



# SERABI GOLD

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three months ended 31 March 2013**

**14 May 2013**

**SERABI GOLD PLC**  
**Management's Discussion and Analysis**  
**for the three months ended 31 March 2013**

**Introduction**

This Management's Discussion and Analysis ("MD&A") dated 14 May 2013 provides a review of the performance of Serabi Gold plc ("Serabi" or the "Company"). It includes financial information from, and should be read in conjunction with, the unaudited condensed financial information of the Company for the three month period ended 31 March 2013 and also read in conjunction with the Company's annual report and audited consolidated financial statements and its MD&A for the twelve month period ended 31 December 2012.

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") and adopted for use within the European Union and with IFRS and their interpretations issued 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.

**Overview**

The Company is a United Kingdom registered and domiciled gold mining and 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 Mineraçao S.A.

The Company currently holds, either granted or under application, approximately 108,000 hectares of Exploration Licences. The Jardim do Ouro Gold Project ("JDO Project") covers approximately 53,000 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") where work commenced in October 2012 to remediate and develop the existing underground mine and renovate the process plant with a view to commencing gold production before the end of the fourth quarter of 2013. The JDO Project includes several areas of exploration interest in close proximity to the Palito Mine. The Palito Mine complex is fully permitted and a mining licence covering 1,150 hectares has been issued. The Company does not otherwise currently have any assets or mineral properties in commercial production or development and until the end of 2011 had been actively pursuing a programme of mine-site exploration with a view to identifying the potential to increase its existing mineral resource inventory. In January 2012 following an exploration programme that identified three new discoveries, the Company announced that it was undertaking a preliminary economic assessment (the "PEA") into the viability of re-establishing underground mining operations at the Palito Mine. The results of the PEA were announced on 13 June 2012 and indicated the project had an after tax internal rate of return ("IRR") of 68% and a project net present value ("NPV") of US\$38.2 million (using a US\$1,400/oz gold price and after applying a 10% discount rate) based on employing a selective underground mining operation and exploiting only part of the previously declared mineral resource estimates. The directors believe that the PEA results support a small scale, high grade operation using selective mining techniques. On 17 January 2013 a placement of new shares raising gross proceeds of UK£16.2 million was completed and announced to finance the development of the project as outlined in the PEA. 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.

Additional information on the Company, including the Company's most recent Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Corporate Highlights - for the last quarter**

- On 17 January 2013 the Company completed the placement of 270 million new ordinary shares to raise in aggregate UK£16.2 million to finance the development of the Palito Mine project as outlined in the PEA. The placement of new shares was underwritten by Fratelli Investments Limited, one of the Company's major shareholders.
- New mine management team in place in January 2013
- Appointment of Peel Hunt as Joint Broker
- Announcement of proposed acquisition of Kenai Resources Limited ("Kenai") in May 2013 (the "Transaction")

Significant Benefits of the transaction:

- Kenai's wholly owned subsidiary Gold Aura do Brasil Mineração Ltda ("GOAB") owns the high-grade Sao Chico gold deposit, some 23 kilometres from Serabi's Palito gold mine. Sao Chico hosts a NI 43-101 compliant combined Measured and Indicated Mineral Resource of 25,275 ounces of gold at 29.77 grammes per tonne ("g/t") and an Inferred Mineral Resource of 71,385 ounces gold at 26.03 g/t.
- Serabi's nearby Palito Mine is set to recommence gold production by the end of 2013, with average annual production of 24,000 ounces with an average ore grade of 9.0 g/t.
- The existing Palito gold recovery plant is currently being refurbished and upgraded, and Sao Chico is expected to be the first satellite gold resource to supplement the Palito Mine production with high grade material, taking advantage of the excess plant capacity available to quickly expand Serabi's future gold production.
- An exploration programme at Sao Chico including an approximate 6,000 metre drill campaign is expected to start mid-2013, with strong potential to increase the current mineral resource.

Highlights of the Transaction include:

- Shareholders of Kenai will receive 0.85 of one new ordinary share of 5 pence par value of Serabi (a "Serabi Share") in exchange for each Kenai Share held (the "Exchange Ratio").
- On completion of the Transaction, Kenai shareholders will own approximately 20.8% of Serabi's enlarged issued share capital (and 22.1% on a fully diluted basis);
- Daniel Kunz, Chairman of Kenai, will join the Serabi board upon closing of the Transaction (subject to satisfactory regulatory enquiries in compliance with the AIM Rules).
- Kenai information circular to be issued before end May, with shareholder meeting to be early July.

#### **History**

The Company currently holds, either granted or under application, approximately 108,000 hectares of Exploration Licences all located within the Tapajos Gold Mining Region, within the states of Para and Amazonas, Northern Brazil. These licences are divided into three project areas, namely the Jardim do Ouro ("JDO"), Sucuba, and Pizon projects. The Company does not currently have any assets or mineral properties in commercial production, however, the JDO Project does incorporate the Palito Mine. The

Palito Mine has been in production under Serabi's ownership in the past, and work commenced in October 2012 to remediate and develop the existing underground mine and renovate the process plant with a view to commencing gold production before the end of the fourth quarter of 2013. In January 2012 the Company announced that it was undertaking a PEA into the viability of re-establishing underground mining operations at the Palito Mine the results of which were released in June 2012. The PEA focussed on the existing resources and considered a selective mining methodology, focused on maximising grade with gold production levels around 24,000 ounces per annum. On 17 January 2013 a placement of new shares raising gross proceeds of UK£16.2 million was completed and announced to finance the development of the project in line with the plans and scope outlined in the PEA and it is anticipated that first gold production will occur before the end of the fourth quarter of 2013. In addition to the JDO project that Company has two other project areas although activity on both of these projects has been limited in recent periods. The Sucuba Project is located in the state of Para, and the Company has submitted two applications for exploration permits covering an area of 10,815 hectares. The Pizon Project, located in the state of Amazonas, represents 44,712 hectares, in five exploration licences, one granted and four in application. The Company has not engaged in any exploration activity at the Sucuba or Pizon 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, originally acquired by the Company in 2001, covers a total area of 52,954 hectares, and is comprised of one mining licence granted on 23 October 2007 covering an area of 1,150 hectares, three exploration licences and six applications for exploration licences covering an aggregate of 51,804 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. Towards the end of 2008 additional working capital was required to undertake necessary mine development and with no opportunity to raise additional working capital, as a result of the state of global financial markets at that time, management concluded that it was necessary to halt mining activity and place the underground portion of the Palito Mine on care and maintenance. Between the start of 2005 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 gold recovery during the period was 90%, with copper recovery around 93% providing total production over this period of 110,097 gold equivalent ounces. The Company continued to maintain some minor surface oxide ore production, through which some 7,200 ounces of gold was produced up to June 2010.

In December 2010 the Company released a technical report prepared by its consultants, NCL Brasil Ltda, (the NI 43-101 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).

Mineral Resources	Tonnage	Gold (g/t Au)	Copper (% Cu)	Contained	Contained
				Gold (Ounces) <sup>(1)</sup>	Gold Equivalent (Ounces) <sup>(2)</sup>
Measured	97,448	9.51	0.26	29,793	32,045
Indicated	753,745	7.29	0.23	176,673	192,228

Measured and Indicated	851,193	7.54	0.23	206,466	224,272
Inferred	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.				

Since placing the operation on care and maintenance in 2008, the Company has kept intact as much of the infrastructure as possible. This includes the process plant comprising flotation and carbon-in-pulp ("CIP") gold recovery circuits which had historically been treating up to 600 t/day (200,000 t/year) of ore, a camp that had housed 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 (Iriiri) River.

Following the suspension of mining operations the Company focused on mine-site exploration, primarily airborne and ground geophysics and geochemistry, followed by a 12,000m discovery and follow-up diamond drilling programme into advanced targets. The exploration objective was to identify two or more Palito style and size deposits in close proximity to the Palito Mine and processing infrastructure. Three discoveries were made during 2011 within 3 kilometres of the Palito Mine. Management believes that these three discoveries, Piaui, Palito South and Currutela, warrant further drilling to enhance and bring them to a resource status. In addition management is of the view that the Palito gold deposit, the Palito South discovery and the Currutela discovery are hosted along the same structural zone. Initial drilling undertaken during the latter part of 2011 on the Palito South prospect located along strike immediately to the south east of Palito, yielded encouraging assay results.

Management are sufficiently encouraged by these results to consider that Piaui, Curutela and Palito South will between them and in time form a cornerstone of the resource growth that they set out to achieve at the start of 2010. In January 2012, the Company commissioned NCL to undertake a Canadian NI 43-101 compliant PEA into the viability of re-establishing underground mining operations at the Palito Mine. The results of the PEA were announced by the Company on 13 June 2012 and the complete NI 43-101 compliant technical report issued on 29 June 2012. The directors believe that the PEA results support a small scale, high grade operation using selective mining techniques. On 17 January 2013 a placement of new shares raising gross proceeds of UK£16.2 million was completed and announced to finance the development of the project in line with the plans and scope outlined in the PEA. Work commenced in October 2012 to remediate and develop the existing underground mine and renovate the process plant with a view to commencing gold production before the end of the fourth quarter of 2013. Management is hopeful that, if successful, the cash flow from the initial underground mining operation can be used, at least in part, to fund the future evaluation and development of the Piaui, Currutela and Palito South prospects.

## RESULTS OF OPERATIONS

### Exploration and technical programmes executed during the first quarter of 2013

The Company's results of operations for the three month period ended 31 March 2013 were comprised solely of the activities related to the results of operations of the Company's 100% owned subsidiary Serabi Mineração S.A.

#### *Property Highlights:*

- Mine dewatering completed in January 2013;
- New mine management team and contract mining personnel in place;

- Development mining now underway;
- Stopping of remnant blocks commenced;
- Development ore stockpile being generated;
- Two main ventilation raises to surface have been started;
- Reassembly of the primary crushing circuit due for completion by end of second quarter 2013;
- Remediation of flotation circuit due for completion by end of second quarter 2013;
- Detailed engineering of milling circuit complete and disassembly of old plant underway; and
- Initial mining fleet on site in February 2013. Further items expected to be commissioned at start of third quarter of 2013.

Activity at the Palito mine site during the first quarter of 2013 has continued the development work for the commencement of mining operations at Palito. The mine de-watering programme that was started in 2012 was completed in January 2013 and a new mine management team were recruited and arrived at site in the same month. The first contract mining crews also started work during the quarter concurrent with some initial mining fleet that the Company had sourced locally.

Within the mine itself works have concentrated on the commencement of development mining and the extension of the main ramp to access deeper levels in the mine. Work on creating two new ventilation raises has commenced and the mining crews have now been deployed to start stopping operations within some of the areas of the mine that had previously been developed and some remnant ore blocks remain.

This work is allowing the Company to establish a stockpile of run-of-mine, development ore at surface. It is anticipated that on-going development mining activities will allow the Company to accumulate a sizeable stock-pile over the coming months that will provide the initial ore feed to the process plant when this is commissioned towards the end of 2013.

Orders were placed for additional underground mining fleet during the first quarter of 2013, and the first of these items is currently being shipped to Brazil. The remaining items are expected to leave the factory during May and June 2013 and it is hoped that all of the new items of mining fleet will have been delivered and commissioned during the third quarter of 2013.

Work is progressing well with the remediation of the crushing and process plant. Icone, an engineering firm based in Belo Horizonte, have, during March and April 2013, been designing the overhaul of the grinding section, which will also now include the facility to introduce a gravity recovery circuit. The old milling section is now disassembled, and work has begun on the ball mill overhaul. Additionally during March and April 2013, the crushing and flotation plants having been dismantled and all critical parts overhauled. These sections of the process plant are now both being reassembled with a view to being completed before the end of the second quarter of 2013.

Accommodation at the mine site is also being overhauled and during the first quarter of 2013 preparations were made to install a new prefabricated accommodation unit which is due to be assembled before the end of May 2013. This will mean that the camp has new or overhauled accommodation for 140 personnel. Further work on upgrading camp facilities is on-going.

#### ***Outlook***

Remediation and development works are progressing well and the Company remains ahead of schedule with the underground mine development work benefitting from the earlier than planned completion of the de-watering of the mine. Rehabilitation of the processing plant is progressing in line with expectations and accordingly the Company still anticipates being able to start the commissioning of the plant before the end of 2013.

A number of refining and trading groups have been approached to provide terms for the refining and purchase of the copper/gold concentrate that will be produced at the Palito Mine and which is expected to account for in excess of 70% of the revenues of the operation. The Company is evaluating the submissions and expects to be in a position to finalise terms in the coming few months.

The Company's strategy has been to develop additional satellite high grade gold mining opportunities in relatively close proximity to the current Palito Mine and process plant, with a view that ore mined could be treated through a centralised processing facility located at Palito. Kenai's high grade Sao Chico property is at a more advanced stage than Serabi's own discoveries at Currutela, Palito South and Piaui. The proposed acquisition of Kenai therefore presents the Company, if the transaction is approved by Kenai shareholders, with the opportunity to reduce the timeframe for the development of its first satellite deposit to augment Palito mine production with additional high grade feed, taking advantage of the excess plant capacity available.

The first stage of activity at Sao Chico will be the commencement of an estimated 6,000 metre diamond drilling programme which will be supplemented by ground geophysics and surface sampling to establish other potential areas of interest within the Sao Chico exploration licence. The current Sao Chico gold resource comprises approximately 25,000 Measured and Indicated ounces, and 71,000 Inferred ounces, both averaging over 26 g/t. over just 3 veins, and with 10 more veins identified.

Current design work on the Palito plant remediation will take into account the potential future processing requirements of ore taken from Sao Chico.

The Company's exploration activities at Palito will however be limited whilst the Company focuses its attention and personnel resources at Palito towards the remediation and commencement of production. The directors expect that future exploration activity at Palito will be financed from the cash flow from gold production at Palito and may therefore not be undertaken until such time as sufficient and sustainable levels of cash flow are achieved.

## SELECTED FINANCIAL INFORMATION

The data included herein is taken from the Company's annual audited financial statements and unaudited interim financial information. The audited financial statements are prepared 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") and 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 Companies Act 2006 applicable to companies reporting under IFRS. Whilst the unaudited interim financial statements are compiled in accordance with IFRS, they do not contain sufficient financial information to comply with IFRS.

### Results of Operations

#### Three month period ended 31 March 2013 compared to the three month period ended 31 March 2012

The loss from operations decreased by US\$320,001 from US\$1,384,267 for the 3 months ended 31 March 2012 to US\$1,064,266 for the 3 month period ended 31 March 2013 a reduction of 23% primarily arising from a change in the manner in which costs associated with maintenance activities of the plant are treated for accounting purposes and reduced depreciation costs.

In the 3 months to 31 March 2012 all costs relating to the maintenance of the process plant were treated as an operating expense as they were incurred, this cost for that 3 month period being BrR\$207,954 (US\$117,694). Since the decision was taken by the Board, at the end of June 2012, to proceed with the development of the Palito Mine, the plant has been considered to be in a state of refurbishment and all costs related to the plant are being capitalised as part of the overall mine development costs and therefore there is no comparable expense reported in the income statement for the 3 month period to 31 March 2013.

Administration costs have shown an overall increase from US\$810,786 for the 3 month period ended 31 March 2012 to US\$908,753 for the 3 month period to 31 March 2013. The expense for the 3 months to 31 March 2012 included a charge in respect of labour claims amounting to US\$182,531 and there has no similar expense recorded for the period to 31 March 2013. The Company has made a provision in the 3 month period ended 31 March 2013 of \$300,000 in respect of bonus payments that it anticipates making to senior management personnel in respect of the preceding financial year's performance review period. Excluding these two items from the analysis, administration costs for the 3 months to 31 March 2013 show a small reduction of US\$19,000 in comparison with the 3 months to 31 March 2012.

The reduction in depreciation charges between the two periods reflects many of the Company's assets reaching the end of their original forecast lives for amortisation purposes and have therefore now been fully amortised. Depreciation charges for the 3 months to 31 March 2013 are US\$107,667 compared with US\$426,637 for the 3 month period to 31 March 2012.

The Company recorded a foreign exchange loss of US\$255,218 in the 3 month period to 31 March 2013 which compares with a foreign exchange gain of US\$87,190 recorded for the 3 months ended 31 March 2012. The loss for the 3 months to 31 March 2013 primarily comprises losses on cash holdings denominated in GB Pounds Sterling and Euros. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies. These currency holdings were acquired early in the quarter, which saw a period of strengthening of the US dollar against most major currencies resulting in these book exchange losses. Subsequent strengthening of Sterling following the end of the quarter will have reversed some of these recorded losses.

Net interest charges for the 3 month period to 31 March 2013 were US\$39,742 compared with US\$18,049 for the corresponding period 3 month period to 31 March 2012. An analysis of the composition of these charges is set out in the table below:



	2013	2012
	US\$	US\$
Interest on short term loan	26,630	-
Interest expense on convertible loan stock	15,639	13,927
Other interest and finance expenses	230	5,301
	<u>42,499</u>	<u>19,228</u>
Interest income	(2,757)	1,179
	<u>39,742</u>	<u>18,049</u>

Interest charges on the short term loan relate to a US\$6.0 million facility provided by Fratelli Investments Limited ("Fratelli") which was entered into on 1 October 2012. Under the loan agreement a facility fee of 3% was payable to Fratelli and interest accrued at the rate of 12% per annum. The facility was repaid in January 2013 from the proceeds of a UK£16.2 million placement of new ordinary shares that was completed on 17 January 2013.

Other interest and finance expenses are primarily related to the Brazilian operation and the reduction in the 3 months to 31 March 2013 compared with the 3 months to 31 March 2012 reflects reduced levels of settlements with long term creditors to which interest is being applied and also reduced levels of penalties from tax authorities for past adjustments of taxes due to be collected by the Company on behalf of both the Federal and State tax authorities.

### Summary of quarterly results

	Quarter ended 31 March 2013 US\$	Quarter ended 31 December 2012 US\$	Quarter ended 30 September 2012 US\$	Quarter ended 30 June 2012 US\$
Revenues	-	-	-	-
Operating expenses	-	(296,017)	-	(64,250)
Gross loss	-	(296,017)	-	(64,250)
Administration expenses	(908,753)	(679,272)	(450,047)	(573,167)
Provision for indirect taxes	-	-	-	-
Option costs	(47,846)	(33,244)	(33,244)	(33,244)
Write-off of past exploration expenditures	-	(267,703)	-	-
Gain on asset disposals	-	9,857	-	8,599
Depreciation of plant and equipment	(107,667)	(83,110)	(223,150)	(158,204)
Operating loss	(1,064,266)	(1,349,489)	(706,441)	(820,266)
Foreign exchange (losses)/gains	(255,218)	(4,380)	9,434	(19,103)
Finance costs	(39,742)	(498,343)	(18,541)	(14,731)
Loss before taxation	<u>(1,359,226)</u>	<u>(1,852,212)</u>	<u>(715,548)</u>	<u>(854,100)</u>
Loss per ordinary share (basic and diluted)	(0.43) cents	(2.03) cents	(0.78) cents	(0.94) cents
Development and deferred exploration costs	17,696,480	17,360,805	18,249,489	17,405,081
Property, plant and equipment	29,187,365	26,848,991	25,514,742	25,845,466
Total current assets	<u>21,881,077</u>	<u>3,993,428</u>	<u>2,054,299</u>	<u>3,305,872</u>
Total assets	68,764,922	48,203,224	45,818,530	46,556,419
Total liabilities	4,857,524	8,942,223	4,358,930	4,219,578
Shareholders' equity	<u>63,907,398</u>	<u>39,261,001</u>	<u>41,459,600</u>	<u>42,336,841</u>

	Quarter ended 31 March 2012 US\$	Quarter ended 31 December 2011 US\$	Quarter ended 30 September 2011 US\$	Quarter ended 30 June 2011 US\$
Revenues	–	(99)	2,843	1,063
Operating expenses	(117,694)	(103,429)	(152,001)	(132,260)
Gross loss	(117,694)	(103,528)	(149,158)	(131,197)
Administration expenses	(810,786)	(773,512)	(745,990)	(701,818)
Settlement of supplier claim	–	–	–	–
Provision for indirect taxes	–	(129,264)	–	–
Option costs	(29,150)	(77,151)	(92,399)	(63,740)
Write-off of past exploration expenditures	–	–	–	–
Gain / (loss) on asset disposals	–	38,803	(5,204)	11,178
Depreciation of plant and equipment	(426,637)	(509,873)	(580,845)	(593,796)
Operating loss	(1,384,267)	(1,554,525)	(1,573,596)	(1,479,373)
Foreign exchange gains/(losses)	87,190	95,975	(168,309)	(44,988)
Finance (costs)/income	(18,049)	(432,312)	2,221	(38,274)
Loss before taxation	(1,315,126)	(1,890,862)	(1,739,684)	(1,562,635)
Loss per ordinary share (basic and diluted)	(1.56) cents	(2.96) cents	(2.72) cents	(2.44) cents
Development and deferred exploration costs	17,998,296	16,648,884	15,122,184	14,785,541
Property, plant and equipment	28,690,108	28,266,092	29,132,327	34,843,749
Total current assets	5,291,258	3,309,822	6,376,759	10,897,744
Total assets	51,979,662	48,224,798	50,631,270	60,527,034
Total liabilities	4,537,035	4,940,318	5,302,581	6,076,157
Shareholders' equity	47,442,627	43,284,480	45,328,689	54,450,877

### Liquidity and Capital Resources

The Company had a working capital position of US\$19,177,385, at 31 March 2013 compared to US\$(2,760,102) at 31 December 2012. The working capital position at 31 December 2012 was inclusive of a US\$4.5 million short term loan received from a major shareholder which was repaid in January 2013, following the successful completion of a share placement on 17 January 2013 raising gross proceeds of UK£16.2 million. This share placement and the repayment of the loan comprise the principle reasons for the significant improvement in the working capital position of the Company which has resulted in an increase in cash resources available to the company of US\$17.64 million compared with 31 December 2012.

The levels of inventories have increased by US\$73,000 compared with 31 December 2012, reflecting the increasing levels of activity and comprise consumables for the development mining activities that are now underway. Equally the level of creditors has increased by approximately US\$294,000 as orders for equipment and consumables are placed.

The Company does not have any asset backed commercial paper investments. As the Company has no revenue and has in recent years primarily supported its activities by the issue of further equity, the working capital position at any time reflects the timing of the most recent share placement completed by the Company.

During the three month period ended 31 March 2013, the Company issued 270,000,000 Ordinary Shares for gross cash proceeds of UK£16.2 million. The placement had been underwritten by one of the Company's major shareholders who received an underwriting fee of 8,135,035 Warrants in respect of the placement. Each Warrant entitles the holder to subscribe for one Ordinary Share at a price of UK£0.10 at any time until 16 January 2015.

The Company has, during the three month period ended 31 March 2013, incurred costs of US\$111,000 for development and exploration expenditures on its mineral properties, US\$240,000 on asset purchases, US\$1,839,000 related to the rehabilitation and development of the Palito Mine and used cash of US\$1,127,000 to support its operating activities. Further details of the exploration and development activities conducted during the period are set out elsewhere in this MD&A.

On 31 March 2013, the Company's total assets amounted to US\$68,764,922 which compares to the US\$48,203,224 reported at 31 December 2012. The current asset component has increased by some US\$17,888,000 million reflecting the higher cash balances following the completion of the share placement with the non-current asset component increasing by US\$2,674,049. Whilst some US\$2.2 million has been expended on non-current assets the exchange rate movements between the Brazilian Real and the United States Dollar has resulted in exchange variations increasing the carrying value of exploration interests by US\$0.2 million and of mining property, plant and equipment by US\$0.37 million. Depreciation charges of US\$0.1 million during the 3 months ended 31 March 2013 account for the remaining change in value compared to 31 December 2012. Total assets are mostly comprised of property, plant and equipment, which as at 31 March 2013 totalled US\$29,187,365 (December 2012: US\$26,848,991), of which US\$3.7 million relates to recent project development expenditures at the Palito Mine and deferred exploration and development cost which as at 31 March 2013 totalled US\$17,696,480 (December 2012: US\$17,360,805), of which US\$16.6 million relates to capitalised exploration expenditures at, or in close proximity to, the Palito Mine. The Company's total assets also included cash holdings of US\$20,222,386 (December 2012: US\$2,582,046).

Receivables of US\$182,018 as at 31 March 2013 have increased compared to 31 December 2012 when the receivables balance was US\$85,509. The receivables as of 31 March 2013 includes a down payment of approximately US\$87,000 in respect of mining equipment that is due to be delivered to the project site during the second quarter of 2013. The remaining balance represents other deposits paid by the Company. Prepayments as of 31 March 2013 were US\$681,188 compared with US\$603,005 as at 31 December 2012, an increase of US\$78,000. The prepayments primarily represent prepaid taxes in Brazil amounting to US\$536,000, of which the majority is federal and state sales taxes which the Company expects to recover either through off-set against other federal tax liabilities or through recovery directly.

The Company's total liabilities at 31 March 2013 were US\$4,857,524 (December 2012: US\$8,942,223). The total liabilities at 31 December 2012 included the short term loan payable to Fratelli Investments Limited which, including interest, amounted to US\$4,580,745 as well as accounts payable to suppliers and other accrued liabilities of US\$2,384,724. At 31 March 2013 accounts payable to suppliers and other accrued liabilities totalled \$2,834,933. This increase reflects a provision of \$300,000 for 2012 bonus entitlements for senior management as well as a general increase reflecting the higher levels of activity. The total liabilities include US\$386,729 including accrued interest (December 2012: US\$364,656) 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\$1,635,873 (December 2012: US\$1,612,098) in respect of provisions including US\$1,241,434 (December 2012: US\$1,223,392) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity.

During the early part of 2012 the Company commissioned a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. The report which was completed and published in June 2012 was positive and the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") on 2 October 2012 to subscribe for and underwrite a placement of new shares to finance the development and start-up of production at the Palito gold mine. In addition, Fratelli agreed to provide an interim secured loan facility of US\$6.0

million to provide additional working capital to the Company and to enable it to commence the initial works at Palito. The placing of 270 million new Ordinary Shares with Fratelli and other subscribers was completed on 17 January 2013, raising gross proceeds of UK£16.2 million. The Company has repaid out of the proceeds the amount of the loan facility that had been drawn down, which at that time was US\$4.5 million plus accrued interest. Management considers that the Company has adequate access to capital to be able to complete the necessary mine development and process plant and infrastructure rehabilitation works that are required in order to be able to commence gold production before the end of 2013. From the time that production operations commence at planned rates management anticipates that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects.

There are, however, risks associated with the commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale.

### Contractual commitments

The Company has operating leases in respect of office premises in London, England and Belo Horizonte, Brazil.

The Company holds certain exploration prospects which require it 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\$154,122.

On 9 November 2009 (as further detailed in note 16 of the Company's 2012 annual 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 per cent. per annum and is compounded. In January 2012 Greenwood assigned its interest in the Convertible Loan Stock to Anker Holding AG. Anker Holding AG is beneficially owned by the spouse of Mr. Christopher Kingsman, a non-executive director of the Company. Mr Kingsman is a director of Anker Holding AG.

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Long term debt	386,729	-	386,729	-	-
Capital lease obligations	-	-	-	-	-
Operating leases	206,650	123,318	83,332	-	-
Purchase obligations	-	-	-	-	-
Other long term obligations	-	-	-	-	-
<b>Total contractual obligations</b>	<b>593,379</b>	<b>123,318</b>	<b>470,061</b>	<b>-</b>	<b>-</b>

## **Transactions with related parties of the Company**

On 1 October 2012, the Company entered into a secured loan agreement for a total facility of US\$6.0 million ("the Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into conditional subscription agreement with Fratelli for the placement of up to 270 million new Ordinary Shares. At that time Fratelli held a 19.3% interest in the issued share capital of the Company. Under the Loan Agreement Fratelli agreed to provide up to US\$6.0 million to be drawn down in four instalments commencing 1 October 2012 to provide working capital to the Company and the Group and to allow initial development work to commence on the start-up of gold production at the Palito Mine. The loan was to be repaid within 6 months of the first drawdown and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. The loan was secured against the entire share capital of Serabi Mining Limited a subsidiary of Serabi Gold plc and the 99.99% shareholder of Serabi Mineração SA, which is the licence holder for the Palito Mine. In addition the Company also made a charge in favour of Fratelli over all current and future sums owed by Serabi Mineração SA to Serabi Gold plc. Following completion of the share placing on 17 January 2012, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

As a result of the subscription by Fratelli, Fratelli has a direct interest of 51.1% in the share capital of the Company and has become a controlling party.

## **Financial and other instruments**

The Company's financial assets at 31 March 2013 which comprise trade and other receivables and cash, are classified as loans and receivables. All of the Company's financial liabilities which comprise trade and other payables, accruals and interest bearing liabilities, are classified as liabilities measured at amortised cost.

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

The main financial risks arising from the Company'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 Company is not currently producing revenue and does not expect to generate any significant revenue during 2013, the Company is 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 Company's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Company does however closely monitor the prices of these commodities and will consider the use of hedging contracts, where appropriate, in the future.

At the end of the three month period ended 31 March 2013 and at the end of the financial year ended 31 December 2012, the Company had no unsold or part-paid production and accordingly the results for the year and the equity position of the Company is not affected by any change in commodity prices subsequent to the end of the period.

### **Interest rate risk**

The 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.

As at 31 December 2012 the Company had outstanding US\$4.5 million plus accrued interest which formed part of a secured loan agreement with a total facility of US\$6 million with Fratelli Investments Limited ("Fratelli"). The loan was to be repaid within 6 months of the first drawdown and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. Following completion of the share placing on 17 January 2013, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli.

There is not considered to be any material interest rate risk. The Company's policy is to retain surplus funds as short-term deposits, of up to 32 days 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 Company has relied primarily on shareholder funding and in prior years' short-term trade finance and fixed rate finance leases to finance its activities. The Company has also drawn down on a convertible loan stock instrument which is repayable in 2014. On 1 October 2012, the Company entered into a secured loan agreement for a total facility of US\$6.0 million ("the Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into conditional subscription agreement with Fratelli for the placement of up to 270 million new Ordinary Shares. At that time Fratelli held a 19.3% interest in the issued share capital of the Company. The outstanding loan and accrued interest was repaid to Fratelli in January 2013. As at 31 December 2012 the Company did not otherwise have any borrowing or credit facilities. The Company'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 increases in value of the Company for the benefit of shareholders. In establishing its capital requirements the Company will try to take account of the risks inherent in its plans and proposed activities and prevailing market conditions. It is the intention of the Company to use the funds raised from the placement of new Ordinary Shares completed on 17 January 2013, to commence gold production from the Palito Mine. The cash flow generated is expected to be sufficient to allow the Company to meet its on-going obligations as and when they fall due and to provide working capital to develop other exploration projects that the Company controls. The Company would expect to use fixed rate finance arrangements for the purchase of certain items of capital equipment and will consider short term trade finance particularly in respect of its projected sales of copper/gold concentrate.

### **Currency risk**

Although the Company is incorporated in the United Kingdom its financial statements and those of the group are presented in US Dollars, which is also considered to be the functional currency of the Parent Company.

Share issues have historically been priced solely in Sterling but an issue of Special Warrants undertaken in December 2010 and an 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 but the Group also incurs liabilities denominated in other currencies being primarily Sterling, Euros, US Dollars, and Australian Dollars.

The Company's main subsidiary operates in Brazil with its expenditure being principally in Brazilian Real and its financial statements are maintained in that currency. The Company's policy for dealing with exchange differences is outlined in the statement of Significant Accounting Policies in its 2012 Annual Report and Accounts under the heading "Foreign currencies".

The Company 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 Company 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 Company considers book value to equal fair value.

The Company's cash holdings at the balance sheet date were held in the following currencies:

	31 March 2013 US\$	31 December 2012 US\$
US Dollar	15,202,344	2,198,081
Canadian Dollar	43,017	27,090
Sterling	4,155,701	306,127
Euros	554,124	–
Australian Dollar	7,677	2,324
Brazilian Real	259,523	48,424
<b>Total</b>	<b>20,222,386</b>	<b>2,582,046</b>

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

### **Credit risk**

The Company's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US\$20,404,404 as at 31 March 2013 (31 December 2012: US\$2,667,555). It is the Company's policy to only deposit surplus cash with financial institutions that hold acceptable 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.

### **Subsequent events**

On 6 May, the Boards of Directors of the Company and Kenai announced that they had entered into an acquisition agreement ("the Agreement), subject to the approval of shareholders of Kenai and other conditions precedent, whereby Serabi will acquire all the issued and outstanding common shares of Kenai ("Kenai Shares") by way of a Plan of Arrangement ("the Arrangement").

The acquisition of Kenai shares under the Arrangement will result in Kenai shareholders receiving 0.85 of one Serabi Share in exchange for each Kenai Share held (the "Exchange Ratio"). The Arrangement will provide for the issuance by Serabi of replacement warrants to holders of 17,288,500 outstanding Kenai warrants on similar terms as adjusted by the Exchange Ratio. The Arrangement also provides for the issuance of replacement options to holders of 2,980,000 outstanding Kenai options as adjusted by the Exchange Ratio with expiry on similar terms or 12 months from the date from which the holder is no longer involved with the Company. The completion of the Arrangement will be subject to usual terms and conditions, including the following:

- a) Approval of the Arrangement by special resolution of Kenai's shareholders requiring two-thirds of the votes cast to be in favour of the resolution;
- b) Court approval of the Arrangement;
- c) Receipt of any required third party approvals and consents;
- d) Receipt of all required regulatory approvals, including acceptance by the TSX Venture Exchange; and
- e) Admission of the new Serabi Shares to trading on AIM.

Key provisions of the Agreement include a non-solicitation covenant on the part of Kenai, the right in favour of Serabi to match any superior proposal and the payment of a termination fee of \$500,000 to Serabi in certain circumstances including if Kenai accepts a superior proposal.

In aggregate it is currently anticipated that 90,020,724 new Serabi Shares will be issued to Kenai shareholders to acquire the 105,906,734 Kenai Shares currently in issue. In the event that any of the existing warrants or options to acquire Kenai Shares is exercised prior to completion additional Serabi Shares will be required to be issued. In addition and pursuant to a Share Purchase Agreement between Kenai and Gold Anomaly Limited ("GAL") whereby Kenai acquired the Sao Chico project, Serabi will issue to GAL 5,100,000 new Serabi Shares in satisfaction of additional consideration commitments made by Kenai to GAL under this Share Purchase Agreement. The new shares being issued pursuant to the Transaction will, on issue, rank pari passu with the existing ordinary shares of Serabi in issue and application will be made for the new Serabi Share to be admitted to trading on AIM and listed on the TSX.

Concurrently with the execution of the Agreement, Serabi and Kenai have entered into a secured loan agreement pursuant to which Serabi will make available a facility of up to US\$2,750,000 (the "Principal") to Kenai. The loan will be used by Kenai to finance the commencement of an estimated 6,000 metre diamond drilling programme at the Sao Chico project and for general working capital purposes. The Principal shall be payable in full following the termination of the Acquisition Agreement by either party thereto in accordance with the provisions of the Agreement (the "Repayment Date"). Up to the Repayment Date, interest shall be calculated on the Principal outstanding at the rate of 12% per annum and upon and after the Repayment Date and until the Principal is repaid in full, interest shall be calculated on the Principal outstanding at the rate of 18% per annum. Unless the Agreement is terminated earlier the Repayment Date is 31 August 2013.

#### **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 2013.

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 Company's earnings or shareholders' funds.

#### **Off-balance sheet arrangements**

As of the date of this Management's Discussion and Analysis, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

#### **Critical accounting estimates**

The preparation of financial statements requires management to make judgements and assumptions about the future in the use of accounting estimates. These will, by definition, seldom equal the related actual results and adjustments will consequently be necessary. Estimates are continually evaluated, based on experience and reasonable expectations of future events.

Accounting estimates are applied in determining the carrying values of significant assets and liabilities.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.



### **Impairment of mining assets and property, plant and equipment**

Determining whether the value of mining and related assets is impaired requires an estimation of the value in use of the cash-generating units to which costs has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Further disclosure is provided in note 18 of the financial statements for the year ended 31 December 2012, regarding the key assumptions made in arriving at the value in use.

### **Provisions**

The Group reviews estimates of provisions for potential liabilities at the end of each reporting period where applicable taking into account the circumstances of the potential liability, the availability and confidence of information used to calculate the potential liability and where applicable past history regarding the actual liability incurred in similar situations.

### **Disclosure controls and procedures**

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Company is made known to the Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the interim and annual filings are being prepared; and
- information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarised and reported within the time periods specified in securities legislation.

As at 31 December 2012, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the design and operating effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as at 31 December 2012.

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

The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As at December 31, 2012, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the design and operating effectiveness of the Company's internal controls over financial reporting. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the internal controls over financial reporting were effective as at December 31, 2012, using the criteria, having taken account of the size and nature of the Company, put forward by the Financial Reporting Council in their revised guidance for directors on internal controls for UK listed companies (issued 2005).

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that its disclosure controls and internal controls over financial reporting will prevent or detect all errors and fraud. A cost effective system of internal controls, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

## Changes in internal controls over financial reporting

There have been no changes in the Company's internal controls over financial reporting during the three month period ended 31 March 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## Disclosure of outstanding share data

The Company has an authorised capital of UK£50,000,000 comprised of 733,735,776 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 14 May 2013:

Ordinary Shares	361,268,529
Stock Options	20,863,285
Other Warrants	12,840,033
Fully diluted ordinary shares outstanding	<u>394,971,847</u>

The above table does not include 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 UK£300,000 and the accumulated interest over the life of the Convertible Loan of UK£15,018.

Fratelli Investments Limited holds 184,695,647 Ordinary Shares in the Company and 10,405,868 warrants. In anticipation of the placing of new Ordinary shares which closed on 17 January 2013 and as a result of which Fratelli acquired 167,079,647 shares and 8,135,035 warrants, Fratelli has entered into a relationship and orderly marketing agreement on 10 December 2012. Under the terms of this agreement Fratelli has undertaken not to dispose of any of its shares in the Company (save in certain agreed circumstances) prior to 23 January 2014.

## Qualified persons statement

*The technical information contained within this Management Discussion and Analysis has been reviewed and approved by Michael Hodgson, CEO of the Company. Mr Hodgson is an Economic Geologist by training with over 25 years' experience in the mining industry. He holds a BSc (Hons) Geology, University of London, a MSc Mining Geology, University of Leicester and is a Fellow of the Institute of Materials, Minerals and Mining and a Chartered Engineer of the Engineering Council of UK, recognising him as both a Qualified Person for the purposes of Canadian National Instrument 43-101 and by the AIM Guidance Note on Mining and Oil & Gas Companies dated June 2009.*

## 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 realisation 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 “Risks and uncertainties” 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

In addition to the other information set forth in this report, the reader should carefully consider the risk factors below which could materially affect the Company's business, financial condition and/or future results. These risks are not the only risks facing the Company. Additionally risks and uncertainties not currently known to the Company or that management currently deems to be immaterial, may also materially affect the Company's business, financial condition and/or future results.

*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 Departamento Nacional do Produção Mineral ("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.

The government of Brazil is seeking to introduce a new Mining Code during 2013. The implications of this proposed legislation in respect of existing exploration licences and also the process for conversion of these to mining licences are currently unclear but the proposed legislation could result in all current applications being cancelled and requiring applicants to make new applications under the terms of and in compliance with the new Mining Code.

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 Company has had negative cash-flow and is currently in the process of development of the Palito Gold Mine with a view to generating cash-flow during 2014*

For the financial year ended December 31, 2012 the Company had negative cash flow from operations and during the year ended 31 December 2013 will be using available cash resources for the development and rehabilitation of the Palito Mine and its associated gold processing plant and other supporting infrastructure. Once commercial gold production operation are underway management anticipates that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects. There are, however, risks associated with the

commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale but there can be no guarantee that such additional funds will be available. Failure to raise additional capital, if needed, could have a material adverse effect on the Company's business, financial condition and results of operations.

***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 funding***

Whilst the Company anticipates generating its own cash-flow from 2014 onwards from the Palito Mine and to use this cash flow to finance further exploration and development activities on the Company's other properties, any cash flow that the Company generates may not be sufficient to meet these future exploration and development activities. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any of the Company's other 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 could 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. Whilst 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 were discontinued. The Company is currently undertaking the redevelopment and rehabilitation of the Palito Gold Mine. Whilst the Company commissioned a Preliminary Economic Assessment which supported the viability of placing the Palito Gold Mine into production, there can be no assurance that the Company will be able to successfully re-commence commercial production, generate any revenues or be able to operate profitably.***

Whilst management will seek to take all practical precautions necessary and follow the plans and recommendations set out in the Preliminary Economic Assessment there can be no assurance that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may vary from those projected in the Preliminary Economic Assessment and may also 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 may be 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.

A preliminary economic assessment is not required to be compiled to the same level of detail as a pre-feasibility study or a feasibility study. In addition a preliminary economic assessment is permitted to incorporate the mining of inferred mineral resources in calculating the economic results of the project. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves and there is no certainty that the preliminary economic assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

***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: mineralisation 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, processing equipment and other factors, which may make a mineral deposit unprofitable to exploit.

Excluding the Palito Gold Mine, the Company's mineral properties are in the exploration stage and are without known bodies of mineral reserves. A mineral resource has been established at the Palito Gold Mine. 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 stabilising 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 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, US Dollars, British Pound Sterling and Brazilian Real and the Company has to date received the proceeds of equity financings in Canadian Dollars and British Pound Sterling and loan financings in US dollars and British Pounds 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.

There are currently 3 known claims pending settlement. The average monthly salary of the claimants was below R\$8,000 while the claims range between R\$98,500 and R\$769,000. The total of current claims is R\$1,541,000. 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. Notwithstanding this, it is not currently expected that there could be a material adverse impact on the financial condition of the Company if some or all of the foregoing labour claims are successful or are not settled on the basis anticipated by 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.

*The Company has announced a proposed business combination with Kenai Resources Limited which would if completed give the Company control over the Sao Chico gold project located close to the Company's Palito Mine.*

On May 6, 2013 the Company announced a proposed business combination with Kenai Resources Limited which would if completed give the Company control over the Sao Chico gold project located close to the Company's Palito Mine. The Sao Chico gold project is a high grade gold deposit that the Company considers could be a first satellite gold deposit to augment gold production for the Company. The business combination is subject to certain conditions precedent and the approval of Kenai's shareholders in a general meeting. There is no guarantee that the business combination will proceed. In addition whilst Sao Chico has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource there has been no NI 43-101 compliant technical report commissioned to date to demonstrate whether or not this resource can be mined on a commercial scale.