic environment is likely to remain relatively supportive for both gold and copper prices but with continued volatility for both commodities. In order to decrease risks associated with gold price volatility the Company will evaluate entering into additional hedging programs.

Other key factors influencing profitability and operating cash flows are production levels (impacted by grades, ore quantities, labour, plant and equipment availabilities, and process recoveries) and production and processing costs (impacted by production levels, prices and usage of key consumables, labour, inflation, and exchange rates).

Aura Minerals' production and cash cost per oz guidance for the 2013 year has not changed from previous guidance and is as follows:

Gold Mines	Cash Cost per oz	2013 Production
San Andres	$1,000 - $1,150	60,000 - 65,000 oz
Sao Francisco	$1,100 - $1,250	78,000 - 88,000 oz
Sao Vicente	$ 950 - $1,100	28,000 - 32,000 oz
Total	$1,050 - $1,200	166,000 - 185,000 oz

Aranzazu's production for 2013 is expected to be between 13,000,000 and 15,000,000 pounds of copper at a range of $2.90 to $3.40 average cash cost per payable pound of copper, which has remained unchanged since our guidance in the first quarter of 2013.

For the remainder of 2013, total capital spending is expected to be $13 million. This amount relates to growth and sustaining capital for existing mines - including $5 million on the development of Aranzazu and $8 million on completing Phase V of the heap leach expansion, installation of a second secondary crusher and community expenditures at San Andres. These capital expenditures are expected to be funded by a combination of internal cash flows and external financing and may be delayed if financing is not obtained; The Company has also delayed previously planned development expenditures at Serrote until project financing is completed.

5. RESULTS OF OPERATIONS

Comparing the three months ended June 30, 2013 to the three months ended June 30, 2012

Revenues

Details of revenues, cost of goods sold and gross margin are presented below:

(In thousands of dollars)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012
Revenues:		
San Andres	**$ 24,559**	$ 21,274
Brazilian Mines	**48,461**	42,508
Aranzazu	**8,236**	8,812
	$ 81,256	$ 72,594
Direct Operating Costs:		
San Andres	**$ 20,104**	$ 13,625
Brazilian Mines	**41,184**	42,516
Aranzazu	**15,908**	10,283
	$ 77,196	$ 66,424
Depletion and Amortization:		
San Andres	**$ 2,697**	$ 2,518
Brazilian Mines	**12,648**	9,406
Aranzazu	**3,204**	2,525
	$ 18,549	$ 14,449
Gross Margin:		
San Andres	**$ 1,758**	$ 5,131
Brazilian Mines	**(5,371)**	(9,414)
Aranzazu	**(10,876)**	(3,996)
	$ (14,489)	$ (8,279)

Revenues for the three months ended June 30, 2013 increased 12% compared to the three months ended June 30, 2012. The increase in revenues resulted from a 14% increase in gold sales partially offset by a 7% decrease in copper concentrate sales.

The increase in gold sales is mainly attributable to a 27% increase in oz sold partially offset by a 10% decrease in the realized average gold price per oz.

Revenue related to concentrate shipments for three months ended June 30, 2013 and 2012 is comprised as follows:

(In thousands of dollars)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012
Copper revenue, net of treatment and refining charges	**$ 7,104**	$ 6,278
Gold by-product revenue	**2,333**	2,679
Silver by-product revenue	**985**	1,051
Price adjustments recorded	**(2,186)**	(1,196)
Total revenue	**$ 8,236**	$ 8,812

The decrease in copper concentrate sales is attributable to a 21% decrease in realized revenue per DMT of copper concentrate partially offset by an 18% increase in DMT sold. Total revenues for the three months ended June 30, 2013 at Aranzazu related to the shipment of 6,301 DMT of copper concentrate compared to 5,338 DMT of copper concentrate for the prior comparable period. Total concentrate shipment revenues for the three months ended June 30, 2013 and 2012 were $1,307 per DMT and $1,651 per DMT, respectively. The lower concentrate shipment revenue per DMT is due to lower commodity prices on current shipments as well as price adjustments of $347 per DMT resulting therefrom and the full effect of the arsenic-related treatment and refining charges and penalties (such charges were implemented mid-way through Q2 2012) and improvements to off-take contracts only being in effect in the later part of Q2 2013.

Cost of Goods Sold

At San Andres, for the three months ended June 30, 2013 and 2012, total cost of goods sold was $22,801,000 or $1,319 per oz compared to $16,143,000 or $1,163 per oz, respectively. For the three months ended June 30, 2013 and 2012, cash operating costs were $1,163 per oz and $982 per oz, respectively, while non-cash depletion and amortization charges were $156 per oz and $181 per oz, respectively.

At the Brazilian Mines, total cost of goods sold for the three months ended June 30, 2013 and 2012 was $53,832,000 or $1,573 per oz and $51,922,000 or $1,940 per oz, respectively. Cash operating costs for the three months ended June 30, 2013 and 2012 were $1,204 per oz and $1,589 per oz, respectively, while non-cash depletion and amortization charges were $370 per oz and $351 per oz, respectively. The cash operating costs for the three months ended June 30, 2013 included a write-down of $12,349,000 or $361 per oz to bring production inventory to its net realizable value (2012: $4,329,000 or $162 per ounce). The depreciation portion of the inventory write-down during the three months ended June 30, 2013 totalled $8,453,000 or $247 per oz (2012: $620,000 or $23 per oz).

At Aranzazu, total cost of goods sold for the three months ended June 30, 2013 and 2012 was $19,112,000 or $3,033 per DMT and $12,808,000 or $2,399 per DMT, respectively. Cash operating costs for the three months ended June 30, 2013 and 2012 were $2,525 per DMT and $1,926 per DMT, respectively, while non-cash depletion and amortization charges were $508 per DMT and $473 per DMT, respectively. The cash operating costs for the three months ended June 30, 2013 included a write-down of $4,699,000 or $746 per DMT to bring production inventory to its net realizable value (2012: $1,302,000 or $244 per DMT of concentrate). The depreciation portion of the inventory write-down during the three months ended June 30, 2013 totalled $3,130,000 or $497 per DMT (2012: $708,000 or $133 per DMT).

Other Expenses, Impairment Charges and Operating Loss

For the three months ended June 30, 2013 and 2012, general and administrative costs include:

(In thousands of dollars)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012
Salaries, wages and benefits	**$ 2,456**	$ 1,740
Share-based payment expense	**373**	703
Professional and consulting fees	**556**	392
Travel expenses	**82**	137
Directors' fees	**89**	91
Amortization	**124**	228
Other	**645**	601
	$ 4,325	$ 3,892

Salaries, wages and benefits increased 41% due to an increase in the annual short-term incentive plan payments and employee relocation costs. Share-based payment expense decreased 47% as a result of no stock options being granted in the second quarter of 2013.

Exploration costs for the three months ended June 30, 2013 and 2012 included the following:

(In thousands of dollars)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012
Serrote	**$ 122**	$ 537
Aranzazu	**12**	389
Sao Vicente	**224**	298
San Andres	**306**	28
Non-core projects	**23**	46
	$ 687	$ 1,298

The decrease in exploration costs for Serrote and Aranzazu reflect the completion of the feasibility study and PEA, respectively.

For the three months ended June 30, 2013, the Company recorded an impairment charge of $16,021,000 related to the long-lived assets of the Sao Francisco Mine and $40,172,000 related to the long-lived assets of the San Andres Mine.

For the three months ended June 30, 2013 and 2012, the Company recorded an operating loss of $75,694,000, and $13,469,000, respectively.

Finance and Other Income and Expenses, Taxes, and Loss

Finance costs for the three months ended June 30, 2013 and 2012 included the following:

(In thousands of dollars)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012
Accretion	**$ 1,229**	$ 296
Interest expense on debt	**531**	594
Other interest and finance costs	**188**	166
	$ 1,948	$ 1,056

The increase in accretion relates to changes to the estimates of long-term employee benefits and the net smelter return royalty payable.

Other gains for the three months ended June 30, 2013 and 2012 consisted of:

(In thousands of dollars)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012
Foreign exchange loss	**$ (910)**	$ (1,107)
Unrealized (loss) gain on copper collar contracts	**(43)**	264
Unrealized (loss) gain on gold collar contracts	**(2,352)**	3,642
Realized gain on gold collar contracts	**13,487**	683
Unrealized gain (loss) on foreign currency contracts	**8**	(375)
Realized loss on foreign currency contracts	**-**	(1,180)
Gain on change in estimates of net smelter royalty payable	**877**	-
Other	**(413)**	(363)
	$ 10,654	$ 1,564

Income tax recovery for the three months ended June 30, 2013 was $16,856,000 and consisted of $484,000 in current income tax expense related to San Andres, and $17,342,000 in deferred tax recovery, which primarily related to the impairment charge recorded at San Andres. Income tax recovery for the three months ended June 30, 2012 was $1,427,000 and consisted of $1,489,000 in current income tax expense related to San Andres, and $2,916,000 in deferred tax recovery, which primarily relates to deferred tax assets recognized for Aranzazu during the period.

For the three months ended June 30, 2013 the Company recorded a loss of $50,078,000, which compares to a loss of $11,507,000 for the three months ended June 30, 2012.

Other comprehensive loss

Other comprehensive loss for the three months ended June 30, 2013 totalled $836,000 and related to the translation of foreign subsidiaries from their functional currencies into the Company's presentation currency. Other comprehensive loss for the three months ended June 30, 2012 totalled $657,000 and consisted of a loss on the translation of foreign subsidiaries of $414,000 and a decrease in the fair value of cash flow hedges, net of tax, of $243,000.

Comparing the six months ended June 30, 2013 to the six months ended June 30, 2012

Revenues

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

(In thousands of dollars)	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Revenues:		
San Andres Mine	**$ 47,087**	$ 41,771
Brazilian Mines	**104,474**	83,629
Aranzazu Mine	**18,280**	22,790
	$ 169,841	$ 148,190
Direct Operating Costs:		
San Andres Mine	**$ 37,035**	$ 27,779
Brazilian Mines	**89,709**	92,037
Aranzazu Mine	**26,832**	19,982
	$ 153,576	$ 139,798
Depletion and Amortization:		
San Andres Mine	**$ 6,487**	$ 5,524
Brazilian Mines	**26,151**	16,763
Aranzazu Mine	**5,311**	4,916
	$ 37,949	$ 27,203
Gross Margin:		
San Andres Mine	**$ 3,565**	$ 8,468
Brazilian Mines	**(11,386)**	(25,171)
Aranzazu Mine	**(13,863)**	(2,108)
	$ (21,684)	$ (18,811)

Revenues for the six months ended June 30, 2013 increased 15% compared to the six months ended June 30, 2012. The increase in revenues resulted from a 21% increase in gold sales offset by a 20% decrease in copper concentrate sales.

The increase in gold sales is attributable to a 29% increase in gold sales volumes partially offset by a 7% decrease in the realized average gold price per ounce.

Revenue related to concentrate shipments for the six months ended June 30, 2013 and 2012 is comprised as follows:

(In thousands of dollars)	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Copper revenue, net of treatment and refining charges	**$ 14,057**	$ 15,200
Gold by-product revenue	**5,070**	5,834
Silver by-product revenue	**2,084**	2,403
Price adjustments recorded	**(2,931)**	(647)
Total revenue	**$ 18,280**	$ 22,790

The decrease in copper concentrate sales is attributable to a 26% decrease in realized revenue per DMT of copper concentrate, partially offset by a 9% increase in DMT sold. Total revenues for the six months ended June 30, 2013 at Aranzazu related to the shipment of 11,668 DMT of copper concentrate compared to 10,723 DMT of copper concentrate for the six months ended June 30, 2012. Total concentrate shipment revenues for the six months ended June 30, 2013 and 2012 were $1,567 per DMT and $2,125 per DMT, respectively. The lower concentrate shipment revenue per DMT is due to lower commodity prices and the full effect of the arsenic-related treatment and refining charges and penalties (such charges were implemented mid-way through Q2 2012) and improvements to off-take contracts only being in effect in the later part of Q2 2013.

Cost of Goods Sold

For the six months ended June 30, 2013 and 2012, total cost of goods sold from San Andres was $43,522,000 or $1,381 per ounce compared to $33,303,000 or $1,254 per ounce, respectively. For the six months ended June 30, 2013 and 2012, cash operating costs were $1,175 per ounce and $1,046 per ounce, respectively, while non-cash depletion and amortization charges were $206 per ounce and $208 per ounce, respectively.

Total cost of goods sold from the Brazilian Mines for the six months ended June 30, 2013 and 2012 was $115,860,000 or $1,684 per ounce and $108,800,000 or $2,120 per ounce, respectively. For the six months ended June 30, 2013 and 2012, cash operating costs were $1,304 per ounce and $1,794 per ounce, respectively, while non-cash depletion and amortization charges were $380 per ounce and $327 per ounce, respectively. The cash operating costs for the six months ended June 30, 2013 included a write-down of $15,543,000 or $226 per ounce to bring production inventory to its net realizable value (2012: $17,751,000 or $346 per ounce). The depreciation portion of the inventory write-down during the six months ended June 30, 2013 totalled $10,161,000 or $148 per oz (2012: $2,847,000 or $55 per oz).

Total cost of goods sold from Aranzazu for the six months ended June 30, 2013 and 2012 was $32,143,000 or $2,755 per DMT and $24,898,000 or $2,322 per DMT, respectively. For the six months ended June 30, 2013 and 2012, cash operating costs were $2,300 per DMT and $1,863 per DMT, respectively, while non-cash depletion and amortization charges were $455 per DMT and $458 per DMT, respectively. The cash operating costs for the six months ended June 30, 2013 included a write-down of $5,723,000 or $490 per DMT to bring production inventory to its net realizable value (2012: $2,219,000 or $207 per DMT). The depreciation portion of the inventory write-down during the six months ended June 30, 2013 totalled $4,154,000 or $356 per DMT (2012: $1,627,000 or $152 per DMT).

Other Expenses Impairment Charges and Operating Loss

For the six months ended June 30, 2013 and 2012, general and administrative costs include:

(In thousands of dollars)	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Salaries, wages and benefits	**$ 4,157**	$ 4,180
Share-based payment expense	**902**	2,729
Professional and consulting fees	**1,170**	840
Travel expenses	**204**	268
Directors' fees	**187**	197
Amortization	**267**	471
Other	**904**	1,475
	$ 7,791	$ 10,160

Share-based payment expense decreased 67% as a result of a lower value assigned to stock options granted during the period and prior period forfeitures.

Exploration costs for the six months ended June 30, 2013 and 2012 included the following:

(In thousands of dollars)	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Serrote Project	**$ 122**	$ 3,318
Aranzazu Mine	**12**	1,001
Sao Vicente Mine	**264**	653
San Andres Mine	**834**	76
Non-core projects	**131**	115
	$ 1,363	$ 5,163

The decrease in exploration costs for Serrote and Aranzazu reflect the completion of the feasibility study and PEA, respectively.

For the six months ended June 30, 2013, the Company recorded an impairment charge of $16,021,000 related to the long-lived assets of the Sao Francisco Mine and $40,172,000 related to the long-lived assets of the San Andres Mine.

For the six months ended June 30, 2013, the Company recorded an operating loss of $87,031,000, which compares to an operating loss of $34,134,000 for the comparable period.

Finance and Other Income and Expenses, Taxes, and Loss for the period

Finance costs for the six months ended June 30, 2013 and 2012 included the following:

(In thousands of dollars)	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Accretion	**$ 2,118**	$ 1,193
Interest expense on debt	**1,022**	469
Other interest and finance costs	**472**	266
	$ 3,612	$ 1,928

The increase in accretion relates to changes to the estimate of long-term employee benefits and the net smelter return royalty payable, while the increase in interest expense on debt reflects the Company's higher debt levels.

Other gains for the six months ended June 30, 2013 increased 93% compared to June 30, 2012. Other gains consisted of:

	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Foreign exchange loss	**$ (1,126)**	$ (838)
Unrealized loss on copper collar contracts	**(126)**	(1,109)
Unrealized (loss) gain on gold collar contracts	**(781)**	8,274
Realized gain on gold collar contracts	**13,963**	683
Unrealized gain on foreign currency contracts	**182**	1,742
Realized gain (loss) on foreign currency contracts	**4**	(1,860)
Gain on change in estimates of net smelter royalty payable	**877**	–
Other	**(522)**	(415)
	$ 12,471	$ 6,477

Income tax expense for the six months ended June 30, 2013 was $17,082,000 and consisted of $1,518,000 in current income tax expense related to San Andres, and $18,600,000 in deferred tax recovery, which primarily related to the impairment charge recorded at San Andres. Income tax expense for the six months ended June 30, 2012 was $613,000 and consisted of $2,841,000 in current income tax expense related to San Andres, and $2,228,000 in deferred tax recovery, which primarily relates to deferred tax assets recognized for Aranzazu during the period.

For the six months ended June 30, 2013, the Company recorded a loss of $61,016,000, which compares to a loss of $30,190,000 for the six months ended June 30, 2012.

Other comprehensive loss

Other comprehensive loss for the six months ended June 30, 2013 totalled $528,000 and consisted of a loss on the translation of foreign subsidiaries from their functional currencies into the Company's presentation currency of $528,000. Other comprehensive loss for the six months ended June 30, 2012 totalled $830,000 and consisted of a loss on the translation of foreign subsidiaries from their functional currencies into the Company's presentation currency of $316,000, and a decrease in the fair value of the Company's cash flow hedges, net of tax impact, of $514,000.

6. 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.

For the Quarters Ended *(in thousands of US dollars, except per share information)* *(Unaudited)*	**Jun 30, 2013**	**Mar 31, 2013**	**Dec 31, 2012**	**Sept 30, 2012**	**Jun 30, 2012**	**Mar 31, 2012**	**Dec 31, 2011**	**Sept 30, 2011**
Sales revenue	$ 81,256	$ 88,585	$ 86,404	$ 72,818	$ 72,594	$ 75,596	$ 85,750	$ 80,137
Working capital	$ 12,326	$ 12,887	$ 56,169	$ 49,375	$ 51,896	$ 76,323	$ 83,380	$ 66,667
Property, plant and equipment	$ 228,929	$ 291,796	$ 289,460	$ 290,552	$ 302,302	$ 311,047	$ 319,484	$ 334,471
Impairment charges[(1)(2)]	$ 56,193	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 38,534
Loss	$ (50,078)	$ (10,938)	$ (9,681)	$ (16,938)	$ (11,507)	$ (18,683)	$ (10,121)	$ (37,264)
Loss per share (basic and diluted)	$ (0.22)	$ (0.05)	$ (0.04)	$ (0.07)	$ (0.05)	$ (0.08)	$ (0.04)	$ (0.16)
Operating cash flows [(3)]	$ 11,128	$ 11,467	$ 17,908	$ 18,047	$ 3,239	$ (2,497)	$ 15,006	$ 17,103

(1) For the quarter ended December 31, 2012, an impairment charge of $6,236,000 was recorded in relation to the Company's Sao Francisco mine while an impairment reversal of $6,236,000 was recorded in relation to the Company's Sao Vicente mine.

(2) For the quarter ended June 30, 2013, an impairment charge of $16,021,000 was recorded in relation to the Company's Sao Francisco mine and an impairment charge of $40,172,000 was recorded in relation to the Company's San Andres mine.

(3) A cautionary note regarding non-GAAP measures is included in Section 17 of this MD&A.

The factors that have caused quarter-to-quarter variations include several significant financings over the periods presented. Refer to *"Liquidity and Capital Resources"* for additional information on the working capital movements.

For further additional information on period to period variations, see *"Review of Mining Operations and Development Projects" and "Results of Operations".*

7. LIQUIDITY AND CAPITAL RESOURCES

The changes in cash and cash equivalents for the three and six months ended June 30, 2013 and 2012 are presented in the table below:

(In thousands of dollars)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Cash flow generated by operating activities	**$ 20,224**	$ 7,999	**$ 22,068**	$ 5,225
Cash flow used for the purchase of property, plant and equipment	**(14,907)**	(5,171)	**(36,543)**	(10,622)
Increase in restricted cash	**(4,320)**	–	**(4,320)**	–
Cash flow (used in) generated by financing activities	**(1,007)**	4,085	**22,944**	3,998
Effect of exchange rate changes on cash and cash equivalents	**(148)**	336	**84**	137
(Decrease) increase in cash and cash equivalents	**$ (158)**	$ 7,249	**$ 4,233**	$ (1,262)

Significant capital expenditures during the three months ended June 30, 2013 include $3.5 million in equipment and capitalized stripping costs at Aranzazu, $3.3 million in development and infrastructure at San Andres and $7.5 million for Serrote development and land acquisitions.

Cash flow used in financing activities for the three months ended June 30, 2013 reflects a $2 million draw on the $5 million short-term promissory note at the San Andres project with a $1 million repayment of the short-term promissory note and R$24.6 million (approximately $12.3 million) received from the Bridge Loan. Cash flow used in financing activities for the three months ended June 30, 2013 also reflects the repayment of $12.3 million on the Credit Facility. As at June 30, 2013, the Company's outstanding balance on the Credit Facility was $29.7 million. Interest paid on this debt for the three months ended June 30, 2013 was $531,000. 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 and at the date of any additional draw. As at June 30, 2013, the Company was in compliance with its financial covenant. However, certain defaults and events of default have occurred and are continuing under the Credit Agreement. The Company obtained a forbearance which expired July 31, 2013. The Company is currently in advanced negotiations with the lenders to finalize an extension to the forbearance and expects to obtain this imminently. If a waiver or forbearance is not obtained, the credit facility, in the amount of $29.7 million, will be repayable on demand. The Credit Facility is repayable on June 30, 2014.

During the six months ended June 30, 2013, working capital decreased by $43,202,000 to $12,967,000. The working capital includes cash and cash equivalents of $13,550,000 at the quarter end and $4,614,000 of PIS/COFINS receivable tax credits in Brazil.

The Company has experienced recurring operating losses and has a deficit of $369,877,000 at June 30, 2013. For the three months ended June 30, 2013, the Company incurred a loss of $49,378,000 which includes impairment charges of $56,193,000. Based on the Company's current cash flow forecasts, which reflect the current gold prices, the Company presently does not have sufficient funds or working capital to make the required debt repayments over the next twelve months and to fund all of its planned expansion activities without refinancing or obtaining additional financing.

These factors raise significant doubt about the Company's ability to continue as a going concern. The Company's continuing operations are dependent upon its ability to refinance its current funding or raise additional funding to meet its obligations and attain profitable operations. Accordingly, the Company is currently evaluating a number of financing alternatives, including, but not limited to, loans and the issuance of notes in the capital markets, to meet its liquidity, debt service and capital expenditure requirements. Although management is confident that the Company will be able to refinance its current funding or secure additional financing, there are no assurances that the Company will be successful.

8. CONTRACTUAL OBLIGATIONS

For the six months ended June 30, 2013 and as at the date of this MD&A, the Company has not entered into any contractual obligations that are outside of the ordinary course of business.

As of June 30, 2013 the Company had drawn $29.7 million on the Credit Facility, $4 million on the short-term promissory note at San Andres and R$45 million (approximately $20 million) on the Serrote Bridge Loan (see *Liquidity and Capital Resources*).

As at June 30, 2013, the Company has committed to purchases for equipment and capital projects in process of $508,000 at Aranzazu and $56,000 at San Andres.

9. OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of June 30, 2013, other than certain royalty obligations in respect of Aranzazu, the Serrote Project and certain other non-core projects.

10. TRANSACTIONS WITH RELATED PARTIES

During the three and six months ended June 30, 2013, the Company paid $39,000 and $72,000 to two companies with common directors for rent and other charges on an arm's length basis.

11. PROPOSED TRANSACTIONS

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

12. CHANGES IN ACCOUNTING POLICIES

As of January 1, 2013, the Company adopted the new and amended IFRS pronouncements in accordance with the transitional provisions outlined in the respective standards as listed below.

Pronouncement affecting financial statement presentation or disclosures

IFRS 12, Disclosure of interests in other entities

The Company adopted IFRS 12 on January 1, 2013. IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. IFRS 12 does not require the disclosures to be included for any period that precedes the first annual period for which IFRS 12 is applied. Additional disclosures will be included in the Company's annual consolidated financial statements for the year ended December 31, 2013.

IFRS 13, Fair value measurement

The Company adopted IFRS 13 with prospective application from January 1, 2013. IFRS 13 is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

The adoption of IFRS 13 did not have an effect on the Company's condensed interim consolidated financial statements for the current period. The Company has added additional disclosures on fair value measurement in note 23 of the Financial Statements.

Amendment to IAS 1, Presentation of Financial Statements

The Company adopted the amendments to IAS 1 on January 1, 2013, with restrospective application. The amendments to IAS 1 require items to be grouped within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified.

The Company has amended its condensed interim consolidated statements of comprehensive loss for all periods presented to reflect the presentation changes required under the amended IAS 1. There is no net impact on comprehensive income.

Amendment to IAS 34, Interim financial reporting

The Company adopted the amendments to IAS 34 effective January 1, 2013. IAS 34 was amended to establish criteria for disclosing total segmented assets and require certain fair value disclosures. The fair value disclosures have been incorporated into the Financial Statements.

Pronouncements affecting accounting policies only

IFRS 10, Consolidated financial statements

The Company adopted IFRS 10 on January 1, 2013 with retrospective application. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supercedes IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities.

The Company has concluded that IFRS 10 did not have an effect on the Financial Statements for the current period or prior periods presented as the adoption did not result in the consolidation status of any of the subsidiaries.

IFRS 11, Joint arrangements

The Company adopted IFRS 11 on January 1, 2013 with retrospective application. IFRS 11 requires a venturer to classify its interest in a joint agreement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

The Company has concluded that IFRS 11 did not have an effect on the Financial Statements for the current period or prior periods presented as the Company does not have any joint arrangements.

IFRIC 20, Stripping costs in the production phase of a surface mine

The Company adopted IFRIC 20 and applied the requirements to production stripping costs incurred on or after January 1, 2012, in accordance with the transitional provisions. The predecessor stripping assets recorded as of January 1, 2012, the date of the earliest period presented, have been reviewed in accordance with IFRIC 20. IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine.

The Company has concluded that IFRIC 20 did not have an effect on the Financial Statements for the current period or prior periods presented.

New accounting pronouncements

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2014 with earlier application permitted and may have an impact on the Company:

IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. The standard is applicable for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

13. 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, deferral of stripping costs, depletion and amortization of mineral property, plant and equipment, impairment of long-lived assets 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 Financial Statements for the year ended December 31, 2012. Management's critical accounting estimates are applied as follows:

Inventory Valuation

Finished goods, work-in-process, heap leach ore and stockpile ore are valued at the lower of the average production costs or net realizable value. The assumptions used in the valuation of work-in process inventories include estimates of gold contained in the ore stacked on leach pads, the amount of gold that is expected to be recovered from the leach pads, the amount of gold in the mill circuits and assumption of the gold or copper price expected to be realized when the gold or copper is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write-down the recorded value of its work-in-process inventories, which would reduce the Company's earnings and working capital.

Deferral of stripping costs

In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves and mineral resources that will be mined in a future period and therefore should be capitalized, the Company determines whether it is probable that the future economic benefit associated with the stripping activity will flow to the Company.

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.

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.

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.

<u>Brazilian Mines</u>

At December 31, 2012, the Company recorded an impairment charge relating to Sao Francisco and an impairment reversal in relation to Sao Vicente. These impairment models are highly sensitive to changes in the gold price.

During the three months ended June 30, 2013, the consensus gold price declined significantly to below the gold price assumptions for 2013 and 2014 used in the most recent annual impairment tests. This is considered an impairment indicator.

The Company conducted an impairment analysis whereby the carrying values of the property, plant and equipment, including mineral properties, of Sao Francisco and Sao Vicente were compared to the Brazilian Mines' fair values using the value-in-use methodology. The estimated future cash flows utilized in the value-in-use cash flow models incorporated the Company's best estimates of future gold production based on the new mine plans developed, consensus gold prices, estimates of operating costs and residual values and fluctuations in the exchange rates between the United States dollar and the Brazilian real. The Company discounted these cash flows using a 12% discount rate, which was based on the Company's tax effected weighted average cost of capital, in order to obtain the estimated fair values of the Brazilian Mines. 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. Such change could be material.

The Company's analysis concluded that the long-lived assets of Sao Francisco were impaired and, as a result, the Company recorded an impairment charge of $16,021,000 on the property, plant and equipment in the three and six months ended June 30, 2013, which resulted in a reduction in the value of mineral properties of $4,519,000 and a reduction in the value of plant and machinery of $10,802,000. The Company concluded that no further impairment was required for the long-lived assets of Sao Vicente.

San Andres Mine

During the three months ended June 30, 2013, the consensus gold price declined significantly to below the gold price assumptions used in the Company's life-of-mine forecast for San Andres. This is considered an impairment indicator.

The Company conducted an impairment analysis whereby the carrying values of the property, plant and equipment, including mineral properties, of San Andres were compared to the mine's fair values using the value-in-use methodology. The estimated future cash flows utilized in the value-in-use cash flow models incorporated the Company's best estimates of future gold production based on the new mine plans developed, consensus gold prices, estimates of operating costs and residual values and fluctuations in the exchange rates between the United States dollar and the Brazilian real. The Company discounted these cash flows using a 12% discount rate, which was based on the Company's tax effected weighted average cost of capital, in order to obtain the estimated fair values of San Andres. 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. Such change could be material.

The Company's analysis concluded that the long-lived assets of San Andres were impaired and, as a result, the Company recorded an impairment charge of $40,172,000 on the property, plant and equipment in the three months ended June 30, 2013, which resulted in a reduction in the value of mineral properties of $30,345,000 and a reduction in the value of plant and machinery of $9,827,000.

Aranzazu Mine

During the three months ended June 30, 2013, the market prices for gold and copper declined significantly to below the commodity price assumptions used in the Company's life-of-mine forecast for Aranzazu. This is considered an impairment indicator.

In accordance with the applicable accounting standards, the Company conducted an impairment test whereby the carrying values of Aranzazu's property, plant and equipment, including mineral properties, were compared to the fair values using the fair value less cost to sell methodology. In carrying out the review of Aranzazu's long-lived assets for impairment, the Company utilized discounted cash flow models incorporating estimates or assumptions that include such factors as consensus copper prices, mine life and plan, recovery rates, operating costs, capital and reclamation costs, exchange rates, inflation rates and discount rates. In the case of the Company's analysis, these factors were based on assumptions and inputs disclosed by the Company on July 18, 2012 from the Preliminary Economic Assessment and included a discount rate of 8%.

The Company's analysis concluded that the long-lived assets of Aranzazu were not impaired and as a result no impairment charge was required.

14. 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, derivative contracts, 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.

The Company's credit risk is limited to trade receivables and derivative contracts in the ordinary course of business and the quality of its financial investments. At Aranzazu, as of June 30, 2013, the Company's trade accounts receivable balance is due from two customers. The Company believes that its credit risk exposure on sales of concentrate is limited as the Company sells its product to large, international purchasers with high credit ratings.

The sale of gold is at spot prices in world markets. Also, as cash receipts following gold sales are usually at same-day value, the Company does not consider credit risk associated with gold sales to be a significant risk. Furthermore, 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 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 at June 30, 2013, the Company has no outstanding hedge contracts for copper concentrate or gold production.

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 loss or other comprehensive gain (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 and Mexican pesos. The Company's net revenues from its Honduran, Brazilian and Mexican operations, including treatment charges and royalties are substantially denominated in United States dollars, however, the majority of all other operating expenses are in Honduran lempiras, Brazilian reais and Mexican pesos, respectively. At June 30, 2013, the Company had cash and cash equivalents of $13,550,000, of which $1,432,000 was held in Canadian dollars, $6,547,000 in United States dollars, $3,874,000 in Brazilian reais, $830,000 in Honduran lempiras, and $867,000 in Mexican pesos, which are subject to foreign currency fluctuations. The Company's restricted cash of $4,320,000 is held in Brazilian reais, which is subject to foreign currency fluctuations. Accordingly, depending upon the timing of expenditures and receipts at San Andres, the Brazilian Mines, and Aranzazu, the Company will be subject to foreign currency rate fluctuations between these currencies and the United States dollar.

In prior periods, the Company had limited exposure to fluctuations in the Honduran lempira as this currency was pegged to the United States dollar. However, in late-July 2011, the Honduran lempira changed from a fixed exchange currency to a floating exchange currency. Since that time, fluctuations in the Honduran lempira have been minimal. However, fluctuations in this currency going forward could expose the Company to currency risk as could significant fluctuations in the Mexican peso, Brazilian real, or Canadian dollar.

Foreign currency contracts

The Company enters into foreign currency contracts from time to time to mitigate its exposure to fluctuations in the Brazilian real against the United States dollar.

These derivative instruments 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 loss in other gains and losses. For the three and six months ended June 30, 2013, the Company recorded an unrealized gain of $8,000 and $182,000 (2012: unrealized loss of $375,000 and unrealized gain of $1,742,000), respectively.

At June 30, 2013, the Company did not have any foreign currency contracts outstanding.

Copper collar contracts

During the six months ended June 30, 2013, put/call collars for January to May expired unexercised while the June contract was exercised.

These derivative instruments 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 loss in other gains and losses. For the three and six months ended June 30, 2013, the Company recorded an unrealized loss of $43,000 and $126,000 (2012: unrealized gain of $264,000 and unrealized loss of $1,109,000), respectively.

At June 30, 2013, the Company did not have any copper collar contracts outstanding.

Gold collar contracts

During the year ended December 31, 2012, in connection with the implementation of the new mine plans at the Brazilian Mines, the Company entered into contracts to hedge a total of 80,000 ounces of gold between April 1, 2012 and June 30, 2014. The derivative instruments entered into were in the form of zero-cost put/call collars with a floor price of $1,700 per ounce of gold and an average ceiling price of $1,812 per ounce of gold.

These derivative instruments were not designated as hedges by the Company, and were marked to their market values at the end of each reporting date. Adjustments to the market value are included in the statement of loss in other gains and losses. For the three and six months ended June 30, 2013, the Company recorded unrealized losses of $2,352,000 and $781,000 (2012: unrealized gains of $3,642,000 and $8,274,000).

The Company settled all of these contracts in the three months ending June 30, 2013 for a realized gain of $13,487,000. At June 30, 2013, the Company did not have any gold collar contracts outstanding.

15. CORPORATE GOVERNANCE

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

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

16. 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, 2012 and ongoing review and monitoring of these procedures, and as there were no changes in ICFR or DC&P in the three months ended June 30, 2013 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.

17. NON-GAAP PERFORMANCE MEASURES

In this MD&A, the Company has included the average cash cost per oz of gold, average cash cost per payable pound of copper and operating cash flow which are non-GAAP performance measures. 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 and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Average cash cost per oz of gold or per payable pound of copper is presented as it represents an industry standard method of comparing certain costs on a per unit basis. Total cash cost of gold produced includes on-site mining, processing, administration costs, off-site refining and royalty charges, reduced by silver by-product credits, but excludes amortization, reclamation, and exploration costs, as well as capital expenditures. Total cash cost of gold produced is divided by oz produced to arrive at cash cost per oz. Similarly, total cash cost of copper produced includes the above costs, and is net of gold and silver by-products, but includes offsite treatment and refining charges. Total cash cost of copper produced is divided by payable pounds of copper produced to arrive at an average cash cost per payable pound.

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

(In thousands of dollars except for ounces of gold produced and average cash cost per ounce)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Cost of goods sold	**$ 76,633**	$ 68,065	**$ 159,382**	$ 142,103
Less: Depletion and amortization	**(15,345)**	(11,924)	**(32,638)**	(22,287)
Inventory movements and adjustments	**(3,250)**	1,525	**(1,851)**	3,917
Total cash cost	**$ 58,038**	$ 57,666	**$ 124,893**	$ 123,733
Gold ounces produced	**52,425**	42,361	**102,839**	79,949
Average cash cost per ounce of gold produced	**$ 1,107**	$ 1,361	**$ 1,214**	$ 1,548

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

(In thousands of dollars except for pounds of payable copper produced and average cash cost per payable pound of copper produced)	**For the three months ended June 30, 2013**	For the three months ended June 30, 2012	**For the six months ended June 30, 2013**	For the six months ended June 30, 2012
Cost of goods sold	**$ 19,112**	$ 12,808	**$ 32,143**	$ 24,898
Less: Depletion and amortization	**(3,204)**	(2,525)	**(5,311)**	(4,916)
Inventory movements and adjustments	**(3,782)**	(1,145)	**(2,670)**	(279)
Cash production costs	**$ 12,126**	$ 9,138	**$ 24,162**	$ 19,703
Less: Estimated by-product credits	**(3,318)**	(3,730)	**(7,154)**	(8,237)
Plus: Estimated selling costs	**2,815**	3,237	**5,743**	5,342
Total cash costs net of by-product credits	**$ 11,623**	$ 8,645	**$ 22,751**	$ 16,808
Payable copper pounds produced	**3,205,000**	2,960,700	**6,210,000**	6,306,200
Average cash cost per payable pound of copper produced	**$ 3.63**	$ 2.92	**$ 3.66**	$ 2.67

Operating cash flow is the term the Company uses to describe the cash that is generated from operations excluding depletion and amortization, stock based compensation and impairment charges.

The following table reconciles the Financial Statements to the operating cash flow:

	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sept 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sept 30, 2011
Operating loss	$ (75,694)	$ (11,337)	$ (7,977)	$ (1,112)	$ (13,469)	$ (20,665)	$ (4,650)	$ (36,225)
Add back:								
Depletion and amortization	18,673	19,543	19,686	10,858	14,677	12,997	18,919	12,174
Depletion and amortization portion of inventory NRV adjustment	11,583	2,732	5,821	7,829	1,328	3,145	-	-
Stock based compensation	373	529	378	472	703	2,026	737	2,620
Impairment charge - Brazilian Mines	16,021	-	-	-	-	-	-	38,534
Impairment charge - San Andres Mine	40,172	-	-	-	-	-	-	-
Operating cash flow	$ 11,128	$ 11,467	$ 17,908	$ 18,047	$ 3,239	$ (2,497)	$ 15,006	$ 17,103

18. RISK FACTORS

The operations of the Company contain significant risk due to the nature of mining, exploration and development activities. For details of these risks, please refer to the risk factors set forth in the Company's AIF which 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.

19. DISCLOSURE OF SHARE DATA

As at August 14, 2013, the Company had the following outstanding: 228,358,334 common shares, 18,791,078 stock options and 293,398 restricted share units.

20. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A, and the documents incorporated by reference, contain certain "forward-looking information" and "forward-looking statements", as defined in applicable securities laws (collectively, "forward-looking statements"). All statements other than statements of historical fact are forward-looking statements. Forward-looking statements relate to future events or future performance and reflect the Company's current estimates, predictions, expectations or beliefs regarding future events and include, without limitation, statements with respect to: the economic viability of a project; strategic plans, including the Company's plans with respect to its

San Andres, Aranzazu, Sao Vicente, Sao Francisco Mines and the Serrote development project; the amount of mineral reserves and mineral resources; the amount of future production over any period; the amount of waste tonnes mined; the amount of mining and haulage costs; cash costs; operating costs; strip ratios and mining rates; expected grades and ounces of metals and minerals; expected processing recoveries; expected time frames; prices of metals and minerals; mine life; and gold hedge programs. Often, but not always, forward-looking statements may be identified by the use of words such as “expects”, “anticipates”, “plans”, “projects”, “estimates”, “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.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements in this MD&A are based upon, without limitation, the following estimates and assumptions: the presence of and continuity of metals at the Company’s projects at modeled grades; gold and copper price volatility; the capacities of various machinery and equipment; the availability of personnel, machinery and equipment at estimated prices; exchange rates; metals and minerals sales prices; appropriate discount rates; tax rates and royalty rates applicable to the mining operations; cash costs; anticipated mining losses and dilution; metals recovery rates, reasonable contingency requirements; our expected ability to develop adequate infrastructure and that the cost of doing so will be reasonable; our expected ability to develop our projects including financing such projects; and receipt of regulatory approvals on acceptable terms.

Known and unknown risks, uncertainties and other factors, many of which are beyond the Company’s ability to predict or control could cause actual results to differ materially from those contained in the forward-looking statements. Specific reference is made to the AIF for a discussion of some of the factors underlying forward-looking statements, which include, without limitation, gold and copper or certain other commodity price volatility, changes in debt and equity markets, the uncertainties involved in interpreting geological data, increases in costs, environmental compliance and changes in environmental legislation and regulation, interest rate and exchange rate fluctuations, general economic conditions, political stability and other risks involved in the mineral exploration and development industry. Readers are cautioned that the foregoing list of factors is not exhaustive of the factors that may affect the forward-looking statements.

All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements.