



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2010

March 31, 2011

SERABI MINING PLC
Management's Discussion and Analysis
for the year ended 31 December 2010

Introduction

This Management's Discussion and Analysis ("MD&A") dated 31 March 2011 includes financial information from, and should be read in conjunction with, the audited annual consolidated financial statements of Serabi Mining plc (the "Company" or "Serabi") for the year ended 31 December 2010.

Please refer to the cautionary notes at the end of this MD&A. The Company reports its financial position, results of operations and cash flows in United States dollars (unless otherwise stated) and in accordance with International Financial Reporting Standards ("IFRS") in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") as adopted for use within the European Union and with IFRS and their interpretations adopted by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS.

The Company is a United Kingdom registered and domiciled mineral exploration company based in London, England. The Company's principal focus centres upon the Jardim do Ouro Gold Project located in an area known as the Tapajos region of the State of Para in Brazil, which it holds through its wholly owned subsidiary Serabi Mineracao S.A.

The Company currently holds, either granted or in application, approximately 110,000 hectares of Exploration Licences. The Jardim do Ouro Gold Project (JDO Project) covers 55,600⁽¹⁾ hectares of this total, and lies on the 50km wide NW-SE trending Tocantinzinho Trend, which is the major controlling structural feature in the Tapajos region. The vast majority of the hard rock mineral resources discovered to date in the Tapajos region lie on this trend. The JDO Project includes the Palito mine (the "Palito Mine") which is currently on 'care and maintenance' and several areas of exploration interest in close proximity to the Palito Mine. The Palito Mine complex is fully permitted and a mining licence over 1,150 hectares has been issued for the property. The Company does not have any assets or mineral properties that are in commercial production. The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol "SBI" and on AIM, a market operated by the London Stock Exchange under the symbol "SRB". The Company is incorporated under the laws of England and Wales and is a reporting issuer in British Columbia, Alberta and Ontario.

⁽¹⁾ The Departamento Nacional de Produção Mineral ("DNPM") recently advised the Company that it was proposing to amend certain of the Company's applications for exploration licences to effect a net reduction of the land area subject to the applications by approximately 2,700 hectares. The Company has lodged an appeal to reinstate approximately 600 hectares. The Company does not view this potential reduction as significant as none of the areas that the DNPM is proposing to exclude from the applications are within the areas that comprise the current exploration plans of the Company.

Additional information on the Company is available on SEDAR at www.sedar.com.

Corporate Highlights for the Year

- Completion of a private placement of shares on 9 June 2010, with Eldorado Gold Corporation ("Eldorado") whereby Eldorado subscribed for 12,000,000 shares at a price equivalent to 30 pence per share, raising gross proceeds of UK£3.6 million and whereby Eldorado acquired an interest, at that time, of 26.8% in the share capital of the Company.

- Completion of a private placement of 10,070,000 Special Warrants on 2 December 2010, at a price of C\$0.55 per Special Warrant raising gross proceeds of C\$5,538,500.
- On 23 December 2010, the Company announced an updated NI 43-101 Technical Report on the JDO project.
- Approval of shareholders on 21 December 2010, to undertake a consolidation of the Ordinary Share, whereby shareholders received one new Ordinary Share of 5 pence each for every ten old Ordinary Shares of 0.5 pence.
- The appointment on 30 March 2011 of Mr Sean Harvey, Dr Doug Jones and Mr Mel Williams as directors of the Company.
- The completion on 30 March 2011 of an Initial Public Offering of the Ordinary Shares of the Company in Canada and a concurrent listing of the Ordinary Shares on the TSX.

History

The Company currently holds, either granted or in application, approximately 110,000 hectares of Exploration Licenses all located within the Tapajos Gold Mining Province, within the states of Para and Amazonas, Northern Brazil. These licenses are divided into 3 project areas, namely the JDO, Modelo and Pizon projects. The Modelo Project lies in the state of Para, with some 40,000 Ha in 5 exploration permits, four granted and one in application. The Pizon Project represents 14,733 Ha, in two exploration licenses, one granted and one in application. The Company has not engaged in any exploration activity in either the Pizon or Modelo projects over the past 12 months, and has currently not budgeted for any exploration activity over the next 18 months. All activity budgeted at this time will focus on the JDO Project area.

Jardim do Ouro Project

The JDO Project was originally acquired by the Company in 2001. It covers a total area of 55,600⁽¹⁾ hectares, and is comprised of one mining licence granted on October 23, 2007 covering an area of 1,150 hectares, four exploration licences and five applications for exploration licences covering an aggregate of 54,450⁽¹⁾ hectares. The JDO Project is located in the Tapajós Mineral Province in the south east part of the Itaituba Municipality in the west of Pará State in central north Brazil. The Palito Mine and infrastructure itself lies some 4.5km south of the village of Jardim do Ouro and approximately 15km via road. Jardim do Ouro lies on the Transgarimpeira Road some 30km WSW of the town of Moraes de Almeida, located on the junction of the Transgarimpeira and the BR 163 (the Cuiabá - Santarém Federal Highway). Moraes de Almeida is approximately 300km south south-east by road of the municipal capital, and similarly named city, of Itaituba.

Within the JDO Project area is the Palito Mine, a high grade, narrow vein underground mine which was operated by the Company from late 2003 until the end of 2008, when the underground mining operation was placed on care and maintenance. In 2004, the Company undertook an upgrade of the plant to process sulphide ores from the underground operation and in December 2004, the first shipment was made of a copper/gold/silver concentrate to a European smelter. Since that time until the end of 2008, the Company processed a total of 480,000 tonnes of ore through the plant at an average gold head grade of 6.76 g/t. Average plant recovery during the period was 90% and total production was 110,097 gold equivalent ounces.

In September 2008, the Company announced that it had insufficient working capital to undertake necessary mine development and concluded that with no opportunity to raise additional working capital, as a result of the state of financial markets at that time, it was necessary to halt mining activity and place the underground portion of the Palito Mine on care and maintenance.

Since that time, the Company has focused on mine-site exploration, primarily airborne and ground geophysics and geochemistry. Following a Change of Mine Plan report filed to the DNPM in December 2008, and a subsequent amendment to the PAE (Plano de Aproveitamento Economico), the Company maintained some minor surface oxide ore production up to June 2010, through which some 7,200 ounces gold has been produced up to June 2010.

In December 2010 the Company released a technical report prepared by its consultants, NCL Brasil Ltda, (the NI43-101 Technical Report for the Jardim do Ouro Project, Para State, Brazil). The report estimated, in accordance with Canadian Securities Administrators National Instrument 43-101 ("NI 43-101"), a compliant Measured and Indicated mineral resource of 224,272 ounces (gold equivalent) and Inferred mineral resources of 443,956 ounces (gold equivalent).

	Tonnage	Gold (g/t Au)	Copper (% Cu)	Contained Gold (Ounces)⁽¹⁾	Contained Gold Equivalent (Ounces)⁽²⁾
Measured Resources	97,448	9.51	0.26	29,793	32,045
Indicated Resources	753,745	7.29	0.23	176,673	192,228
Measured and Indicated Resources	851,193	7.54	0.23	206,466	224,272
Inferred Resources	2,087,741	5.85	0.27	392,817	443,956

(1) Mineral resources are reported at a cut-off grade of 1.0 g/t.

(2) Equivalent gold is calculated using an average long-term gold price of US\$700 per ounce, a long-term copper price of US\$2.75 per pound, average metallurgical recovery of 90.3% for gold and 93.9% for copper.

The infrastructure at the Palito Mine remains intact and includes a process plant comprised of flotation and carbon-in-pulp ("CIP") gold recovery circuits capable of treating up to 600 t/day (200,000 t/year) of ore, a camp for over 200 employees and maintenance and workshop facilities. The site is supplied with mains power sourced from a 25 mW hydroelectric generating station located approximately 100 km north east of the town of Novo Progresso on the Curuá (Iri) River.

In the period following the decision to place the Palito Mine on care and maintenance the board of directors undertook a strategic review of the operation and determined that the original expectation that the Palito Mine could support production levels in excess of 50,000 ounces per annum was not supported by the then current mine plans and reserve and resource estimates. The Company concluded that limited infrastructure in the region contributed to a relative high fixed cost associated with the project and determined that an operation capable of sustaining production levels of 70,000 to 75,000 ounces per annum was required as the basis for a viable and competitive operation.

The Company considers that with the information now available and having considered the various mining methodologies available, the deposit at the Palito Mine (referred to herein as

the “Palito deposit”) requires a selective mining operation to maximise its economic value and that under such a methodology a sustainable long term production rate is likely to be limited to 30,000 ounces per annum. The Company therefore determined that it would not in the short-term seek to re-open the Palito Mine but instead concentrate on building the reserve and resource base.

The Company is now pursuing a strategy of mine-site/district exploration and resource growth before making any decision on when to recommence production at the Palito Mine. Its exploration objective is to identify two or more Palito style and size deposits in close proximity to the Palito Mine itself and the existing camp and processing infrastructure. The Company has established nine drill targets within three kilometres of the Palito Mine, each of which it believes, based on its exploration results to date, has the potential to yield a Palito style and size deposit.

RESULTS OF OPERATIONS

Exploration and technical programmes executed during 2010

The Company's results of operations for the twelve month period ended 31 December 2010 were comprised solely of the activities related to the results of operations of the Company's 100% owned subsidiary Serabi Mineracao S.A.

Highlights:

- January 2010 – The Company announced its plans to commence a follow up ground geophysics on 13 high priority mine site targets. With the identification of 18 near mine and mine-site geophysical targets during 2009, and a successful capital raise December 2009, a 45 line km Induced Polarisation survey (IP) commenced early 2010, to test the first 13 targets.
- January 2010 to June 2010 – minor surface oxide ore mining 18,094 tonnes @ 1.75 g/t (1,000 ounces produced).
- May 2010 – The Company announced that the IP survey over 13 high priority targets had returned strong IP anomalies over nine of the targets. Further integration with geochemical, electromagnetic (“EM”) and other data identified nine drill ready targets.
- October 2010 – The Company announced plans to commence a 7,500 metre discovery drill programme of the nine drill targets before year end.
- November 2010 – Serabi announced a further 8,000 hectares of airborne geophysical electro-magnetic surveys (VTEM) to be flown within its exploration tenements comprising the JDO Project tenement holdings.
- December 2010 – The Company filed an updated NI 43-101 compliant Technical Report. The resource estimate was completed by NCL Brasil Ltda (NCL) and reported a total Measured and Indicated resource of 224,272 gold equivalent ounces, with a further 443,956 Inferred gold equivalent ounces.
- Throughout the year Serabi management continued to pursue numerous exploration and development opportunities primarily in the Tapajos Region of Brazil which would add value to the company strategy. The Company also sought to divest or joint venture, non-core assets during the year.

The Company's focus during 2010 has been to advance the exploration portfolio of the JDO Project, which hosts the Palito Mine (including its process plant, mine camp and other infrastructure) along with numerous high priority mine-site and near mine targets. Coupled with this, the Company continued surface oxide mining with modest gold production until mid-

year, when surface mining operations were placed on hold in June 2010. The cornerstone of this mine-site exploration effort has been an airborne electromagnetic and magnetic survey, ("VTEM survey") undertaken in 2008, which covered a 6,000 hectare area enveloping the Palito deposit and immediate surrounding area.

Background to Exploration Strategy

Palito and near mine mineralised zones are characterised by quartz-sulphide and massive sulphide veins. The vast bulk of the ore mined from the underground Palito mine was hosted in quartz-sulphide veins, with higher grade bonanza shoots existing in small diameter, plunge continuous, massive sulphide pods or shoots.

The nature of the quartz and sulphide content of the ore zones lends itself to detection via electrical geophysical methods, due to the conductivity in the sulphides and the resistivity provided by the quartz. Historically ground electrical geophysical exploration methods such as electromagnetics ("EM") and induced polarisation ("IP") have yielded good results in the Palito area, reinforcing their importance as primary exploration tools for identifying these types of mineralisation.

In 2006, Serabi trialled ground EM surveying at Palito. The positive results led to Serabi commissioning a helicopter-borne VTEM geophysical survey over the Palito deposit and surrounding 6,000 hectare area. The benefit of the EM technique is that it can highlight the massive sulphide component of the Palito style of mineralization, and therefore immediately provides a focal point for exploration within the dense vegetation surrounding Palito.

The 2008 airborne VTEM survey identified 47 discrete anomalies and 19 anomalous complex conductive zones. These geophysical targets were then integrated with the other geological datasets including soil geochemistry, drilling data, lineament analysis and geology for the project. As a result 18 "target areas" were defined for further follow-up exploration. These 18 targets provided the focal point for discovering potential mineralised zones.

Bearing in mind that the bulk of Palito ore was sourced from quartz-sulphide vein material and not massive sulphide, the VTEM survey represented the first step in the identification of additional resources whilst the application of IP should help delineate the quartz-sulphide veins. It is expected that the combination of both EM and IP and the subsequent 3D modeling will provide a direct focus for drilling activities and the subsequent expansion of resources at the JDO Project. Fifteen of the targets are within three kilometres of the mine and of these fifteen, seven are situated within the Company's existing mine licence. The remaining targets are all located within the Company's surrounding exploration licences.

In January 2010, following a successful financing in December 2009, the Company announced its 2010 exploration work programme. This included the commencement at the earliest possible opportunity of follow-up ground geophysics on the 18 mine-site targets defined in the 2008 VTEM survey. It also announced continued small scale surface oxide mining.

In April 2010, Serabi announced that a 45 line km ground IP survey had commenced. The area covered by this initial survey lay within a 3km radius of the Palito Mine and covered 13 of the 18 prioritised target anomalies identified during the 2008 airborne geophysical survey. The IP survey lines were spaced 200m apart, perpendicular to the dominant mineralised trends.

In May 2010, the Company announced results of the initial follow-up IP geophysical survey. After data interpretation and integration of the IP results with all other pre-existing exploration datasets, at least nine significant drill targets were defined. The anomalies exhibited high chargeability / low resistivity attributes, properties one would expect to find associated with sulphide bodies and which are characteristics of the gold bearing sulphide bodies found at Palito.

In October 2010, Serabi announced a preferred diamond drilling contractor had been secured and that a 7,500m discovery drill programme to test the nine drill ready targets would commence before year end. The Company had originally planned to commence this work in July 2010 and it was unfortunate that a fine and temporary suspension of operational activities was placed upon Serabi Mineracao SA by the Federal Environmental Agency, Instituto Brasileiro do Meio Ambiente (IBAMA) in June, thus restricting exploration activity. Both the fine and suspension were appealed against successfully.

In November 2010, the Company announced a further 8,000 hectares of VTEM to be flown over some of the Jardim do Ouro exploration tenements, with a total of 1,170 line kilometres to be flown.

In December 2010, Serabi announced the filing of an updated NI 43-101 compliant Technical Report for the Palito Gold Mine and surrounding area. The resource estimate was completed by NCL Brasil Ltda and reported a total Measured and Indicated resource of 224,272 gold equivalent ounces, with a further 443,956 Inferred gold equivalent ounces. The report was commissioned in anticipation of the Company's previously announced intention to make a listing application to a Canadian stock exchange.

Outlook:

Serabi's short term strategy at the JDO Project (phase 1) to be followed over the period January 2011 to September 2011 will continue to focus on 'head-frame' exploration with the objective of discovering more Palito style deposits. In detail this will include:

- Completion of the 7,500m discovery drilling programme over 9 high priority targets within 3km of the plant,
- Follow-up ground geophysics on the remaining 5 VTEM geophysical anomalies with the objective of generating further drill targets,
- Conducting airborne geophysical VTEM surveys over further areas of the JDO Project exploration tenements (8,000 Ha completed in January 2011),
- Commencing a thorough mine-site deep geochemistry Trenching/Auger program, and
- The underground mine will remain on care & maintenance over this period.

This initial phase 1 of the exploration budget is estimated to be in the region of US\$7.6 million and will aim to investigate the mine-site targets as well as the immediate surrounding tenements (within 20km of the operation). It is detailed as follows:

Activity	USD
Discovery drilling programme (7,500 metres) – Palito Mine	1,909,091
Ground IP over untested geophysical anomalies – Palito Mine	209,091
Geochemistry and surface exploration programmes – Palito Mine	763,636
VTEM Survey – wider JDO tenements	296,970
Geochemistry and surface exploration programmes – wider JDO tenements	72,727
Capital purchases	424,741

Land rentals and taxes	337,212
Brazil exploration staff costs	1,373,485
Exploration support expenditures	2,243,410
TOTAL EXPLORATION BUDGET	7,630,363

In the medium term (Q4 2011 and onwards) the Company's objectives will be to:

- Follow up mine-site discoveries with resource drilling,
- Replicate the 'Palito Discovery Model' within the 55,000 ha of contiguous concessions that envelope the Palito deposit and thus create a pipeline of further targets,
- Undertake further follow-up ground geophysics, geochemistry and drilling to expand the potential of the Company's JDO Project exploration tenements, and
- Seek JV partners/buyers with respect to the non-core assets

Selected Annual Information

The data included in the selected annual information table below is taken from the Company's annual audited financial statements which were prepared in accordance with International Financial Reporting Standards in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") and adopted for use within the European Union (IFRS) and with IFRS and their interpretations adopted by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

	2010	2009	2008
	US\$	US\$	US\$
Revenues	1,229,551	5,512,804	16,523,577
Net loss	(5,980,011)	(9,990,502)	(10,973,655)
Net loss per share (basic and diluted)	(15.21)cents	(61.55)cents	(78.3)cents
Total current assets	11,174,647	7,030,342	4,864,694
Development and deferred exploration costs	9,797,406	6,880,038	5,351,921
Property plant and equipment	33,951,140	35,327,788	31,620,364
Total assets	54,923,193	49,238,168	43,589,495
Total liabilities	10,571,375	6,033,451	5,324,953
Equity shareholders funds	44,351,818	43,204,717	38,264,542

Results of Operations

Financial Year ended 31 December 2010

For the year ended 31 December 2010 the Company recorded a net loss of US\$5,980,011 (US\$0.1521 per share) compared to a net loss of US\$9,990,502 (US\$0.6155 per share) for the comparative period last year. The decrease in the loss in part reflects that no impairment provision was taken in the current year (2009: US\$4,343,048), there were no write-offs in respect of past exploration activities (2009: US\$495,138) and no requirement to increase the provision for rehabilitation on mine closure (2009: US\$346,000). The combination of these effects contributed to a year on year reduction in expenses of US\$5,184,146. However, there were increases in the gross loss from operations of US\$944,997 and an increase in administration costs of US\$414,975 and therefore the overall improvement in the net loss was US\$4,010,491.

The increase in the gross loss from operations is primarily a reflection of production being subject to a suspension during June and not recommencing thereafter and therefore revenue was generated for only the first six months of the year. There was an initial loss recorded for the first six months of the year of US\$345,387, and whilst there was no subsequent production, costs continued to be incurred and expensed in respect of maintenance and refurbishment activities during this second six month period. It has been increasingly difficult to identify further adequate surface resources to justify continuous oxide mining operations and ore processing in the future will only be undertaken on a campaign basis, running the plant when adequate ore stocks are available. Therefore, whilst the plant will continue to be maintained in a state of readiness, the workforce has been reconfigured to be a more versatile team that can be deployed for exploration, mining and processing as required.

The increase in administration costs reflects a tax credit received in Brazil in 2009, amounting to US\$563,000. Excluding the effects of this credit, administration costs were reduced by US\$148,000.

Fourth quarter

For the three month period ended 31 December 2010, the Company recorded a net loss of US\$2,005,738 (US\$0.0448 per share) compared to a net loss of \$2,552,618 (\$0.1119 per share for the comparative period of 2009). Whilst the gross losses recorded from operations were comparable (2010: US\$453,614, 2009: US\$467,073) in reality as there was no mining activity during the fourth quarter of 2010, it is not possible to make any direct comparison with the corresponding period of 2009. The costs incurred in the fourth quarter of 2010 are those attributed to ongoing general maintenance and upkeep expenditures related to the Palito Mine whilst plant and equipment is refurbished and placed in a state of readiness for any future recommencement of operations.

Administration costs increased compared with the preceding quarter as a result of an increase in Brazilian labour claim settlements in the quarter of US\$373,000. With large numbers of staff made redundant at the end of 2008, the last quarter of 2010 was effectively the cut-off date for former staff to file claims under prevailing legislation.

In other respects the operating results for the period are in line with expectations and with prior periods of 2010 and the corresponding period in 2009. The results of each quarter are affected by the translation of the results from the activities of the Brazilian subsidiary and the exchange rates used for each reporting period. Overall the Brazilian Real has strengthened during the year which has a negative impact on costs reported in US dollars. At 30 June 2010 the rate was BrR\$1.8015 to US\$1, at 30 September 2010, BrR\$1.6942 to US\$1 and at 31 December 2010, BrR\$1.6662 to US\$1. At 31 December 2009 the rate was BrR\$1.7412 to US\$1.

Summary of quarterly results

As the Company only became a reporting issuer in March 2011 and did not previously prepare quarterly financial statements it is not required to provide a summary by quarter for the last two financial years. The following summary information is derived from the existing available public financial information released by the Company.

	Six months ended 30 June 2010 \$	Quarter ended 30 September 2010 \$	Quarter ended 31 December 2010 \$
Revenues	1,148,999	22,909	57,643
Operating expenses	(1,494,386)	(411,103)	(511,257)
Gross loss	(345,387)	(388,194)	(453,614)
Administration expenses	(842,391)	(561,015)	(863,506)
Option costs	(50,204)	(25,103)	(28,569)
Write-off of past exploration expenditures	-	-	-
Increase in rehabilitation provision	-	-	-
Loss on asset disposals Impairment	(4,694)	(111,106)	(8,379)
Depreciation of plant and equipment	(1,017,458)	(497,439)	(597,548)
Operating loss	(2,260,134)	(1,582,857)	(1,951,616)
Exchange	(272,573)	241,092	4,085
Finance costs	(55,476)	(44,325)	(58,207)
Loss before taxation	(2,588,183)	(1,386,090)	(2,005,738)
Loss per ordinary share (basic and diluted)	(7.66) cents	(3.10) cents	(4.48) cents

	Six months ended 30 June 2009 \$	Quarter ended 30 September 2009 \$	Quarter ended 31 December 2009 \$
Revenues	3,601,349	1,191,571	719,884
Operating expenses	(3,061,975)	(1,506,070)	(1,186,957)
Gross loss	(539,374)	(314,499)	(467,073)
Administration expenses	(1,178,935)	(192,978)	(480,024)
Option costs	(40,161)	(20,013)	(86,864)
Write-off of past exploration expenditures	-	(476,967)	(18,171)
Increase in rehabilitation provision	-	(346,000)	-
Loss on asset disposals Impairment	(209,661)	33,442	(5,018)
Depreciation of plant and equipment	(1,126,106)	(499,788)	(531,132)
Operating loss	(4,438,226)	(2,976,399)	(2,348,997)
Exchange	93,755	73,060	(181,348)
Finance costs	(157,455)	(32,619)	(22,273)
Loss before taxation	(4,501,926)	(2,935,958)	(2,552,618)
Loss per ordinary share (basic and diluted)	(32.12) cents	(20.95) cents	(11.19) cents

Liquidity and Capital Resources

The Company had a working capital position of US\$2,793,046 at 31 December 2010 compared to US\$2,656,862 at 31 December 2009. The working capital position includes cash and cash equivalents of US\$8,598,755 (2009: US\$4,081,882). The Company does not have any asset backed commercial paper investments. The working capital position is adversely affected by the accounting treatment of the net proceeds of the Special Warrant issue that was completed by the Company on 2 December 2010. In accordance with International Accounting Standard 32 ("IAS 32") it is required that these net proceeds be reflected as a current liability of the Company as at the balance sheet date of US\$5,059,995. Following the balance sheet date the liquidity conditions relating to these Special Warrants were satisfied and with effect from the balance sheet of the Company as at 31 March 2011, this value will form part of the Equity component of the Company's balance sheet. Excluding this value from the current liabilities, the working capital position at 31 December 2010 would have been US\$7,853,041.

During the year ended 31 December 2010, the Company issued a total of 12,000,000 Ordinary Shares for net cash proceeds of US\$5,389,061, following the subscription for shares by Eldorado Gold Corporation ("Eldorado") as a result of which Eldorado acquired at that time a 26.8% interest in the Company.

On 2 December the Company also completed a placement of Special Warrants raising gross cash proceeds of US\$5,059,995. Each Special Warrant comprises a Unit which in turn consists of one Ordinary Share and one half of a Warrant whereby each whole warrant entitles the holder to subscribe for one Ordinary Share at a price of C\$0.75 at any time before 2 December 2012. The Special Warrants will convert automatically and without any further action on the part of the holder on the earlier of the Company meeting the liquidity conditions attaching to the Special Warrants or 2 April 2011 ("the Liquidity Deadline"). The liquidity conditions are (i) the issuance of a receipt by each of the securities commissions or comparable regulatory authorities in each of the provinces and territories of Canada in which a final prospectus of the Company will be filed to qualify the distribution of the Ordinary Shares and Warrants on exercise of the Special Warrants; and (ii) the Company obtaining a listing of the Ordinary Shares on the TSX or TSXV. The liquidity conditions were met on 30 March 2011 when the Company completed an IPO in Canada and the Ordinary Shares commenced trading on the TSX.

The Company has during the year ended on 31 December 2010, paid US\$2,481,665 on mineral property exploration, US\$7,225 on asset purchases and used US\$3,937,133 on operating activities. Further details of the exploration activity conducted during the year are set out in the section **Background to Exploration Strategy** elsewhere in this MD&A.

On 31 December 2010, the Company's total assets amounted to US\$54,923,193, which compares to the US\$49,238,168 recorded in 31 December 2009. Total assets are mostly comprised of property, plant and equipment, which as at 31 December 2010 totalled US\$33,951,141 (December 2009: US\$35,327,788), and deferred exploration and development cost which as at 31 December 2010 totalled US\$9,797,406 (December 2009: US\$6,880,038), of which US\$8,296,965 relates to capitalized exploration expenditures at, or in close proximity to, the Palito Mine. The Company's total assets also included cash holdings of US\$8,598,755 (December 2009: US\$4,081,882).

Receivables of US\$96,143 as at 31 December 2010 have decreased by US\$179,395 compared to the prior year's receivables balance of US\$275,538. The receivables as of 31 December 2010 are primarily deposits paid by the Company. Prepayments as of 31 December 2010 were US\$1,061,945 compared with US\$1,413,158 as at 31 December 2009, a reduction of US\$351,213. The prepayments primarily represent prepaid taxes in Brazil of US\$950,913 of which the majority is federal and state sales taxes which the Group expects to recover either through offset against other federal tax liabilities or through recovery directly.

The Company's total liabilities at December 31, 2010 of US\$10,571,375 (December 2009: US\$6,033,451) included accounts payable to suppliers and other accrued liabilities of US\$3,935,912 (December 2009: US\$4,361,854) and in accordance with IAS32 a liability of \$5,059,995 (2009: nil) in respect of the net proceeds of the Special Warrants as detailed earlier. The total liabilities include US\$249,176 including accrued interest (December 2009: US\$216,898) attributable to the £300,000 loan from a related party, which has a repayment date of 31 October 2014 subject to the right of the holder at any time, on one or more occasions, on or before the repayment date, to convert any of the outstanding amounts owed by the Company to Ordinary Shares at a price of 15 pence per Ordinary Share. It also includes the amount of US\$1,383,571 (December 2009: US\$1,374,200) in respect of provisions including US\$1,055,000 (December 2009: US\$1,055,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity.

Management believes that the Company has adequate working capital to undertake all of its currently planned exploration and development programmes for the remainder of 2011 in relation to the Company's existing mineral properties and to cover administrative expenses for the same fiscal year.

Contractual Commitments

In December 2010, the Company engaged Energold Perfurações Ltda ("Energold") to undertake a diamond drilling programme at its Palito Mine project. The minimum contractually committed amount to be paid to Energold is approximately \$600,000 during 2011.

In December 2010, the Company engaged Geotech Aerolevamento SA to undertake an airborne VTEM survey over 8,000 within the Company's Jardim do Ouro tenement holdings. The survey was flown and completed in January 2011 and whilst certain payments were made during 2010, there remains a further BrR\$174,000 to be paid under the contract during 2011. The Company separately contracted with another entity to provide the helicopter required to fly this survey.

The Company has operating leases in respect of office premises in London and Belo Horizonte and also in respect of certain computer equipment.

The Group holds certain exploration prospects which require the Company to make certain payments under rental or purchase arrangements allowing the Company to retain the right to access and undertake exploration on these properties. Failure to meet these obligations could result in forfeiture of any affected prospects. Management estimates that the cost over the next twelve months of fulfilling the current contracted commitments on all the properties in which the Group has an interest will be US\$254,313.

On 9 November 2009 (as further detailed in note 16 of the Company's financial statements) the Company entered into a Convertible Loan Stock agreement with Greenwood Investments Limited ("Greenwood") whereby Greenwood made available to the Company a loan of UK£300,000 repayable on 31 October 2014. Greenwood has the right at any time, on one or more occasions, on or before the repayment date to convert any of the outstanding amounts owed by the company to Ordinary Shares at a price of 15 pence per share. The loan was drawn down on 14 December 2009 and interest will accrue at the rate of 1 percent per annum and is compounded.

Contractual Obligations	Total	Payments due by period			After 5 years
		Less than 1 year	1-3 years	4-5 years	
	\$	\$	\$	\$	\$
Long term debt	249,176	-	-	249,176	-
Capital Lease Obligations	-	-	-	-	-
Operating Leases	204,321	112,887	91,434	-	-

Purchase Obligations	704,429	704,429	–	–	–
Other Long Term Obligations	–	–	–	–	–
Total Contractual Obligations	1,157,926	817,316	91,434	249,176	–

Transactions with related parties of the Company

The Company paid UK£1,000 per month to a company controlled by one of its directors in respect of fees receivable by that director for the provision of his services to the Company.

Financial and Other Instruments

The Group's and the Company's financial assets at 31 December 2010 which comprise trade and other receivables and cash, and in the case of the Company include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's and Company's financial liabilities which comprise trade and other payables, accruals and interest bearing liabilities, are classified as liabilities measured at amortised cost.

The Group and the Company have not entered into any derivative transactions and it is not currently the Group's policy to undertake trading in financial instruments.

The main financial risks arising from the Group's activities remain unchanged from the previous financial year namely commodity prices, currency, liquidity, credit and interest rates. The Board reviews and agrees policies for managing each of these risks and these are summarised below:

Commodity price risk

By the nature of its activities and whilst the Group may only currently be producing very limited revenue, the Group and the Company are potentially exposed to fluctuations in commodity prices and in particular the price of gold and copper as these could affect its ability to raise further finance in the future, its future revenue levels and the viability of its projects. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts, where appropriate, in future.

At the end of the financial year and at the end of the financial year ended 31 December 2009, neither the Group nor the Company had any unsold or part-paid production and accordingly the results for the year and the equity position of the Group and of the Company are not affected by any change in commodity prices subsequent to the end of the year.

Interest rate risk

The Group and Company currently finances its operations through equity financing and has a convertible loan of £300,000 which bears interest at the rate of 1% per annum compounded and has a repayment date of October 2014.

Group	Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	Fixed interest maturity		Total \$
				One year or less \$	Over one to five years \$	
2010						
Financial assets						
Cash	0.63%	–	8,598,755	–	–	8,598,755
Receivables		96,143	–	–	–	96,143
Total		96,143	8,598,755	–	–	8,694,898
Financial liabilities						
Payables and accruals	–	3,873,633	–	–	–	3,873,633
Special Warrants	–	5,059,995	–	–	–	5,059,995
Interest bearing liabilities	14.41%	–	–	–	249,176	249,176
Total		8,933,628	–	–	249,176	9,182,804

2009	Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	Fixed interest maturity		Total \$
				One year or less \$	Over one to five years \$	
Financial assets						
Cash	0.16%	–	4,081,882	–	–	4,081,882
Receivables	–	275,538	–	–	–	275,538
Total		275,538	4,081,882	–	–	4,357,420
Financial liabilities						
Payables and accruals	–	4,361,854	–	–	–	4,361,854
Interest bearing liabilities	5.95%	–	–	80,499	216,898	297,397
Total		4,361,854	–	80,499	216,898	4,659,251

Company	Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	Fixed interest maturity One year or less \$	Over one to five years \$	Total \$
2010						
Financial assets						
Cash	0.63%	–	8,032,125	–	–	8,032,125
Receivables		25,228,810	–	–	–	25,228,810
Total		25,228,810	8,032,125	–	–	33,260,935
Financial liabilities						
Payables and accruals	–	728,849	–	–	–	728,849
Special Warrants	–	5,059,995	–	–	–	5,059,995
Interest bearing liabilities	17.74%	–	–	–	249,176	249,176
Total		5,788,844	–	–	249,176	6,038,020
2009						
Financial assets						
Cash	0.16%	–	4,020,169	–	–	4,020,169
Receivables	–	20,094,453	–	–	–	20,094,453
Total		20,094,453	4,020,169	–	–	24,114,622
Financial liabilities						
Payables and accruals	–	673,969	–	–	–	673,969
Interest bearing liabilities	–	–	–	–	216,898	216,898
Total		673,969	–	–	216,898	890,867

There is not considered to be any material interest rate risk. The Group's policy is to retain surplus funds as short-term deposits, of up to four weeks duration, at prevailing market rates and to pay trade payables within their credit terms.

The fair value of all financial instruments is approximately equal to book value due to their short-term nature.

Liquidity risk

To date the Group has relied on shareholder funding and in prior years short-term trade finance and fixed rate finance leases to finance its activities. The Group has also drawn down on a convertible loan stock instrument which is repayable in 2014, but otherwise does not have any other borrowing or credit facilities. The Group's objectives when managing its capital are to maintain financial flexibility to achieve its development plans, safeguard its ability to continue to operate as a going concern through management of its costs whilst optimising its access to capital markets by endeavouring to deliver increase in value of the Group for the benefit of shareholders. In establishing its capital requirements the Group will try to take account of the risks inherent in its plans and proposed activities and prevailing market conditions. During 2010 the Group raised new funds through the issue of new shares and the issue of Special Warrants which subject to certain condition are convertible into new shares. Continued development of the Group's projects will be dependent on the ability to attract additional funding, through joint ventures, asset disposals, new equity or debt. There is no guarantee that the Group will be able to secure adequate funding in the future or that the terms of such funding will be acceptable.

The following table sets out the maturity profile of the financial liabilities as of 31 December 2010

	2010		2009	
	Group \$	Company \$	Group \$	Company \$
Due in less than one month	597,887	271,115	3,878,822	142,437
Due between one month and three months	5,410,627	5,059,995	134,194	–
Due between three months and one year	2,373,087	457,734	360,464	531,532
	8,381,601	5,788,844	4,373,480	673,969

Currency risk

Although the Parent Company is incorporated in the United Kingdom its financial statements and those of the Group are denominated in US Dollars.

Share issues have historically been priced solely in Sterling but the issue of Special Warrants undertaken in December 2010 and the issue of new Ordinary Shares and Warrants on 30 March 2011 were priced in Canadian dollars. The Company expects that future issues of Ordinary Shares may be priced in Sterling or Canadian dollars. Expenditure is primarily in Brazilian Real and also in US Dollars, Sterling, Euros and Australian Dollars..

The table below shows the effect on the Group's operating loss (before interest and other income) and equity of a 10% movement of the Brazilian Real against the US Dollar:

	2010		2009	
	P&L (Loss on ordinary activities before interest and other income) \$000	Equity \$000	P&L (Loss on ordinary activities before interest and other income) \$000	Equity \$000
10% strengthening of the Brazilian Real against the US Dollar	(599,375)	4,478,263	(374,324)	4,222,160
10% weakening of the Brazilian Real against the US Dollar	283,563	(3,664,033)	306,265	(3,454,494)

The Company's operating loss and equity has no risk to movements in the Brazilian Real against the US Dollar.

The Group's main subsidiary operates in Brazil with its expenditure being principally in Brazilian Real and its financial statements are maintained in that currency. The Group's policy for dealing with exchange differences is outlined in the statement of Significant Accounting Policies under the heading "Foreign currencies".

The Group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and may be used where appropriate in the future.

The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates and holding surplus funds in currencies considered most appropriate to their expected future utilisation.

The Group considers book value to equal fair value.

The functional currency of the Group's operations is US Dollars, which is also the reporting currency. The Group's cash holdings at the balance sheet date were held in the following currencies:

	Group	
	31 December 2010 \$	31 December 2009 \$
US Dollar	1,708,548	10,648
Canadian Dollar	5,238,373	–
Sterling	1,634,450	4,008,751
Australian Dollar	3,059	3,073

Brazilian Real	14,326	59,410
Total	8,598,755	4,081,882

The cash is held at floating rates prevailing at the balance sheet date.

Credit risk

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US\$8,694,898 (2009: US\$4,357,420). It is the Group's policy to only deposit surplus cash with financial institutions that hold good credit ratings and to provide credit in respect of receivables only with parties that themselves have good credit history or otherwise to hold some form of lien pending settlement.

The Company's exposure to credit risk amounted to US\$33,260,935 (2009: US\$24,114,622). Of this amount US\$25,168,521 (net of impairment charge) (2009: US\$ 19,956,521) is due from subsidiary companies.

Subsequent Events

Subsequent to 31 December 2010, the Company:

- a) Issued 26,470 shares to a consultant to the Company in settlement of contracted services
- b) Issued 49,000 Ordinary Shares to each of Mr Michael Hodgson and Mr Clive Line as settlement of a bonus payment.
- c) Issued 1,445,000 stock options to Directors of the Company to acquire Ordinary Shares at an exercise price of 41 pence per option for a period of 10 years under the provisions of the Serabi Mining 2011 Share Option plan.
- d) Issued 500,000 stock options to Employees of the Company to acquire Ordinary Shares at an exercise price of 37 pence per option for a period of 10 years under the provisions of the Serabi Mining 2011 Share Option plan.
- e) Completed an IPO of the Ordinary Shares of the Company on the TSX, and concurrently issued 9,000,000 Ordinary Shares and 4,500,000 share purchase warrants. Each share purchase warrants entitles the holder to acquire one Ordinary Share for \$0.75 for a period ending 2 December 2012. In addition the Company issued 494,800 agents options which warrants entitle the holder to acquire one Ordinary Share for \$0.55 for a period ending 2 December 2012.

Changes in Accounting Policies

The Company has not adopted any standards or interpretations in advance of the required implementation dates. There has been no significant measurement impact on the consolidated financial statements from new standards or interpretations effective in 2010.

It is not anticipated that the adoption in the future of the new or revised standards or interpretations that have been issued by the International Accounting Standards Board will have a material impact on the Group's earnings or shareholders' funds.

Disclosure of Outstanding Share Data

The Company has an authorised capital of UK£30,000,000 comprised of 333,735,776 Ordinary Shares of 5 pence each and 140,139,065 Deferred Shares of 9.5 pence each.

The Company had the following Ordinary Shares, Deferred Shares, Stock Options and Warrants outstanding at 30 March 2011.

Ordinary Shares	63,968,529
Stock Options	4,390,785
Tradeable Warrants	9,535,000

Other Warrants	2,585,400
Fully diluted ordinary shares outstanding	80,479,714

The above table does not include

- a) 2,100,123 Ordinary Shares being the maximum number of Ordinary Shares that the Company calculates it would be obliged to issue in satisfaction of the Convertible Loan, being the principal owed of £300,000 and the accumulated interest over the life of the Convertible Loan of £15,018.42.

Eldorado Gold Corporation holds 16,840,000 Ordinary Shares in the Company, 2,420,000 Warrants and 1,500,000 share purchase warrants. 12,000,000 shares acquired by Eldorado are subject to an orderly marketing agreement entered into on 16 June 2010, whereby Eldorado has agreed not to dispose of any of those Ordinary Shares prior to 16 June 2011.

Cautionary Statement on Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" (also referred to as "forward-looking statements") which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company and its projects, the future price of gold or other metal prices, the estimation of mineral resources, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration and/or exploitation, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters, and that reflects management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Often, but not necessarily always, the use of words such as "anticipate", "believe", "plan", "estimates", "expect", "intend", "budget", "scheduled", "forecasts" and similar expressions have been used to identify these forward-looking statements or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect management's current beliefs and are based on information currently available to management. Except for statements of historical fact relating to the Company, information contained herein constitutes forward-looking statements, including any information as to the Company's strategy, plans or financial or operating performance. Forward-looking statements involve significant risks, uncertainties and assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements include risks related to failure to define mineral resources, to convert estimated mineral resources to reserves, the grade and recovery of ore which is mined varying from estimates, future prices of gold and other commodities, capital and operating costs varying significantly from estimates, political risks arising from operating in Brazil, uncertainties relating to the availability and costs of financing needed in the future, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, uninsured risks and other risks involved in the mineral exploration and development industry. A description of risk factors applicable to the Company can be found in the section "Risk Factors" in this management's discussion and analysis. Although the forward-looking statements contained in this management's discussion and analysis are based upon what management believes to be reasonable assumptions, the Company cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this management's discussion and analysis, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except in accordance with applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such

statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Risks and Uncertainties

Future exploration at the Company's projects or elsewhere may not result in increased mineral resources.

Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Company discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals. There is no assurance that current or future exploration programs will result in any new economically viable mining operations or yield new resources to replace and expand current resources.

There is no guarantee that the Company's applications for exploration licences will be granted on a timely basis or at all or that the existing exploration licences of the Company can be renewed or converted into mining licences. In addition, there can be no assurances that title to any of the Company's mineral properties will not be challenged or disputed.

There is no guarantee that any application for additional exploration licenses may be granted by the DNPM. The DNPM may refuse any application. Persons may object to the granting of any exploration license and the DNPM may take those objections into consideration when making any decision on whether or not to grant a license.

If and when exploration licenses are granted, they will be subject to various standard conditions including, but not limited to prescribed license conditions. Any failure to comply with the expenditure conditions or with any other conditions on which the licenses are held, can result in license forfeiture. Generally, the licenses are granted for a term of three years and further renewal of an exploration license is at the discretion of the DNPM and on such conditions as the DNPM may in its discretion impose. Renewal conditions may include increased expenditures and work commitments or compulsory relinquishment of areas of the licenses comprising the Company's properties. The failure of the DNPM to renew the Company's exploration licences or the imposition of new conditions or the inability to meet those conditions may adversely affect the operations, financial position and/or performance of the Company.

Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired.

The exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing.

Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of a property interest. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company faces numerous exploration, development and operating risks.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries of commercial quantities of ore.

The Company is considered to be a development stage company and although it generated revenue from mining operations in the past those operations have been discontinued. There can be no assurance that the Company will re-commence commercial production, generate any revenues or be able to operate profitably.

The development of the Company's properties will require the commitment of substantial resources to complete exploration programs and to bring the properties into commercial production. There can be no assurance that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of additional properties and other factors, some of which are beyond the Company's control.

If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Company's financial condition and result of operations.

Mineral resource estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, and assumptions about operating costs and metal prices, all of which may prove unreliable. The Company cannot be certain that the resource estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals if commercial production is commenced. Future production could differ dramatically from such estimates for the following reasons: mineralization or formations at the properties could be different from those predicted by drilling, sampling and similar examinations; declines in the market price of gold may render the mining of some or all of the resources uneconomic; and the grade of ore may vary significantly from time to time and the Company cannot give any assurances that any particular quantity of metal will be recovered from the resources.

The occurrence of any of these events may cause the Company to adjust the resource estimates or change its mining plans, which could negatively affect the Company's financial condition and results of operation.

The Company's exploration and development properties may not be successful and are highly speculative in nature.

Exploration for gold is highly speculative in nature. The Company's exploration activities in Brazil involve many risks, and success in exploration is dependent upon a number of factors including, but not limited to, quality of management, quality and availability of geological expertise and the availability of exploration capital. The Company cannot give any assurance that its current or future exploration efforts will result in the discovery of a mineral reserve or new or additional mineral resources, the expansion of current resources or the conversion of mineral resources to mineral reserves.

As well, mineral deposits, even though discovered, may be insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by additional factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment and other factors, which may make a mineral deposit unprofitable to exploit.

The Company's mineral properties are in the exploration stage and are without known bodies of mineral reserves, although a mineral resource has been established at the Jardim do Ouro Project. Development of such properties will only follow upon obtaining satisfactory exploration results and the completion of feasibility or other economic studies.

The risks and hazards associated with mining and processing may increase costs and reduce profitability in the future.

Mining and processing operations involve many risks and hazards, including among others: environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel. These risks may result in: damage to, or destruction of, the Company's properties or production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability.

The Company cannot be certain that its insurance will cover the risks associated with mining or that it will be able to obtain or maintain insurance to cover these risks at affordable premiums. The Company might also become subject to liability for pollution or other hazards against which it cannot insure or against which the Company may elect not to insure because of premium costs or other reasons. Losses from such events may increase costs and decrease profitability.

The Company may experience higher costs and lower revenues than estimated due to unexpected problems and delays.

New mining operations often experience unexpected problems during the development and start-up phases and such problems can result in substantial delays in reaching commercial production. Delays in construction or reaching commercial production in connection with the Company's development of its mines would increase its operating costs and delay revenue growth.

The Company's vulnerability to changes in metal prices may cause its share price to be volatile and may affect the Company's operations and financial results.

If the Company commences production, the profitability of the Company's operations will be dependent upon the market price of mineral commodities. Metal prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Company's investment in mining properties and increased amortization, reclamation and closure charges. In addition to adversely affecting the Company's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

The Company is subject to extensive environmental legislation and the costs of complying with these regulations may be significant. Changes in environmental legislation could increase the costs of complying with applicable regulations and reduce levels of production.

All phases of the Company's operations are subject to environmental regulation in Brazil. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations.

Environmental legislation relating to land, air and water affects nearly all aspects of the Company's operations. This legislation requires the Company to obtain various operating licenses and also imposes standards and controls on activities relating to exploration, development and production. The cost of obtaining operating licenses and abiding by standards and controls on its activities may be significant. Further, if the Company fails to obtain or maintain such operating licenses or breaches such standards or controls imposed on its activities, it may not be able to continue its operations in its usual manner, or at all, or the Company may be subject to fines or other claims for remediation which may have a material adverse impact on its operations or financial results. While the Company is unaware of any existing material environmental liabilities, it cannot guarantee that no such liabilities currently exist or will occur in the future.

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Company's financial condition and results of operations. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of further protecting human health and the environment. Some of the issues expected to be under future review by environmental agencies include reducing or stabilizing air emissions, mine reclamation and restoration, and water quality. Other changes in environmental legislation could have a negative effect on production levels, product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Company to predict their impact. The Company anticipates capital expenditures and operating expenses will increase as a result of compliance with the introduction of new and more stringent environmental regulations. Failure to comply with environmental legislation may result in the issuance of clean up orders, imposition of penalties, liability for related damages and the loss of operating permits. While the Company believes it is now in material compliance with existing environmental legislation, it cannot give assurances that it will at all future times be in compliance with all federal and state environmental regulations or that steps to bring the Company into compliance would not have a negative effect on its financial condition and results of operations.

Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations. To the extent such approvals are required and but are not granted, the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties.

Currency fluctuations may affect the costs of doing business and results of operations.

Currency fluctuations may affect the Company's costs and the Company has not entered into any derivative financial instruments to hedge such fluctuations. The Company pays for goods and services in Canadian dollars, U.S. dollars, British Pound Sterling and Brazilian Real and the Company receives the proceeds of financings in Canadian dollars and British Pound Sterling. As a result of the use of these different currencies, the Company is subject to foreign currency fluctuations. Foreign currencies are affected by a number of factors that are beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. Adverse fluctuations in the relative value of these currencies could materially and adversely affect the Company's results of operation and financial position.

Compliance with current and future government regulations may cause the Company to incur significant costs and slow its growth.

The Company's activities are subject to extensive Brazilian laws and regulations governing matters relating to occupational health, labour standards, prospecting, exploration, production, exports and taxes. Compliance with these and other laws and regulations could require the Company to make significant capital outlays which may slow its growth by diverting its financial resources. The enactment of new adverse regulations or regulatory requirements or more stringent enforcement of current regulations or regulatory requirements may increase costs, which could have an adverse effect on the Company. The Company cannot give assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these regulations and regulatory requirements could lead to substantial fines, penalties or other sanctions.

The Company is currently subject to 13 known claims under Brazilian labour legislation by former employees in respect of alleged unpaid compensation. The average monthly salary of the claimants was between R\$436 and R\$7,678 while the claims range between R\$18,597 and R\$1,282,310. The total of current claims is R\$4,133,000. Based on previous experience, it is the Company's belief that settlement will be no more than 15% of the claimed figure and will be settled in instalments over a 12 to 18 month period.

If some or all of the foregoing labour claims are successful or are not settled on the basis anticipated by the Company or if the fine levied by IBAMA is not significantly reduced, there could be material adverse impact on the financial condition of the Company.

The Company is required to obtain and renew governmental permits and licences in order to conduct mining operations, which is often a costly and time-consuming process.

In the ordinary course of business, the Company will be required to obtain and renew governmental permits and licenses for the operation and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Company's efforts to obtain and renew permits and licenses are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licensing authority. The Company may not be able to obtain or renew permits and licenses that are necessary to its operations, or the cost to obtain or renew permits and licenses may exceed what the Company expects. Any unexpected delays or costs associated with the permitting and licensing process could delay the development or impede the operation of the Company's projects, which could adversely affect the Company's revenues and future growth.

The Company's operations are conducted in Brazil and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties.

These risks and uncertainties vary from time to time and include, but are not limited to: terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income and other taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with

carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

The Company is a holding company that conducts operations through foreign subsidiaries and substantially all of its assets are held in such entities.

Any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Company's valuation and stock price.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure.

Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

If the Company loses key personnel or is unable to attract and retain additional personnel, the Company's mining operations and prospects could be harmed.

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, additional key financial, administrative and mining personnel as well as additional operations staff will be required. Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting, training and retaining qualified personnel, the efficiency of operations may be affected.

The mining industry is intensely competitive in all of its phases and the Company competes with many companies possessing greater financial and technical resources than itself.

Competition in the precious metals mining industry is primarily for mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future.