



SERABI GOLD

MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the three month and nine month periods
ended 30 September 2013**

14 November 2013

SERABI GOLD PLC
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Introduction

This Management's Discussion and Analysis ("MD&A") dated 14 November 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 interim unaudited condensed financial statements of the Company for the three month and nine month periods ended 30 September 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 its gold projects in the Jardim do Ouro area of the Tapajos region of the State of Para in Brazil, which it holds through its wholly owned subsidiaries Serabi Mineração S.A. and Gold Aura do Brasil Mineração Ltda.

The Company currently holds, either granted or under application, approximately 109,000 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 2013. It is currently anticipated that plant commissioning will commence before the end of 2013 with gold production following at the start of 2014. The JDO Project also includes several areas of exploration interest in close proximity to the Palito Mine, and most significantly the high-grade Sao Chico gold project ("Sao Chico") which the Company acquired through the acquisition of Kenai Resources Ltd ("Kenai"), a transaction that was completed on 18 July 2013.

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 GB£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.

On 6 May 2013, the Company announced the proposed acquisition of Kenai Resources Ltd ("Kenai") by way of a Plan of Arrangement (the "Transaction"). The Transaction was completed on 18 July 2013 and brings under the ownership of Serabi, the Sao Chico gold project ("Sao Chico") located within the 1,400 hectare exploration licence AP 12836, some 25 kilometres from the Palito Mine. The Sao Chico exploration licence is in force until March 2014, before which time the Company will apply to convert the concession to a full mining licence.

Additional information on the Company, including the Company's most recent Annual Information Form, is available on SEDAR at www.sedar.com.

Corporate and Operational Highlights - 2013

- On 17 January 2013 the Company completed the placement of 270 million new ordinary shares to raise in aggregate GB£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.
- The Palito Mine remains on schedule to commence plant commissioning at the end of 2013 with gold production expected for the first quarter of 2014:
 - New mine management team and contract mining personnel in place.
 - All new mining fleet delivered to site and operational.
 - Refurbishment of primary crushing plant complete and the plant operational.
 - Gravity concentrator at site, and gravity section infrastructure under construction.
 - Ball mill foundations completed, ball mill overhauled and milling section building nearing completion.
 - Flotation section building and infrastructure complete, with refurbished flotation cells being installed.
 - Filtration section building complete, and filter press being installed.
 - Gold room construction close to completion.
 - Total uncrushed ore stockpile of approximately 21,000 tonnes averaging 7.4 grammes per tonne ("g/t") as at end October 2013.
- Contract negotiations at an advanced stage for the refining and purchase of the copper/gold concentrate that will be produced at the Palito Mine.
- Completion of the acquisition of Kenai on 18 July 2013 bringing under ownership the high grade Sao Chico gold project:
 - Sao Chico, located approximately 25 kilometres from Serabi's Palito Gold Mine, hosts a NI 43-101 compliant combined Measured and Indicated Mineral Resource of 25,275 ounces of gold at 29.77 g/t and an Inferred Mineral Resource of 71,385 ounces of gold at 26.03 g/t.
 - Expected to be the first satellite gold resource to supplement Palito Mine gold production with high grade material, taking advantage of the excess plant capacity available to quickly expand Serabi's future gold production.
- Completion of a successful exploration drilling programme at Sao Chico.

- High-grade gold intersections (ten intercepts have been recorded in excess of 100g/t) confirm a consistent high grade zone within the Main Vein as well as potential extensions or additional veins to the South, East and West.
- Strike length of Main Vein has now more than doubled (see press release of 9 September 2013).
- Structural continuity now confirmed over 350 metres.
- Potential for further significant strike and depth extension remains, particularly to the west.
- Mr Nicolas Banados, Managing Director, Equities for Megeve Investments Limited, joined the Board as a non-executive director on 13 May 2013 and is a representative of Fratelli Investments Limited, the Company's largest shareholder.
- Mr Dan Kunz, the former Chairman of Kenai, was appointed to the Board, as a non-executive director, on 26 July 2013.
- Appointment of Peel Hunt LLP as UK Broker.

History

The Company currently holds, either granted or under application, approximately 109,000 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 and Sao Chico. 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 was based 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 GB£16.2 million was completed to finance the development of the project in line with the plans and scope outlined in the PEA and it is anticipated that commencement of the commissioning of the process plant will occur before the end of the fourth quarter of 2013.

The Sao Chico Project acquired by the Company in July 2013, as part of the acquisition of Kenai, is represented by a single exploration licence area (AP 12836). The Sao Chico Project is a small but very high grade gold deposit some 25km from the Palito project. The Sao Chico exploration licence is in force until March 2014, before which time the Company will apply to convert the concession to a full mining licence.

In addition to the JDO Project the 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 54,300 hectares, and is comprised of one mining licence granted on 23 October 2007 covering an area of 1,150 hectares, four exploration licences and six applications for exploration licences covering the remaining area. 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 ("NCL"), (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) ⁽¹⁾	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.

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 (Iriri) 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 Preliminary Economic Assessment (“PEA”) in compliance with Canadian Securities Administrators National Instrument 43-101 (“NI 43-101”) 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 GB£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 began 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. It is currently anticipated that plant commissioning will commence before the end of 2013 with gold production following at the start of 2014. 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 satellite Palito discoveries namely, the Piaui, Currutela and Palito South prospects.

Also within the JDO Project area is the exploration licence area (AP 12836) of Sao Chico. Sao Chico is a historic garimpo mining operation but exploration over the area has been limited. The most significant recent exploration was a 22 hole programme extending to about 3,300 metres of diamond drilling conducted by Kenai during 2011. Following this drilling programme Kenai commissioned Exploration Alliance Limited to produce a NI 43-101 compliant technical report including a mineral resource statement. The report issued on 15 October 2012 estimated a NI 43-101 compliant Measured and Indicated mineral resource of 25,275 ounces of gold and Inferred mineral resources of 71,385 ounces of gold. Since acquisition of the property by Serabi, the Company has now completed an infill and step out diamond drilling programme totalling 4,950 metres to enhance the existing resource in terms of both resource confidence and size. The drill programme has been further supplemented by ground geophysics, and a further 1,120 metre diamond drilling to test early geophysical anomalies. The full results from the ground geophysics are currently being interpreted and are expected to establish other potential areas of interest within the Sao Chico exploration licence. The current Sao Chico gold resource which has grades in excess of 26 g/t considers only three vein structures with a further ten more veins identified.

Mineral Resources	Tonnage	Gold (g/t Au)	Contained Gold (Ounces)
Measured	5,064	32.46	5,269
Indicated	<u>21,423</u>	<u>29.14</u>	<u>20,006</u>
Measured and Indicated	<u>26,487</u>	<u>29.77</u>	<u>25,275</u>
Inferred	<u>85,577</u>	<u>26.03</u>	<u>71,385</u>

- The effective date of the Mineral Resource is 30 May 2012.
- No cut-off grades have been applied to the block model in deriving the Mineral Resource reported above given insufficient drilling data.
- The Mineral Resource Estimate for the Sao Chico Gold Project was constrained within lithological and grade based solids. No optimisation studies have been applied to this high-grade, steeply dipping mineralization.

RESULTS OF OPERATIONS

Exploration and technical programmes executed during the first nine months of 2013

The Company's results of operations for the nine month period ended 30 September 2013 were comprised of the activities related to the results of operations of the Company's 100% owned subsidiary Serabi Mineração S.A. and since 18 July 2013 the results of operations of the Company's 100% owned subsidiaries Gold Aura do Brasil Mineração Limitada and Kenai Resources Ltd

Palito Property Highlights:

- Mine dewatering completed in January 2013.
- New mine management team and contract mining personnel in place.
- New mining fleet arrived at site and has been operational since July 2013.
- A mine maintenance contract with a 3rd party contractor established Q2 2013.
- Development mining now underway together with stoping of remnant blocks. Ore stockpiles are being established on surface of approximately 21,000 tonnes at 7.4 g/t (equivalent to approximately 5,000 ounces).
- The main ramp was deepened to the next main production level at 84 metre (relative level) with 407 metres of ramp completed. Two cross cuts to access Palito West at the 163 metre and the 126 metre levels were complete with 545 metres of 4m x 4m development.
- Ore development year to date has now exceeded 1,050m.
- Main ventilation return to surface completed and equipped as a secondary egress.
- Remediation and reassembly of the primary crushing circuit was completed at the end of the second quarter, and the primary crushing plant is now fully operational.
- The milling section is under construction, with the ball mill foundations complete and the ball mill re-assembled. The mill section building is also now complete.
- The gravity concentration section is under construction, the main gravity tower has been completed and the concentrator installed.
- Remediation of flotation circuit is now virtually complete, with all infrastructure in place and final electrical services being assembled.
- Initial mining fleet on site in February 2013. All newly purchased items now fully operational.

Sao Chico Property Highlights:

- A diamond drilling programme at Sao Chico commenced late May 2013, and was completed in late October with 6,070 metres having been drilled. The drilling was complemented by a 50 line kilometre ground geophysical Induced Polarisation survey ("IP") over a good proportion of the exploration licence area. Out of the 6,070 total metres drilled, 4,950 metres was infill and step out drilling into the Main Vein geological resource with a further 1,120 metres over the nearby Highway Vein and geophysical anomalous zones identified from the IP survey.
- High-grade gold intersections (ten intercepts have been recorded in excess of 100g/t) confirm a consistent high grade zone within the Main Vein as well as potential extensions or additional veins to the South, East and West.

- The infill and step out drilling has indicated the strike length of Main Vein has now more than doubled from 150 metres to over 350 metres and remains open.
- Structural continuity now confirmed over 350 metres.
- The structures are open and therefore there remains potential for further significant strike and depth extension, particularly to the west.

Palito Activity

Activity at the Palito Mine, which commenced in the fourth quarter of 2012, has continued as planned. The mine de-watering programme that was started in 2012 was completed in January 2013 and this was closely followed by the new mine management team arriving at site. The first contract mining crews also started work during the first quarter of 2013 concurrent with some initial mining fleet that the Company had sourced locally.

Within the mine itself, work has concentrated on the commencement of development mining and the extension of the main ramp to access deeper levels in the mine. The ramp has now reached the next planned production depth at 84 metres (relative level) and new development drives are being established on this level to access the G1, G2 and G3 veins. Two new ventilation raises have been completed, with the Palito West raise being completed to surface and also equipped as an emergency egress. Mining crews have also been open stoping numerous remnant ore blocks within the upper levels. These blocks are in areas that have been previously developed and have therefore been relatively easy to access. By the end of October, some 21,000 tonnes of ore had been stockpiled at surface with a grade averaging around 7.4g/t gold. This material 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, namely surface loaders, trucks, underground loaders and drilling jumbos. All of these units arrived at site during June, August and September 2013 and are currently operating at planned levels of production.

In the plant work is progressing well. The crushing plant is now operational, the milling section has been 90% rebuilt with new foundations prepared, the remediated ball mill in place, and final piping and electrical work on-going. The construction of the gravity section construction is also well underway, with all infrastructure built. The Falcon centrifugal unit is currently being installed and the flotation plant has been remediated only awaiting the electrical distribution to be completed.

A new accommodation facility was built during the second quarter 2013, meaning the camp has new or overhauled accommodation for up to 140 personnel. Further work on upgrading camp facilities is on-going.

Sao Chico Activity

Kenai had completed a 22 hole diamond drilling programme in 2011, totalling 3,268 metres. In late May 2013, a second drilling campaign commenced which was completed in October 2013 for a total of 6,070 metres over 38 drill holes. The programme initially targeted the geological resource defined from the 2011 drilling upon the high grade Main Vein. Twenty one (21) infill and step out holes totalling 4,950m were completed. This exploration programme has been supplemented by a ground geophysics Induced Polarisation ("IP") survey which commenced early in August 2013 and was completed in September 2013. Results are pending from a further 17 shallow holes totalling 1,120 metres that targeted the Highway Vein and, following some early interpretation of the IP survey, some of the initial geophysical anomalies that have been identified.

Results from the 21 holes drilled into the Main Vein have returned a series of high grade gold intersections including ten intercepts in excess of 100 g/t of gold. The drilling intercepted a continuous zone of alteration and quartz sulphide veins beneath and along strike from the previous resource drilling campaign. To date management consider that the original 150 metre strike length of the

current mineral resource has been more than doubled and are optimistic that, as additional exploration drilling further to the East and West also intersected zones of high grade mineralisation, this strike length could, with further infill drilling, become substantially larger.

The Main Vein reports strong lead and zinc analyses which assist in the interpretation of the mineralised zone. Where lower gold grades are returned from the Main Vein zone, the supporting base metal analyses confirm and support the continuity of the structure and the interpretation.

Assay results from drilling activity completed on the Highway Vein prospect and also investigating target areas generated from the IP survey over the exploration tenement are being awaited from the independent laboratory. The IP survey was conducted over 50 line kilometres during August 2013 and September 2013. The complete results are currently being interpreted.

These exploration results continue to show, in the opinion of management, the excellent potential of Sao Chico. The drilling results received to date also confirm the possibility of the high grade ore zones extending at depth. The exploration work has significantly enhanced the Company's understanding of the deposit and will provide vital information to support the submissions to the authorities for the conversion of the trial mining licence to a full mining licence.

Outlook

Remediation and development works at the Palito Mine are progressing well and the Company remains on schedule with the underground mine development work benefitting from the earlier than planned completion of the de-watering of the mine. Mine development is well underway, with the main ramp now at the next new production level, ore development should accelerate substantially. Mine services continue to be overhauled and the rehabilitation of the processing plant continues with a view to having the milling, gravity concentration, gold room and flotation sections all completed and being commissioned by year end. The plant remediation and design has taken into account the processing requirements of future ore mined from Sao Chico.

The Company's exploration activities will remain limited whilst the Company focuses its attention and personnel resources at Palito towards the completion of the plant remediation and commencement of production which it is expected will start in the first quarter of 2014. The directors expect that future exploration activity at Palito will be financed from the cash flow from gold production and may therefore not be undertaken until such time as sufficient and sustainable levels of cash flow are achieved. Exploration work recently undertaken at Sao Chico was a priority given the short period prior to the expiry of the exploration licence and the desire to secure a mining licence as quickly as possible to allow development and gold production from this project to be started at the earliest possible opportunity.

A number of refining and trading groups were 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 between 55% and 60% of the revenues of the operation. The Company has completed the evaluation of these submissions and is in the process of finalising contract terms with the preferred bidder.

The Company's strategy has been to develop additional satellite high grade gold mining opportunities in relatively close proximity to Palito, taking advantage of surplus capacity that exists in the gold plant, the rationale being that ore mined could be treated through the centralised processing facility located at the Palito site. Kenai's high grade Sao Chico property is at a more advanced stage than Serabi's own discoveries at Currutela, Palito South and Piaui, and therefore obviously falls into this category of being a satellite opportunity. The acquisition of Kenai on 18 July 2013 therefore presents the Company 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 current Sao Chico gold resource comprises approximately 25,000 Measured and Indicated ounces of gold and 71,000 Inferred ounces, both averaging over 26 g/t. and contained within just three veins with ten more veins identified. This resource was confined to an area with a strike length of some 150 metres.

The Sao Chico exploration licence is in force until March 2014, before which time the Company will apply to convert the concession to a full mining licence. To acquire the full mining licence status, the Company is following a two stage process. Following completion of the on-going drilling and geophysics programmes, a Final Exploration Report ("FER") will be compiled and submitted to the Departamento Nacional de Produção Mineral ("DNPM") for approval. On approval of the FER, the Company will then submit the Plano de Aproveitamento Economico ("PAE"), which concludes the permitting process to acquire the licence. The Company anticipates the approval of both documents will take much of 2014, and therefore expects that it will be in a position to commence development of the project late in 2014 following the award of a mining licence.

The DNPM have already issued a trial mining licence ("GUIA") for the Sao Chico property, which will expire in April 2014 and management consider that, at the very least, this illustrates the DNPM's willingness to see the project developed. Discussions with the DNPM suggest that as the FER and PAE will demonstrate that all processing of Sao Chico ore will be undertaken at Palito, where a fully permitted process facility will already be in place, the application for a mining licence at Sao Chico can be rapidly processed.

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 September 2013 compared to the three month period ended 30 September 2012

The loss from operations increased by US\$550,000 from US\$706,000 for the 3 months ended 30 September 2012 to US\$1,256,000 for the 3 month period ended 30 September 2013. This increase is in part a reflection of the increased costs associated with the acquisition of Kenai, both in terms of the legal and other costs associated with the transaction and the costs involved in the re-organisation and severance arrangements following the completion of the transaction in July 2013. General administration costs have increased in Brazil as activities progress towards the reopening of the Palito mine.

Administration costs have shown an overall increase from US\$450,000 for the 3 month period ended 30 September 2012 to US\$1,080,000 for the 3 month period to 30 September 2013. This increase is primarily due to the legal costs associated with the acquisition of Kenai which occurred during the period of approximately US\$280,000. In addition the group has incurred additional administrative expenses (primarily salary and termination expenses) relating to Kenai and its personnel during the 3 month period ended 30 September 2013 of US\$167,000.. Administrative staffing levels have increased compared with the same period in 2012 reflecting the increased level of support activity relating to the commencement of production operations at Palito. These personnel are involved in the accounting, information technology and personnel departments.

The reduction in depreciation charges between the two periods reflects many of the Company's assets reaching the end of their original forecasted lives for amortisation purposes and have therefore now been fully amortised. Depreciation charges for the 3 months to 30 September 2013 are US\$128,000 compared with US\$223,000 for the 3 month period to 30 September 2012. New equipment has been purchased and in particular the underground mining fleet delivered during the third quarter of 2013, is being depreciated but in accordance with normal practice the depreciation charges are capitalised as a pre-production cost. Depreciation charges recorded in the income and expenditure account will increase once the company has declared commercial production.

The Company recorded a foreign exchange gain of US\$98,000 in the 3 month period to 30 September 2013 which compares with a foreign exchange gain of US\$9,000 recorded for the 3 months ended 30 September 2012. These foreign exchange gains are primarily incurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies. The currency gain recorded in the 3 month period to 30 September 2013 in addition to the currency gain in the 3 month period to 30 June 2013 in part reverses the losses on currency holdings reported in the 3 month period to 31 March 2013 and reflects the appreciation on certain currencies in particular the GB Pound against the US Dollar as at 30 September 2013 compared with earlier in the year.

Net interest charges for the 3 month period to 30 September 2013 were US\$44,174 compared with US\$18,541 for the corresponding period 3 month period to 30 September 2012. An analysis of the composition of these charges is set out in the table below:

	2013	2012
	US\$	US\$
Interest expense on convertible loan stock	18,576	15,453
Asset finance charges	34,518	-
Other interest and finance expenses	(1,493)	4,353
	<hr/>	<hr/>
	51,601	19,806
Interest income	(7,427)	(1,256)
	<hr/>	<hr/>
	44,174	18,541

Asset finance charges relate to the acquisition of new mining equipment under supplier credit terms. The first instalment was settled in June 2013 when the first item was received in Brazil.

Nine month period ended 30 September 2013 compared to the nine month period ended 30 September 2012

The loss from operations has increased by US\$380,000 from a loss of US\$2,907,000 for the nine months ending 30 September 2012 to US\$3,287,000 for the nine month period to 30 September 2013. This variance has in part arisen 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 addition administration costs have increased by US\$961,000 reflecting the acquisition expenses and re-organisation costs relating to Kenai as well as the increased levels of activity during the nine month period ended 30 September 2013 compared with the corresponding nine month period ended 30 September 2012.

In the nine months to 30 September 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 nine month period being BrR\$341,000 (US\$178,000). 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 nine month period to 30 September 2013.

Administration costs have shown an overall increase from US\$1,834,000 for the nine month period ended 30 September 2012 to US\$2,795,000 for the nine month period to 30 September 2013. The expense for the nine months to 30 September 2012 included a charge in respect of labour claims amounting to US\$216,000 whilst during the nine month period to 30 September 2013 the comparable cost reported in the income and expenditure account has been only US\$5,000. The Company has incurred an expense in the nine month period ended 30 September 2013 of US\$327,000 in respect of bonus payments made to senior management personnel in respect of the preceding financial year's performance review period and recognised one-off tax liabilities amounting to US\$144,000. Excluding these items from the analysis, administration costs for the nine months to 30 September 2013 show an increase of US\$701,000 by comparison with the nine months to 30 September 2012.

During the most recent three month period the Company has incurred legal and other costs directly related to the Kenai acquisition amounting to US\$280,000. In addition costs of Kenai in this last quarter are now borne by the group and administrative expenses, principally relating to the re-organisation of that business and terminations, generated a cost in the quarter of US\$167,000. Additionally, an increased level of cost has been incurred in Brazil and reflects the increased level of administrative support, particularly in the areas of accounting, information technology and personnel, required to manage the construction and start-up of the Palito Mine and includes the opening of a support office in Belem, the Para state capital, to allow improved communication with State and Government

departments. The total increase in administration costs in Brazil including the integration of Gold Aura do Brasil Mineracao Ltda, has been approximately US\$220,000.

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 nine months to 30 September 2013 are US\$342,000 compared with US\$808,000 for the nine month period to 30 September 2012. New equipment has been purchased and in particular the underground mining fleet delivered during the third quarter of 2013, is being depreciated but in accordance with normal practice the depreciation charges are capitalised as a pre-production cost. Depreciation charges recorded in the income and expenditure account will increase once the company has declared commercial production.

The Company recorded a foreign exchange loss of US\$134,000 in the nine month period to 30 September 2013 which compares with a foreign exchange gain of US\$74,000 recorded for the nine months ended 30 September 2012. The loss for the nine months to 30 September 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 nine month period, which saw a period of strengthening of the US Dollar against most major currencies resulting in these book exchange losses. Subsequent strengthening of Sterling during the second and third quarters of 2013 has allowed the group to recover some 50% of the original book loss recorded in the first quarter of 2013.

Net interest charges for the nine month period to 30 September 2013 were US\$98,378 compared with US\$51,321 for the corresponding nine month period to 30 September 2012. An analysis of the composition of these charges is set out in the table below:

	2013 US\$	2012 US\$
Interest on short term loan	26,630	-
Interest expense on convertible loan stock	49,868	42,774
Asset finance charges	38,713	-
Other interest and finance expenses	(358)	14,676
	<hr/> 114,853	<hr/> 57,450
Interest income	(16,475)	(6,129)
	<hr/> 98,378	<hr/> 51,321

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 GB£16.2 million placement of new ordinary shares that was completed on 17 January 2013.

Asset finance charges relate to the acquisition of new mining equipment under supplier credit terms. The first instalment was settled in June 2013 when the first item was received in Brazil. The lease terms are for a three year period and bear interest at the rate of 6.45% per annum.

Summary of quarterly results

	Quarter ended 30 September 2013 US\$	Quarter ended 30 June 2013 US\$	Quarter ended 31 March 2013 US\$	Quarter ended 31 December 2012 US\$
Revenues	-	-	-	-
Operating expenses	-	-	-	(296,017)
Gross loss	-	-	-	(296,017)
Administration expenses	(1,080,137)	(805,633)	(908,753)	(679,272)
Option costs	(47,846)	(47,846)	(47,846)	(33,244)
Write-off of past exploration expenditures	-	-	-	(267,703)
Gain on asset disposals	-	-	-	9,857
Depreciation of plant and equipment	(127,850)	(112,974)	(107,667)	(83,110)
Operating loss	(1,255,833)	(966,453)	(1,064,266)	(1,349,489)
Foreign exchange gains/(losses)	98,078	23,400	(255,218)	(4,380)
Finance costs	(44,174)	(14,462)	(39,742)	(498,343)
Loss before taxation	(1,201,929)	(957,515)	(1,359,226)	(1,852,212)
Loss per ordinary share (basic and diluted)	(0.27) cents	(0.27) cents	(0.43) cents	(2.03) cents
Development and deferred exploration costs	25,950,041	16,375,076	17,696,480	17,360,805
Property, plant and equipment	36,603,692	30,228,704	29,187,365	26,848,991
Total current assets	10,134,384	17,758,039	21,881,077	3,993,428
Total assets	72,688,117	64,361,819	68,764,922	48,203,224
Total liabilities	7,504,716	5,432,817	4,857,524	8,942,223
Shareholders' equity	65,183,401	58,929,002	63,907,398	39,261,001

	Quarter ended 30 September 2012 US\$	Quarter ended 30 June 2012 US\$	Quarter ended 31 March 2012 US\$	Quarter ended 31 December 2011 US\$
Revenues	-	-	-	(99)
Operating expenses	-	(64,250)	(117,694)	(103,429)
Gross loss	-	(64,250)	(117,694)	(103,528)
Administration expenses	(450,047)	(573,167)	(810,786)	(773,512)
Provision for indirect taxes	-	-	-	(129,264)
Option costs	(33,244)	(33,244)	(29,150)	(77,151)
Write-off of past exploration expenditures	-	-	-	-
Gain on asset disposals	-	8,599	-	38,803
Depreciation of plant and equipment	(223,150)	(158,204)	(426,637)	(509,873)
Operating loss	(706,441)	(820,266)	(1,384,267)	(1,554,525)
Foreign exchange gains /(losses)	9,434	(19,103)	87,190	95,975
Finance costs	(18,541)	(14,731)	(18,049)	(432,312)
Loss before taxation	(715,548)	(854,100)	(1,315,126)	(1,890,862)
Loss per ordinary share (basic and diluted)	(0.78) cents	(0.94) cents	(1.56) cents	(2.96) cents

	Quarter ended 30 September 2012 US\$	Quarter ended 30 June 2012 US\$	Quarter ended 31 March 2012 US\$	Quarter ended 31 December 2011 US\$
Development and deferred exploration costs	18,249,489	17,405,081	17,998,296	16,648,884
Property, plant and equipment	25,514,742	25,845,466	28,690,108	28,266,092
Total current assets	2,054,299	3,305,872	5,291,258	3,309,822
Total assets	45,818,530	46,556,419	51,979,662	48,224,798
Total liabilities	4,358,930	4,219,578	4,537,035	4,940,318
Shareholders' equity	41,459,600	42,336,841	47,442,627	43,284,480

Liquidity and Capital Resources

The Company had a working capital position of US\$5,671,000 at 30 September 2013 compared to US\$(2,760,000) 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 GB£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\$5,363,000 compared with 31 December 2012.

The levels of inventories have increased by US\$269,000 compared with 31 December 2012, reflecting the increasing levels of activity and comprise consumables for the development mining activities that are on-going. Equally the level of creditors has increased by approximately US\$1,654,000 as orders for equipment, contractor services and consumables are placed as well as commitments for items acquired under lease arrangements. Interest bearing liabilities of US\$569,000 due in less than one year represent capital payments due under finance leases.

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 nine month period ended 30 September 2013 the Company issued 270,000,000 Ordinary Shares for gross cash proceeds of GB£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 GB£0.10 at any time until 16 January 2015.

The company issued a further 95,120,675 Ordinary Shares in consideration of the acquisition of Kenai which was completed on 18 July by way of a Plan of Arrangement. The consideration for this acquisition has been valued at US\$7.59 million and as part of the transaction the company acquired cash of US\$222,211.

The Company has, during the nine month period ended 30 September 2013, incurred costs of US\$1.7 million for development and exploration expenditures on its mineral properties of which US\$1.4 million has been spent on the Sao Chico property since the time of acquisition of that project. A further US\$470,000 was spent at Sao Chico during the period April to June 2013 which was also funded by Serabi through loans made to Kenai, the previous owners of the property. US\$1.0 million has been committed to the purchase of tangible fixed assets with a further US\$2.2 million being acquired under finance lease arrangements and US\$9.3 million spent on the rehabilitation and development of the Palito Mine. Working capital for the nine months to support general operating activities, including an increase in inventory values of US\$0.3 million, has been US\$3.0 million. Further details of the

exploration and development activities conducted during the period are set out elsewhere in this MD&A document.

On 30 September 2013 the Company's total assets amounted to US\$72.7 million which compares to US\$48.2 million as reported at 31 December 2012. The current asset component has increased by some US\$6.1 million primarily reflecting the higher cash balances following the completion of the share placement in January 2013 with the non-current asset component increasing by US\$18.3 million. Of this increase US\$8.4 million is attributable to the fair value of fixed assets and exploration interest acquired through the acquisition of Kenai. A further US\$14.2 million of the increase is the result of asset purchases, investments into the Palito Mine and exploration activity at Sao Chico. However the exchange rate movement between the Brazilian Real and the United States Dollar has resulted in exchange variations decreasing the carrying value of exploration interests by US\$1.3 million and of mining property, plant and equipment by US\$2.7 million. Depreciation charges of US\$348,000 during the 9 months ended 30 September 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 30 September 2013 totalled US\$36.6 million (December 2012: US\$26.8 million), of which US\$10.3 million relates to recent project development expenditures at the Palito Mine, and deferred exploration and developments cost which as at 30 September 2013 totalled US\$26.0 million (December 2012: US\$17.4 million), of which US\$15.4 million relates to capitalised exploration expenditures at, or in close proximity to, the Palito Mine and US\$9.6 million relates to the Sao Chico property. The Company's total assets also included cash holdings of US\$7,945,000 (December 2012: US\$2,582,000).

Receivables of US\$98,000 as at 30 September 2013 has increased slightly compared to the balance of US\$86,000 at 31 December 2012. The balance mainly represents deposits paid by the Company.

Prepayments as of 30 September 2013 were US\$1.1 million compared with US\$603,000 million as at 31 December 2012, an increase of US\$496,000. The prepayments represent:

- (i) Prepaid taxes in Brazil amounting to US\$765,000, 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 amount recoverable is consistent with amounts owed to the Company at 31 December 2012;
- (ii) Supplier down-payments - reflecting the level of development and construction activity currently being undertaken for the opening of the Palito Mine the Company has made advances to suppliers in respect of goods purchased or items being fabricated of US\$217,000 (31 December 2012 US\$12,000).

The Company's total liabilities at 30 September 2013 were US\$7.5 million (December 2012: US\$8.9 million). The total liabilities at 31 December 2012 included the short term loan payable to Fratelli Investments Limited which, including interest amounted to US\$4,581,000 as well as accounts payable to suppliers and other accrued liabilities of US\$2,385,000. At 30 September 2013 accounts payable to suppliers and other accrued liabilities totalled US\$4,080,000. The major items contributing to the overall increase of US\$1,695,000 are:

- (i) An increase of approximately US\$0.7 million on trade creditors due to the increase in activity and operating equipment being utilised for mine development;
- (ii) Liabilities to contractors for drilling and other exploration services at the Sao Chico property of US\$145,000;
- (iii) An increase on the wage accrual and social welfare accrual versus prior year of approximately US\$330,000 reflecting provisions for 13th salaries that are settled in the final quarter of the year and accrued holiday pay. The increase is in part due to timing in particular for the 13th salary provision but also the increased staffing levels compared to the year ended 31 December 2012;
- (iv) A severance provision for a former employee of Gold Aura do Brasil Mineracao amounting to some BrR\$500,000 (US\$225,000). This cost will be recovered by Serabi from a third party under an indemnity agreement.

Interest bearing liabilities include US\$1,533,000 due in respect of capital payments due under finance leases. Of this amount, US\$569,000 is due in less than one year. The finance leases relate to mining equipment deployed at Palito. The leases are for three years and carry interest at a rate of 6.45% per annum. Also included is US\$414,000 including accrued interest (December 2012: US\$365,000) 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\$1,478,000 (December 2012: US\$1,612,000) in respect of provisions including US\$1,241,000 (December 2012: US\$1,224,000) 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 GB£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.

In July 2013 the Company completed the acquisition of Kenai including the Sao Chico gold project. Whilst this acquisition has necessitated additional expenditures which were not foreseen, management considers that the company holds and can access adequate 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 commissioning of its gold process plant before the end of 2013 and start gold sales in the first quarter of 2014.

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 and Belem in 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\$144,000.

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 GB£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	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Long term debt	414,005	—	414,005	—	—
Capital lease obligations	1,533,219	568,671	964,548	—	—
Operating leases	127,379	104,342	23,037	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	2,074,603	673,013	1,401,590	—	—

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 acquired a direct interest of 51.1% in the share capital of the Company and became a controlling party. Following the acquisition of Kenai in July 2013, as a result of which a further 95,120,675 new Ordinary Shares were issued the direct interest of Fratelli in the share capital of the Company was reduced to 40.5%.

Financial and other instruments

The Company's financial assets at 30 September 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 30 September 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, fixed rate finance leases over some of its mining equipment 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 to a lesser extent uses finance leases and in prior years' has used short-term trade finance 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. The Company has been using 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 is using 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, Canadian Dollars and Australian Dollars.

The Company's main subsidiaries operate in Brazil with their expenditure being principally in Brazilian Real and their 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:

	30 September 2013 US\$	31 December 2012 US\$
US Dollar	5,117,356	2,198,081
Canadian Dollar	324,016	27,090
Sterling	1,168,164	306,127
Euros	176,385	–
Australian Dollar	51,504	2,324
Brazilian Real	1,107,778	48,424
Total	7,945,203	2,582,046

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\$8,043,000 as at 30 September 2013 (31 December 2012: US\$2,668,000). 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

There have been no events subsequent to 30 September 2013 that were not undertaken in the ordinary course of the business.

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 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 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 31 December 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 nine month period ended 30 September 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 GB£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 November 2013:

Ordinary Shares	456,389,205
Stock Options	23,396,285
Other Warrants	12,840,033
Fully diluted ordinary shares outstanding	<u>492,625,523</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 GB£300,000 and the accumulated interest over the life of the Convertible Loan of GB£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 and mining 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 licences 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 licence and the DNPM may take those objections into consideration when making any decision on whether or not to grant a licence.

The government of Brazil is seeking to introduce a new Mining Code. 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.

The exploration licence for the Sao Chico property recently acquired by the Company will expire in March 2014. The Company has informed the DNPM that it intends to apply for a full mining licence and have received no indication that provided that the content and form of the application is made in accordance with prescribed regulations that a mining licence would not be granted. However, under the proposed new Mining Code the application process may be amended and it is understood that the DNPM will be disbanded and a new body created taking over the responsibility for and having the authority to issue mining licences in the future.

If and when exploration licences are granted, they will be subject to various standard conditions including, but not limited to, prescribed licence conditions. Any failure to comply with the expenditure conditions or with any other conditions, on which the licences are held, can result in license forfeiture. Generally, the licenses are granted for a term of three years and further renewal of an exploration licence 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 licences 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 31 December 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 operations 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 recommence 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 categorised as mineral reserves and there is no certainty that the preliminary economic assessment will be realised. 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 involves 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 and the Sao Chico gold project, the Company's other mineral properties are in relatively early exploration stages and are without known bodies of mineral reserves or mineral resource. A mineral resource has been established at the Palito Gold Mine and at the Sao Chico gold project. Development of other 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 any insurance it maintains 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 amortisation, 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 licences and abiding by standards and controls on its activities may be significant. Further, if the Company fails to obtain or maintain such operating licences 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, Euros and Brazilian Real and the Company has to date received the proceeds of equity financings in Canadian Dollars and British Pound Sterling, loan financings in US dollars and British Pounds Sterling and leasing arrangements in Euros. 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, two of which have been in the court process for over 12 months. The average monthly salary of the claimants was below R\$8,000 while the claims range between R\$98,500 and R\$673,000. The total of current claims is R\$912,000. 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 licences 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 licences are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licencing authority. The Company may not be able to obtain or renew permits and licences 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 licencing 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, labour regulation and use of non-Brazilian labour for specialist activities, 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.

On 18 July 2013, the Company completed the acquisition of Kenai Resources Ltd which also gives the Company control over the Sao Chico gold project located close to the Company's Palito Mine.

Whilst Sao Chico has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource and management are expecting that upon the receipt of a mining licence they will commence development mining activity and mine production operations to augment gold production levels for the Company, there is no NI 43-101 compliant technical report commissioned to date to demonstrate whether or not this resource can be mined on a commercial scale or that any mining activities that might be undertaken will be profitable in the future.