SERABI GOLD

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## For the six months and the quarter ended 30 June 2012

**14 August 2012**

**SERABI GOLD PLC**
**Management's Discussion and Analysis**
**for the six months and three months ended 30 June 2012**

## Introduction

This Management's Discussion and Analysis ("MD&A") dated 14 August 2012 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 consolidated financial information of the Company for the three and six month periods ended 30 June 2012 and also read in conjunction with the Company's annual report and audited consolidated financial statements and its MD&A for the year ended 31 December 2011.

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

The Company currently holds, either granted or under application, approximately 148,400 hectares of Exploration Licenses. 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") currently on 'care and maintenance' and several areas of exploration interest in close proximity to the Palito Mine. The Palito Mine complex is fully permitted and a mining licence covering 1,150 hectares has been issued. The Company does not currently have any assets or mineral properties in commercial production and has 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 two new discoveries, the Company announced that it was undertaking a preliminary economic assessment into the viability of re-establishing underground mining operations at the Palito Mine ("the PEA"). The results of the PEA were announced on 13 June 2012 and indicated a project after tax internal rate of return of 68% and a project NPV of US$38.2 million (after applying a 10% discount rate) based on employing a selective underground mining operation and exploiting only the previously declared mineral resource estimates. The directors believe that the PEA results support a small scale, high grade operation using selective mining techniques and the Board intends, subject to financing, to undertake the necessary mine development and remedial works as soon as possible with the intention of the first gold being produced in the third quarter of 2013. 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.

**Corporate Highlights - 2012**

- NCL Ingenieria y Construccion SA ("NCL") completed an independent Preliminary Economic Assessment (the "PEA") into the viability of re-establishing mining operations at the Palito mine in June 2012. The results were reported on 13 June 2012 and the completed NI 43-101 compliant Technical Report was filed on 29 June 2012.

- The Company completed a placing of 27,300,000 units on January 24, 2012 raising gross proceeds of UK£2.73 million. Each of the 27,300,000 units were comprised of one ordinary share and one-sixth of one ordinary share purchase warrant of the Company, with each whole warrant being exercisable to acquire one ordinary share at an exercise price of UK£0.15 until January 23, 2014.

- The Operational Environmental Licence for the Palito Mine was renewed by Secretaria de Estado de Meio Ambiente ("SEMA"), the state Environmental Agency for the State of Para on 27 April 2012.

- Highlights of the PEA are

    - After-tax Internal Rate of Return ("IRR") of 68% at a realised gold price of US$1,400 per ounce;

    - Project payback within two years of first gold production;

    - Net after-tax cash flow generated over project life of US$72.2 million at a realized gold price of US$1,400 per ounce;

    - After-tax Net Present Value ("NPV") of US$38.2 million; based on a 10% discount rate and a realised gold price of US$1,400 per ounce;

    - Average Life of Mine ("LOM") cash operating costs of US$739 per ounce (gold equivalent) including royalties and refining costs;

    - Average annual free cash flow (after tax and sustaining capital expenditure) of US$11.0 million;

    - Average gold grade of 8.98 g/t gold producing a total gold equivalent production of 201,300 ounces;

    - Average annual production of 24,400 gold equivalent ounces over the initial 8 year period with ranges between 19,000 to 30,000 ounces gold equivalent per annum;

    - Initial capital expenditures of US$17.8 million prior to production start-up;

**History**

The Company currently holds, either granted or under application, approximately 148,400 hectares of Exploration Licences all located within the Tapajos Gold Mining Province, within the states of Para and Amazonas, Northern Brazil. These licences are divided into four project areas, namely the Jardim do Ouro, Sucuba, Modelo and Pizon projects. The Company does not have any assets or mineral properties in commercial production, however, the JDO Project does incorporate the Palito Mine which has been in production under Serabi's management in the past, and is currently under care and maintenance. In January 2012 the Company announced that it was undertaking a preliminary economic assessment into the viability of re-establishing underground mining operations at the Palito Mine ("the

PEA"). The PEA will focus initially on the existing resources but will include evaluation of the recent mine site discoveries. It will consider a selective mining methodology, focused on maximising grade and initially limited to production levels around 20,000 ounces per annum. The Sucuba Project, located in the state of Para, comprises a single exploration licence, currently in application, of 10,815 hectares. The Modelo Project lies in the state of Para, with some 40,000 hectares in five exploration permits, four granted and one in application. The Pizon Project, located in the state of Amazonas, represents 44,703 hectares, in five exploration licenses, one granted and four in application. The Company has not engaged in any exploration activity in the Sucuba, Pizon or Modelo projects over the past 12 months, and has currently not budgeted for any exploration activity over the next 18 months. All activity budgeted at this time will focus on the JDO Project area.

**Jardim do Ouro Project**

The JDO Project, originally acquired by the Company in 2001, covers a total area of 52,945 hectares, and is comprised of one mining licence granted on October 23, 2007 covering an area of 1,150 hectares, four exploration licences and five applications for exploration licences covering an aggregate of 51,795 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 Gold (Ounces) (1) | Contained Gold Equivalent (Ounces) (2) |
|---|---|---|---|---|---|
| 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.

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

Since placing the mine on care and maintenance, the Company has focused on mine-site exploration, primarily airborne and ground geophysics and geochemistry, followed by a recently completed 12,000m discovery and follow-up diamond drilling into advanced targets. The exploration objective has been to identify two or more Palito style and size deposits in close proximity to the Palito Mine and processing infrastructure. Two discoveries were made during 2011 within 3 kilometres of the Palito mine and management is of the view that these discoveries at Piaui and Currutela warrant further drilling to enhance these discoveries and bring them to a resource status. In addition management is of the view that Palito and Currutela are part of a single mineralised structure and consider that the area between these two areas, Palito South, also has potential to yield additional gold resources. Initial drilling undertaken during the latter part of 2011 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 preliminary economic assessment into the viability of re-establishing underground mining operations at the Palito Mine (“the PEA”). 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 and the Board intends, subject to financing, to undertake the necessary mine development and remedial works as soon as possible with the intention of the first gold being produced in the third 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 Piuai, Currutela and Palito South prospects.

## RESULTS OF OPERATIONS

### Exploration and technical programmes executed during the second quarter of 2012.

The Company’s results of operations for the three month period ended 30 June 2012 were comprised solely of the activities related to the results of operations of the Company’s 100% owned subsidiary Serabi Mineraçăo S.A.

*Highlights of the Palito PEA:*

- After-tax Internal Rate of Return (“IRR”) of 68% at a realised gold price of US$1,400 per ounce;
- Project payback within two years of first gold production;
- Net after-tax cash flow generated over project life of US$72.2 million at a realised gold price of US$1,400 per ounce;
- After-tax Net Present Value (“NPV”) of US$38.2 million; based on a 10% discount rate and a realised gold price of US$1,400 per ounce;
- Average Life of Mine (“LOM”) cash operating costs of US$739 per ounce (gold equivalent) including royalties and refining costs;
- Average annual free cash flow (after tax and sustaining capital expenditure) of US$11.0 million;

- Average gold grade of 8.98 g/t gold producing a total gold equivalent production of 201,300 ounces;

- Average annual production of 24,400 gold equivalent ounces over the initial 8 year period with ranges between 19,000 to 30,000 ounces gold equivalent per annum;

- Initial capital expenditures of US$17.8 million prior to production start-up;

- Sustaining capital expenditures of US$26.4 million to be funded from project cash-flow;

- Measured and Indicated mineral resource inventory of 69,000 gold equivalent ounces, supported by a further Inferred resources of 153,000 gold equivalent ounces from a total geological resource of 224,000 Measured and Indicated gold equivalent ounces and 444,000 Inferred gold equivalent ounces, to be produced by underground open stoping using a cut-off grade of 3g/t gold;

- Total Life of Mine of 9 years;

- Subject to project financing, mine development start-up is expected in the fourth quarter of 2012, with ore processing set to commence during the third quarter of 2013.

The Company's focus during the second quarter of 2012 has been to ensure that NCL were able to complete and deliver their Technical Report. The Company has separately engaged their own independent contractors to assess the work to be undertaken to put the crushing and process plant back into full operational order and assess other works and safety issues that the Company may need to consider. The Company has also been inviting tenders from contract mining companies located in South America capable of providing experienced personnel to undertake the shrink stope mining that the Company intends to implement. Management have also been identifying selected individuals for some of the senior managerial and operational positions that will be required at the mine site should operations recommence.

With the release of the results of the PEA and the decision of the board to undertake the necessary mine development and remedial works, management has also been actively engaged with its advisers in securing the financing that is required to allow the Palito Mine to go back into production. In addition to the option of raising funds from the issue of new shares, the Company has been exploring options for securing debt based financing and also royalty and similar style arrangements.

**Progress during the quarter and six months ended 30 June 2012.**

***Property Highlights:***

- Assay results from ALS Minerals confirmed preliminary results issued in December 2011 for drilling undertaken on the Palito South extension and the Piaui prospect. Independent results reported an average upgrade for gold assays of 8% and 14.9% respectively, compared with the preliminary reported results.

- NCL personnel visited Palito during March 2012 to undertake their field evaluation and produced a positive NI 43-101 compliant report the results of which were published on 13 June 2012.

- The Operational Environmental Licence for the Palito Mine was renewed by Secretaria de Estado de Meio Ambiente ("SEMA"), the state Environmental Agency for the State of Para on 27 April 2012.

Exploration activity has been suspended during 2012 with all discovery exploration drilling at the Piaui, Palito South and Currutela prospects having been completed before the end of 2011 and the drilling contractor having left site prior to the end of 2011.

With the focus on the preparation of the PEA and preparatory and planning work required in advance of commencement of the required development and remediation works that will be necessary personnel numbers have been reduced to reflect the reduced level of activity at the Palito Mine and the neighbouring exploration projects and the remaining employees have been involved with on-going plant and infrastructure maintenance, environmental management and general site rehabilitation.

A renewal of the Operational Environmental Licence for the Palito Mine was issued on 27 April 2012 by SEMA which is the appropriate regulatory authority for such matters. The new Operating Licence (LO # 6704/2012) allows the Company to extract and process gold and associated metallic ores from the Company's mining licence area # 850.175/2003, where the Palito Mine and all the Company's current Measured and Indicated resources and Inferred resources are located and ensures that all the required permits are current and in place in advance of any re-commencement of mining operations at Palito.

***Outlook***

Exploration and development activities will continue to be limited. Future activity will be subject to the levels of funding available to the Company. With a positive PEA the Company's objective is to secure the required finance in order to follow the development plan outlined in the PEA. It could be anticipated that following securing of the required funds:

- Work would be undertaken to commence the de-watering of the mine;
- A mining contractor would be appointed;
- The company would seek to secure appointments of key personnel;
- Mining equipment and mobile mining fleet orders would be placed;
- Orders would be placed for any items required for the crushing and processing plant; and
- Exploration activity at Piaui, Palito South and Currutela would be restarted with a view to implementing drill programmes to establish Canadian National Instrument 43-101 compliant mineral resource estimates on one or more of these prospects.

## 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 30 June 2012 compared to the three month period ended 30 June 2011***

For the three month period ended 30 June 2012 the Company recorded a net loss of US$854,100 (0.94 US cents per share) compared to a net loss of US$1,562,635 (2.44 US cents per share) for the comparative period last year. The decrease in the loss for the period reflects lower depreciation charges of US$158,204 for the quarter compared with US$593,796 for the quarter ended 30 June 2011. This lower level of depreciation arises as assets, particularly those in Brazil, have been subject to depreciation on a straight line basis, and whilst not necessarily in use recently and whilst still being available for use, are reaching the point where the original purchase price of these items has now been fully depreciated.

Operating expenses of US$64,250 (three months to 30 June 2011: US$132,260) reflect charges relating to the process plant at the Palito Mine. During the second quarter of 2011 the Company was crushing waste rock for use in road construction, an activity which ceased in the latter part of 2011. Costs for 2011 therefore include consumable items related to this activity. The costs for 2012 primarily reflect the staffing costs of personnel involved in the on-going maintenance and remedial works around the crushing and process plant.

Administration costs as reported have reduced by some US$129,000 from US$701,818 for the three months ended 30 June 2011 to US$573,167 for the same three month period in 2012. There have been two significant variances contributing to this reduction. As noted previously, during the 3 month period ended 30 June 2011 the Company was providing waste rock for road construction. The sales of this material, not being sales of metals, did not fall within the revenue definition adopted by the Company and were treated as other income and classified as part of administrative expenses. For the 3 months to June 2011 this amounted to BrR$274,150 (US$165,000). Also in the 3 months ended 31 March 2011, the Company made a provision of BrR$486,494 (US$293,000) in respect of settlement of employment claims made by former employees in Brazil. The charge recorded in the 3 months ended 30 June 2012 was approximately US$26,000. The net effect of these items accounts for US$102,000.

Excluding the above items administration costs incurred in Brazil were US$175,000 for the three months ended 30 June 2012 compared with US$177,500 for the 3 months ended 30 June 2011.

Administration cost incurred outside of Brazil were US$371,289 for the 3 months ended 30 June 2012 a reduction of US$25,000 compared with the 3 month period ended 30 June 2011.

The Company reported an exchange loss of US$19,103 for the 3 months ended 30 June 2012 (3 months to 30 June 2011; exchange loss of US$44,988). This included an exchange loss in respect of cash holdings of US$27,449, which has been offset by exchange gains realised in the period of US$8,346.

Investment income has reduced from US$21,374 to US$3,685 reflecting the reduced levels of cash held by the Company during the quarter ended 30 June 2012 compared with the corresponding quarter of 2011.

***Six month period ended 30 June 2012 compared to the six month period ended 30 June 2011***

For the six month period ended 30 June 2012 the Company recorded a net loss of US$2,169,226 (2.47 US cents per share) compared to a net loss of US$2,305,277 (4.22 US cents per share) for the comparative period last year.

The reduction in the loss of approximately US$136,000 is in part explained by variations which have also influenced the results for the 3 months to 30 June 2012 namely the reductions in depreciation charges, the reduction in provisions for employment claims and the effect of sales of waste rock. In addition the costs of maintenance charges relating to the Palito plant and equipment have reduced by US$134,000 from US$316,000 to US$182,000.

Administration costs have increased slightly from US$1,367,205 for the 6 months to 30 June 2011 to US$1,383,953, but this has been affected by the lack of waste rock sales in the 6 month period of the current year offset by the reduction in labour claim charges. For the six months to 30 June 2011 the charges established for employment claims brought in Brazil totalled BrR$700,201 (US$430,000) compared with BrR$375,403 (US$202,000) for the same 6 month period in 2012 creating a saving of US$228,000. Waste rock sales for the 6 months to 30 June 2011 amounted to BrR$578,124 (US$355,000) whilst there has been no similar sales income in 2012. The net effect of these items is US$127,000 and thus excluding these effects administration costs have reduced by US$111,000 for the period ended 30 June 2012 compared with the period ended 30 June 2011. Of this, US$100,000 is attributable to costs incurred in Brazil and reflects the reduced headcount and lower levels of activity during the 6 months ended 30 June 2012 compared with the corresponding period in 2011 with the balance being reductions in administration cost incurred outside of Brazil.

During the 6 month period ended 30 June 2011 the company benefitted from a one–off income arising from the settlement of a claim with a supplier which contributed a book income derived from the release of a liability that had been established in respect of the claim of U$540,441.

Depreciation charges for plant and equipment which have reduced by US$576,000 from US$1,161,132 for the 6 month period ended 30 June 2011 to US$584,841 for the 6 month period to 30 June 2012.

The charges made in respect of the amortisation of share option awards has reduced by approximately US$32,000 from US$94,311 in the 6 month period ended 30 June 2011 to US$62,394 in the corresponding period in 2012. This reflects the full amortisation of certain options during 2011 and the lower level of awards made during the 6 month period to 30 June 2011 compared with the same 6 month period in 2011.

Foreign exchange gains which have been derived primarily from cash holdings and favourable settlement of foreign currency transactions have reduced during the 6 months to 30 June 2012, reflecting in part, lower levels of currency volatility during the current year but also the reduced level of cash holdings of the company which limits the levels of gains or losses that can be achieved.

The reduced levels of cash holdings also explain the reduced level of interest income derived in the 6 months ended 30 June 2012 compared with the corresponding period of 2011.

Exchange differences on the currency translation of foreign operations reflect the revaluation of the assets and liabilities of those foreign operations. The Brazilian Real has fallen in value relative to the United States Dollar over the 6 month period ended 30 June 2012. The rate as at 30 June 2012 was 2.0213 Brazilian Real to one United States Dollar compared with a rate as at 31 December 2011 of 1.8758. This decline has resulted in a reduction in US Dollar terms of the book value of the assets of the Company's Brazilian subsidiary in particular the values attributable to the Palito Mine and the deferred exploration interests. Any appreciation in the Brazilian Real will result in a reversal of this exchange loss.

**Summary of quarterly results**

| | Quarter ended 30 June 2012 US$ | Quarter ended 31 March 2012 US$ | Quarter ended 31 December 2011 US$ | Quarter ended 30 September 2011 US$ |
|---|---|---|---|---|
| Revenues | – | – | (99) | 2,843 |
| Operating expenses | (64,250) | (117,694) | (103,429) | (152,001) |
| Gross loss | (64,250) | (117,694) | (103,528) | (149,158) |
| Administration expenses | (573,167) | (810,786) | (773,512) | (745,990) |
| Provision for indirect taxes | – | – | (129,264) | – |
| Option costs | (33,244) | (29,150) | (77,151) | (92,399) |
| Gain / (loss) on asset disposals | 8,599 | – | 38,803 | (5,204) |
| Depreciation of plant and equipment and provisions | (158,204) | (426,637) | (509,873) | (580,845) |
| Operating loss | (820,266) | (1,384,267) | (1,554,525) | (1,573,596) |
| Exchange | (19,103) | 87,190 | 95,975 | (168,309) |
| Finance costs | (14,731) | (18,049) | (432,312) | 2,221 |
| Loss before taxation | (854,100) | (1,315,126) | (1,890,862) | (1,739,684) |
| Loss per ordinary share (basic and diluted) | (0.94) cents | (1.56) cents | (2.96) cents | (2.72) cents |

| | Quarter ended 30 June 2012 US$ | Quarter ended 31 March 2012 US$ | Quarter ended 31 December 2011 US$ | Quarter ended 30 September 2011 US$ |
|---|---|---|---|---|
| Development and deferred exploration costs | 17,405,081 | 17,998,296 | 16,648,884 | 15,122,184 |
| Property, plant and equipment | 25,845,466 | 28,690,108 | 28,266,092 | 29,132,327 |
| Total current assets | 3,305,872 | 5,291,258 | 3,309,822 | 6,376,759 |
| Total assets | 46,556,419 | 51,979,662 | 48,224,798 | 50,631,270 |
| | | | | |
| Total liabilities | 4,219,578 | 4,537,035 | 4,940,318 | 5,302,581 |
| Shareholder's equity | 42,336,841 | 47,442,627 | 43,284,480 | 45,328,689 |

| | Quarter ended 30 June 2011 US$ | Quarter ended 31 March 2011 US$ | Quarter ended 31 December 2010 US$ | Quarter ended 30 September 2010 US$ |
|---|---|---|---|---|
| Revenues | 1,063 | – | 57,643 | 22,909 |
| Operating expenses | (132,260) | (183,822) | (511,257) | (411,103) |
| Gross profit/(loss) | (131,197) | (183,822) | (453,614) | (388,194) |
| Administration expenses | (701,818) | (665,387) | (863,506) | (561,015) |
| Settlement of supplier claim | – | 540,441 | – | – |
| Option costs | (63,740) | – | – | – |
| Write-off of past exploration expenditures | – | (30,571) | (28,569) | – |
| Gain / (loss) on asset disposals | 11,178 | (13,515) | (8,379) | (25,103) |
| Impairment | – | – | – | (111,106) |
| Depreciation of plant and equipment and provisions | (567,336) | (567,336) | (597,548) | (497,439) |
| Operating loss | (1,479,373) | (920,190) | (1,951,616) | (1,582,857) |
| Exchange | (44,988) | 187,297 | 4,085 | 241,092 |
| Finance costs | (38,274) | (9,749) | (58,207) | (44,325) |
| Loss before taxation | (1,562,635) | (742,642) | (2,005,738) | (1,386,090) |
| Loss per ordinary share (basic and diluted) | (2.44) cents | (1.65) cents | (4.48) cents | (3.10) cents |
| | | | | |
| Development and deferred exploration costs | 14,785,541 | 11,679,390 | 9,797,406 | 8,558,842 |
| Property, plant and equipment | 34,843,749 | 34,088,905 | 33,951,140 | 34,280,250 |
| Total current assets | 10,897,744 | 13,933,052 | 11,174,647 | 8,412,810 |
| Total assets | 60,527,034 | 59,701,347 | 54,923,193 | 51,251,902 |
| | | | | |
| Total liabilities | 6,076,157 | 5,603,473 | 10,571,375 | 5,586,203 |
| Shareholder's equity | 54,450,877 | 54,097,874 | 44,351,818 | 45,665,699 |

**Liquidity and Capital Resources**

The Company had a working capital position of US$1,202,382 at 30 June 2012 compared to US$625,602 at 31 December 2011. The working capital position at 30 June 2012 includes cash and cash equivalents of US$1,697,434 (2011: US$1,406,458). The Company does not have any asset backed commercial paper investments. As the Company has no revenue and has in recent years 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 six month period ended 30 June 2012, the Company issued 27,300,000 Ordinary Shares and 4,549,998 Warrants for gross cash proceeds of UK£2.7 million. The placement comprised the issue of 27,300,000 units where each unit consists of one Ordinary Share and one sixth of a Warrant whereby each whole Warrant entitles the holder to subscribe for one Ordinary Share at a price of UK£0.15 at any time until 23 January 2014.

The Company has during the six month period ended 30 June 2012, incurred costs of US$1,948,956 for development and exploration expenditures on its mineral properties, including the costs of the PEA undertaken by NCL, US$51,952 on asset purchases and used cash of US$1,944,298 to support its operating activities. Further details of the exploration and development activities conducted during the year are set out elsewhere in this MD&A.

On 30 June 2012, the Company's total assets amounted to US$46,556,419, which compares to the US$48,224,798 reported at 31 December 2011. The Current Asset component has remained consistent at around US$3.3 million and whilst some US$2.0 million has been expended on non-current assets the devaluation of the Brazilian Real against the United States Dollar as exchange variations have reduced the carrying value of exploration interests by US$1.2 million and of mining property, plant and equipment by US$1.9million. The remaining reduction in value of some US$0.55 million is attributable to depreciation charges raised during the period. Total assets are mostly comprised of property, plant and equipment, which as at 30 June 2012 totalled US$25,845,466 (December 2011: US$26,266,092), and deferred exploration and development cost which as at 30 June 2012 totalled US$17,405,081 (December 2011: US$16,648,884), of which US$16,131,918 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$1,697,434 (December 2011: US$1,406,458).

Receivables of US$77,132 as at 30 June 2012 have reduced by US$10,300 compared to the receivables balance of US$87,440 as at 31 December 2011. The receivables as of 30 June 2012 are primarily deposits paid by the Company. Prepayments as of 30 June 2012 were US$545,441 compared with US$701,669 as at 31 December 2011, a decrease of US$156,228. The prepayments primarily represent prepaid taxes in Brazil amounting to US$483,650, of which the majority is federal and state sales taxes which the Group expects to recover either through off-set against other federal tax liabilities or through recovery directly.

The Company's total liabilities at 30 June 2012 of US$4,219,578 (December 2011: US$4,940,318) included accounts payable to suppliers and other accrued liabilities of US$2,345,038 (December 2011: US$3,192,900). The total liabilities include US$326,564 including accrued interest (December 2011: US$296,122) 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$1,547,976 (December 2011: US$1,451,296) in respect of provisions including US$1,155,000 (December 2011: US$1,155,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity.

In March 2012 the Company engaged NCL Ingenieria y Construccion SA ("NCL") to prepare a Preliminary Economic Assessment into the viability of re-commencing underground mining operations at Palito. The positive results of this PEA were released on 13 June 2012 and the full NI 43-101 compliant Technical Report was released on 29 June 2012. Following the positive conclusions of the PEA, the directors believe that the results support a small scale, high grade operation at Palito using selective mining techniques and the Board intends subject to financing to undertake the necessary mine development and remedial works as soon as possible with the intention of the first gold being produced during the third quarter of 2013. Management is currently actively engaged in securing the required finance and is evaluating a number of financing options.

Subject to raising this finance, management believes that the Company will have adequate working capital to undertake all of its currently planned exploration and development programmes for the remainder of 2012 in relation to the Company's existing mineral properties and to cover administrative expenses for the same fiscal year and will thereafter have sufficient funds to finance the group and its commitments for the foreseeable future. Whilst the Directors are confident that they are taking all the necessary steps to ensure that the funding will be available, there can be no certainty that this will be the case. Were future funding not to become available in an appropriate timescale, the Directors would need to consider alternative strategies.

**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$212,130.

On 9 November 2009 (as further detailed in note 16 of the Company's 2011 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.

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual obligations | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| | $ | $ | $ | $ | $ |
| Long term debt | 319,020 | – | 319,020 | – | – |
| Capital lease obligations | – | – | – | – | – |
| Operating leases | 167,869 | 102,588 | 65,281 | – | – |
| Purchase obligations | – | – | – | – | – |
| Other long term obligations | – | – | – | – | – |
| **Total contractual obligations** | **486,889** | **102,588** | **384,301** | – | – |

**Transactions with related parties of the Company**

During the three month period ended 30 June 2012, the Company has not engaged in any transaction with a related party of the Company.

**Financial and other instruments**

The Company's financial assets at 30 June 2012 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 may only produce very limited revenue, 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 30 June 2012 and at the end of the financial year ended 31 December 2011, 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 UK£300,000 which bears interest at the rate of 1% per annum compounded and has a repayment date of October 2014.

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 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, but otherwise does not have any other 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 increase 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. During the six month period ended 31 June 2012 and the twelve month period ended 31 December 2011, the Company raised new funds through the issue of new shares. Continued development of the Company's projects will be dependent on the ability to attract additional funding, through joint ventures, asset disposals, new equity or debt. There is no guarantee that the Company will be able to secure adequate funding in the future or that the terms of such funding will be acceptable.

**Currency risk**

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

Share issues have been priced in Sterling with the exception of the issue of Special Warrants undertaken in December 2010 and the issue of new Ordinary Shares and Warrants on 30 March 2011 which were both 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 also in US Dollars, Sterling, and Canadian 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 2011 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 functional currency of the Company's operations is US Dollars, which is also the reporting currency. The Company's cash holdings at the balance sheet date were held in the following currencies:

| | 30 June 2012 $ | 31 December 2011 $ |
|---|---|---|
| US Dollar | 517,055 | 439,739 |
| Canadian Dollar | 237,282 | 586,986 |
| Sterling | 887,769 | 245,742 |
| Australian Dollar | 2,376 | 134 |
| Brazilian Real | 52,952 | 133,857 |
| Total | 1,697,434 | 1,406,458 |

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$2,320,007 as at 30 June 2012 (31 December 2011: US$2,195,567). It is the Company's policy to only deposit surplus cash with financial institutions that hold good credit ratings and to provide credit in respect of receivables only with parties that themselves have good credit history or otherwise to hold some form of lien pending settlement.

**Subsequent events**

There are no events to be reported subsequent to 30 June 2012.

**Changes in accounting policies**

The Company has not adopted any standards or interpretations in advance of the required implementation dates. There has been no significant measurement impact on the consolidated financial statements from new standards or interpretations effective in 2012.

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 goodwill and other assets**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill 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 19 of the financial statements for the year ended 31 December 2011, 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 December 31, 2011, 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 December 31, 2011.

**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, 2011, 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, 2011, using the criteria, having taking account of the size and nature of the Company, put forward by the Turnbull Guidance on best practice of Internal Controls for UK listed companies.

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 period ended 30 June 2012 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£30,000,000 comprised of 333,735,776 Ordinary Shares of 5 pence each and 140,139,065 Deferred Shares of 9.5 pence each.

The Company had the following Ordinary Shares, Deferred Shares, Stock Options and Warrants outstanding at 14 August 2012:

| | |
|---|---:|
| Ordinary Shares | 91,268,529 |
| Stock Options | 6,520,785 |
| Tradeable Warrants | 9,535,000 |
| Other Warrants | 5,635,398 |
| Fully diluted ordinary shares outstanding | 112,959,712 |

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 17,616,000 Ordinary Shares in the Company and 3,625,833 warrants. Following the placing of units on 24 January 2012 whereby Fratelli acquired 13,625,000 units, Fratelli has entered into an orderly marketing agreement on 24 January 2012, whereby Fratelli has agreed not to dispose of any of its shares in the Company (save in certain agreed circumstances) prior to 24 January 2013.

**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 risk 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.

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

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

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

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

*The Company faces numerous exploration, development and operating risks.*

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. 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 continuous commercial operations were discontinued. The Company has released details of a Preliminary Economic Assessment on the viability of re-establishing mining operations at the Palito Mine ("PEA"). Whilst the board has concluded that the PEA results were sufficiently encouraging to embark on securing the required finance and to undertake the necessary mine development and remedial works there can be no guarantee that the Company will be able to re-commence commercial production, generate any revenues or be able to operate profitably.*

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

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.

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

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

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

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

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

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

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

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

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

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

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

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Company's financial condition and results of operations. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of further protecting human health and the environment. Some of the issues expected to be under future review by environmental agencies include reducing or 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, U.S. Dollars, British Pound Sterling and Brazilian Real and the Company receives the proceeds of financings in Canadian Dollars and British Pound Sterling. As a result of the use of these different currencies, the Company is subject to foreign currency fluctuations. Foreign currencies are affected by a number of factors that are beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. Adverse fluctuations in the relative value of these currencies could materially and adversely affect the Company's results of operation and financial position.

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

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

The Company is currently subject to 5 known claims under Brazilian labour legislation by former employees in respect of alleged unpaid compensation. The average monthly salary of the claimants was below BrR$8,000 while the claims range between BrR$36,000 and BrR$674,000. The total of current claims is BrR$1,513,732. 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 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.