



Financial Results for the Second Quarter and Management's Discussion and Analysis

Serabi Gold (AIM:SRB, TSX:SBI), the Brazilian focused gold mining and development company, today releases its unaudited financial results for the three and six month periods ending 30 June 2014 and at the same time has published Management's Discussion and Analysis for the same periods.

Financial and Corporate Highlights – For three and six month periods ending 30 June 2014

- Commercial production at Palito declared with effect from 1 July 2014.
- Equity financing closed on 3 March 2014 raising gross proceeds of UK£10 million.
- Revenues of US\$5.2 million recognised in the first six months from sales of approximately 3,900 ounces
- Cash holdings at 30 June 2014 of US\$5.9 million.

Operational Highlights – For three and six month periods ending 30 June 2014

- Successful plant commissioning and production ramp-up at Palito has continued during the second quarter.
- Gold production of 3,242⁽¹⁾ ounces for the second quarter 2014 and 5,542⁽¹⁾ ounces for the year to date.
- Total mine ore production for second quarter of 15,808 tonnes @ 11.36 g/t Au.
- Total milled production for second quarter of 18,645 tonnes @ 8.08 g/t Au.
- Approximately 3,300 metres of underground horizontal development has been completed in the six months to 30 June 2014.
- Surface ore stockpile at 30 June 2014 of approximately 13,000 tonnes @ 5.4 g/t Au.
- At 30 June 2014 more than 32,500 tonnes of flotation tailings stockpiled and awaiting cyanidation treatment, with a grade in excess of 2.0 g/t Au, and contained gold of more than 2,100 ounces.

(1) Gold production figures are subject to amendment pending final agreed assays of the gold content of the copper/gold concentrate that is being sold to a refinery.

Post Period Highlights

- Carbon in Pulp leaching circuit completed during July 2014 and commissioning will commence during August 2014.
- A second ball mill has been installed and tested and has been operational since 20 July 2014.

The following link can be used to listen to an interview with Clive Line, Finance Director with BRR Media

<http://www.brrmedia.co.uk/event/125334?popup=true>

The following link can be used to see the latest operational update video from Mike Hodgson, CEO

www.brrmedia.co.uk/event/125331?popup=true

Mike Hodgson, CEO of Serabi said,

"This has been another successful quarter at Palito. Commercial production has now been declared as we continued to build on the commissioning and testing phase of the process plant which was started during the first quarter of 2014.

"The second ball mill was purchased in the quarter and started operating in late July. Whilst primarily acquired to permit a second processing line to be established for ore from Sao Chico, in the short term it is being used to provide additional processing capacity for Palito ore.

"The end of July also saw the completion of the Carbon in Pulp ("CIP") cyanide leaching tanks, which we will begin commissioning this month, and we expect this to increase gold recoveries to over 90%.

"Development work at Sao Chico is now progressing well, with a surface drill programme planned for later in the third quarter of this year and I look forward to providing shareholders with an updated geological resource for Sao Chico by the end of the first quarter of 2015.

"With expanded milling capacity and the start of gold production from the CIP circuit during the third quarter, I anticipate a strong second half of 2014."

Outlook and Strategy

The second quarter of 2014 built on the commissioning and testing phase of the process plant at Palito that was undertaken during the first quarter. The current gold recovery circuit comprises milling, flotation (producing a high grade copper/gold concentrate) and gravity separation (producing a high grade gold concentrate) of the flotation tailings. From January until July 2014, the tailings produced from flotation and gravity treatment ("Flotation Tailings") have been stockpiled for future cyanidation treatment. With the completion of the Carbon in Pulp ("CIP") cyanide leaching tanks at the end of July, these Flotation Tailings are now being prepared for re-treatment in the leaching tanks. It will take approximately 3 weeks until the first carbon is fully loaded with gold and at this point, the first batch of loaded carbon will be drawn off and fresh carbon introduced into the tanks to replace it. This loaded carbon is expected to have a grade of approximately 2,000-2,500g/t gold. Work on finalising the elution section of the plant is planned to be completed during August and therefore it is anticipated that as loaded carbon is drawn out of the CIP tanks, it will pass to the completed elution plant in time for a first gold pour in September. It is anticipated that this final stage of processing will increase the overall gold recovery to approximately 92%. Over the remainder of 2014 and into 2015 the Flotation Tailings that were produced during the first six months of the year, of which there is more than 32,500 tonnes with contained gold calculated at 2,100 ounces, will be processed through the CIP circuit to recover as much as possible of this residual gold that could not be recovered from the flotation and gravity processes.

A second ball mill was acquired during the second quarter and has been remediated and started operating in late July. Whilst primarily acquired to permit a second processing line to be established for ore from Sao Chico, in the short term it is being used to provide additional processing capacity for Palito ore in excess of the planned 7,500 tonnes per month and to allow the company to run down the surface stockpile of ore which at the end of June 2014 was approximately 13,000 tonnes of ore with a grade of 5.4g/t.

The Company anticipates a strong second half of 2014. The commissioning of the CIP plant is expected to increase gold recoveries to over 90% which combined with the implementation of the second ball mill and the treatment of the stockpiled flotation tailings accumulated over the past six months, will increase the plant throughput and production significantly. The Company remains on course to achieve its gold production forecast of 23,000-24,000 ounces of gold for 2014.

Development work at Sao Chico has been delayed by heavy rains earlier this year. Work commenced in February to clear approximately 20 metres of the deep unconsolidated saprolite material that overlies the bed-rock prior to being able to establish the mine portal. The Company anticipated clearance of the saprolite would take approximately 3 months based on the assumption that the rainy season would, as usual, end in late March. The rains however continued until early June making the excavation conditions extremely wet and significantly delaying work.



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SERABI GOLD plc ("Serabi" or "the Company")



Work at Sao Chico is now progressing well, with the ground rapidly drying out. Ramp development was initially expected to commence in early July, but in light of the delay this is now expected to be before the end of September with a consequent delay in starting underground mine development. The decline ramp, once underway, will be driven at a 12% gradient and from it, two development levels, L1 and L2, will be established, at the 30 vertical metre and 60 vertical metre intervals respectively. The development levels will follow the principal structure, known as the Main Vein, to its strike extents to the East and West, currently estimated as 500 development metres per level.

The Company plans to generate an updated geological resource for Sao Chico in the first quarter of 2015. To facilitate this, a surface drill programme is now planned for later in the third quarter of this year. This will replace the previously announced underground drill programme which, with the delays in ramp and mine development, could not be completed within the Company's desired time frame.

The Final Exploration Report ("FER") for Sao Chico was completed and submitted to the Departamento Nacional de Produção Mineral ("DNPM") in February, representing the first part of the process of transforming the exploration licence into a mining licence. Work is now underway on the preparation of the Plano de Aproveitamento Economico ("PAE") which is required to be submitted once the DNPM has approved the FER.

In the longer term the Company plans to establish additional satellite high-grade gold mines in relatively close proximity to Palito which will be a centralised processing facility. In this way the company expects to be able to grow its production base at low capital cost, avoid the need for major infrastructure improvements to be in place for new operations to be commercially viable and have low environmental impact.

Production statistics for six months to 30 June 2014

		Quarter ended 31 March 2014	Quarter ended 30 June 2014	Six month to 30 June 2014
Mining				
Horizontal Development	metres	1,491	1,804	3,295
Ore Mined	tonnes	11,387	15,808	27,195
Average Grade Mined	g/t	7.09	11.36	9.57
Plant				
Tonnes Milled	tonnes	14,050	18,645	32,695
Average Grade processed	g/t	6.91	8.08	7.58
Gold produced	ounces	2,300 ⁽¹⁾	3,242 ⁽¹⁾	5,542 ⁽¹⁾

(1) Gold production figures are subject to amendment pending final agreed assays of the gold content of the copper/gold concentrate that is being sold to a refinery.

Summary financials for six months to 30 June 2014

	Six months ended 30 June 2014	Six months ended 30 June 2013
	US\$	US\$
Revenues	-	-
Loss before taxation	(2,926,358)	(2,316,741)
Net loss per share (basic and diluted)	(0.50c)	(0.69c)



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	As at 30 June 2014 US\$	As at 31 December 2013 US\$
Cash	5,920,963	3,789,263
Inventories	4,482,101	3,890,880
Debtors	7,637,166	1,340,631
Total current assets	18,040,230	9,020,774
Deferred exploration costs	26,508,924	24,659,003
Property plant and equipment	43,412,368	36,008,318
Total assets	87,961,522	69,688,095
Total liabilities	10,614,015	9,653,388
Equity shareholders' funds	77,347,507	60,034,707

The unaudited financial results for the three and six month periods ended 30 June 2014 and the Management Discussion and Analysis for the same periods, together with this announcement, will be available from the Company's website - www.serabigold.com and will be posted on SEDAR at www.sedar.com.

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Copies of this release are available from the Company's website at www.serabigold.com



Qualified Persons Statement

The scientific and technical information contained within this announcement has been reviewed and approved by Michael Hodgson, a Director of the Company. Mr Hodgson is an Economic Geologist with training with over 26 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.

Forward Looking Statements

Certain statements in this announcement are, or may be deemed to be, forward looking statements. Forward looking statements are identified by their use of terms and phrases such as "believe", "could", "should", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These forward looking statements are not based on historical facts but rather on the Directors' current expectations and assumptions regarding the Company's future growth, results of operations, performance, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business

prospects and opportunities. Such forward looking statements reflect the Directors' current beliefs and assumptions and are based on information currently available to the Directors. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including risks associated with vulnerability to general economic and business conditions, competition, environmental and other regulatory changes, actions by governmental authorities, the availability of capital markets, reliance on key personnel, uninsured and underinsured losses and other factors, many of which are beyond the control of the Company. Although any forward looking statements contained in this announcement are based upon what the Directors believe to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with such forward looking statements.

Neither the Toronto Stock Exchange, nor any other securities regulatory authority, has approved or disapproved of the contents of this news release.

GLOSSARY OF TERMS

The following is a glossary of technical terms:

- "Au" means gold.
- "assay" in economic geology, means to analyze the proportions of metal in a rock or overburden sample; to test an ore or mineral for composition, purity, weight or other properties of commercial interest.
- "grade" is the concentration of mineral within the host rock typically quoted as grams per tonne (g/t), parts per million (ppm) or parts per billion (ppb).
- "g/t" means grams per tonne.
- "mRL" – depth in metres measured relative to a fixed point – in the case of Palito this is sea-level. The mine entrance is at 250mRL.
- "Vein" is a generic term to describe an occurrence of mineralised rock within an area of non-mineralised rock.

Serabi Gold plc (AIM:SRB, TSX:SBI), the Brazilian focused gold mining and development company, is pleased to announce that commercial production at its Palito gold mine commenced with effect from 1 July 2014. The Company also provides an update on its activities at its high-grade underground gold mining operation at Palito for the second quarter of 2014.

FINANCE REVIEW

Results of Operations

Three month period ended 30 June 2014 compared to the three month period ended 30 June 2013

The loss from operations increased by US\$699,749 from US\$966,453 for the 3 months ended 30 June 2013 to US\$1,666,202 for the three month period ended 30 June 2014. This increase is primarily due to an increase in administration expenses of US\$676,407. This increase of US\$676,407 can be accounted for as follows:

- (i) An increase of US\$126,786 in professional and legal fees which were incurred in connection with the share placement which took place during the first quarter of 2014 to raise gross proceeds of UK£10 million. This includes approximately US\$57,500 in connection with the listing charges for these new shares levied by the Toronto Stock Exchange and AIM.
- (ii) An increase of US\$168,657 relating to administration costs incurred in Brazil. During the financial year ended 31 December 2013, whilst the mine site was in remediation and development, the Company treated as a capital cost of the mine certain administrative costs including accounting and IT related personnel costs. For the financial year 2014 and with the start of production operations the Company determined that all costs of administrative personnel not directly located at the Palito mine and acting in the functions of accounting, IT, personnel and including the local Country Manager would be treated as an administrative cost of the business. During the 3 month period to 30 June 2013, the level of administrative costs capitalised as part of the overall capital development costs of Palito was approximately US\$146,000. During the six months to 30 June 2014, there has also been an increase in the level of administrative



staffing and travel expenses required as the Company has commenced production operations at Palito. These personnel are principally involved in the accounting, information technology and personnel departments.

- (iii) A one off structuring fee of US\$50,000 in relation to a trade finance facility entered into by the Company to accelerate receipt of cash flow from the production of Copper/Gold concentrates.
- (iv) The payment of performance bonuses to senior personnel amounting to US\$204,000. Whilst performance bonuses were paid in the calendar year to 31 December 2013 the charge of approximately US\$300,000 was incurred during the quarter ended 31 March 2103 whilst the calculations and settlements of these current bonuses were only finalised and incurred in the quarter ended 30 June 2014.
- (v) Taxes incurred in the period have reduced by US\$86,000 compared with the corresponding 3 month period in 2013. Provisions in respect of unpaid taxes from prior years have been recorded in the 3 month period to 30 June 2014 amounting to US\$63,700 (3 months to 30 June 2013 - US\$92,100). Taxes relating to the period including property and licence fees were US\$7,200 (3 months to 30 June 2013 – US\$64,000).

The increase in depreciation charges of US\$27,348 between the two periods reflects the Company having purchased new plant and equipment during the year as it returned the Palito Mine to production. New underground mining fleet was delivered during the third quarter of 2013 and is being depreciated in accordance with normal practice. However, the depreciation charges for this particular equipment which amounted to approximately US\$114,000 for the three months to 30 June 2014 are being capitalised as a pre-production cost whilst the mine was in a commissioning and ramp-up phase. Following the declaration of commercial production with effect from 1 July 2014 the depreciation charges in respect of this mining fleet will be expensed through the Income Statement. Depreciation charges in respect of all other assets are already being expensed through the Income Statement.

Share based payments decreased from US\$47,846 for the three month period ended 30 June 2013 to US\$43,840 for the three month period ended 30 June 2014. The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the three months to 30 June 2014 is in respect of options granted between 1 April 2011 and 30 June 2014.

The Company recorded a foreign exchange gain of US\$18,794 in the 3 month period to 30 June 2014 which compares with a foreign exchange gain of US\$23,400 recorded for the 3 months ended 30 June 2013. These foreign exchange gains and losses primarily occurred 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.

Net interest charges for the 3 month period to 30 June 2014 were US\$21,329 compared with US\$14,462 for the same period of 2013. An analysis of the composition of these charges is set out in the table below:

	Quarter ended 30 June 2014	Quarter ended 30 June 2013
	US\$	US\$
Interest expense on convertible loan stock	21,227	15,653
Re-classification of prior quarter charges	(25,000)	-
Other interest and finance expenses	29,575	5,100
	<u>25,802</u>	<u>20,753</u>
Interest income	(4,473)	(6,291)
	<u>21,329</u>	<u>14,462</u>

Six month period ended 30 June 2014 compared to the six month period ended 30 June 2013

The loss from operations increased by US\$703,032 from a loss of US\$2,030,719 for the six months to 30 June 2013 to US\$2,733,751 for the six month period to 30 June 2014. The primary reason for this increase is due to an increase in administration costs from



US\$1,714,386 for the six months ended 30 June 2013 to US\$2,394,018 for the six months ended 30 June 2014. The increase of US\$679,632 can be accounted for as follows:

- (i) An increase of US\$284,040 in professional and legal fees reflecting, in the large part, costs incurred in connection with the share placement which took place during the first quarter of 2014 to raise gross proceeds of UK£10 million. This includes approximately US\$57,500 representing the listing charges for these new shares levied by the Toronto Stock Exchange and AIM.
- (ii) An increase of US\$306,869 relating to administration costs incurred in Brazil. During the financial year ended 31 December 2013, whilst the mine site was in remediation and development, the Company treated as a capital cost of the mine certain administrative costs including accounting and IT related personnel costs. For the financial year 2014 and with the start of production operations the Company determined that all costs of administrative personnel not directly located at the Palito mine and acting in the functions of accounting, IT, personnel and including the local Country Manager would be treated as an administrative cost of the business. During the six month period to 30 June 2013, the level of administrative costs capitalised as part of the overall capital development costs of Palito was approximately US\$277,000. During the six months to 30 June 2014, there has also been an increase in the level of administrative staffing and travel expenses required as the Company has commenced production operations at Palito. These personnel are principally involved in the accounting, information technology and personnel departments.
- (iii) Bank fees and advancement charges increased by US\$86,344 for the six month period to 30 June 2014 in comparison to the same period in 2013. This includes a one off structuring fee of US\$50,000 in relation to a trade finance facility entered into by the Company to accelerate receipt of cash flow from the production of Copper/Gold concentrates.
- (iv) Taxes incurred in the period have reduced by US\$75,000 compared with the corresponding six month period in 2013. Provisions in respect of unpaid taxes from prior years have been recorded in the six month period to 30 June 2014 amounting to US\$72,700 (six months to 30 June 2013 - US\$100,200). Taxes relating to the period including property and licence fees were US\$35,000 (six months to 30 June 2013 - US\$82,000).

The increase in depreciation charges of US\$45,664 between the two periods reflects the Company having purchased new plant and equipment during the year as it returned the Palito Mine to production. New underground mining fleet was delivered during the third quarter of 2013 and is being depreciated in accordance with normal practice. It should be noted that the depreciation charges for this particular equipment which amounted to approximately US\$228,000 for the six months to 30 June 2014 are being capitalised as a pre-production cost whilst the mine remained in a commissioning and ramp-up phase. Following the declaration of commercial production with effect from 1 July 2014 the depreciation charges in respect of this mining fleet will in future be expensed through the Income Statement. Depreciation charges in respect of all other assets are already being expensed through the Income Statement.

Share based payments decreased from US\$95,692 for the six month period ended 30 June 2013 to US\$73,427 for the six month period ended 30 June 2014. The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the six months to 30 June 2014 is in respect of options granted between 1 January 2011 and 30 June 2014.

The Company has incurred an expense in the six month period ended 30 June 2014 of US\$230,702 in respect of bonus payments made to senior management personnel in respect of the preceding financial year's performance which is a decrease US\$95,810 in comparison to the payment of US\$326,512 made during the same period of 2013.

The Company recorded a foreign exchange gain of US\$8,876 in the six month period to 30 June 2014 which compares with a foreign exchange loss of US\$231,818 recorded for the six months ended 30 June 2013. These foreign exchange losses 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.

Net interest charges for the six month period to 30 June 2014 were US\$201,483 compared with US\$54,204 for the first six months of 2013. An analysis of the composition of these charges is set out in the table below:



	Quarter ended 30 June 2014	Quarter ended 30 June 2013
	US\$	US\$
Interest on short term loan	154,744	26,630
Interest expense on convertible loan stock	41,473	31,292
Other interest and finance expenses	9,739	5,330
	205,956	63,252
Interest income	(4,473)	(9,048)
	201,483	54,204

Liquidity and Capital Resources

On 3 March 2014, the Company completed a placing of 200 million units at a price of UK£0.05 per unit raising gross proceeds of UK£10 million. The share placement was pursuant to a conditional subscription agreement entered into on 20 December 2013 between the Company and Fratelli Investments Limited ("Fratelli") to subscribe for a minimum of 125 million units and a maximum of 162.5 million units to finance initial development and underground drilling at the Sao Chico project and to provide further working capital to the business during the start-up phase of gold production at Palito. The final form of the investment by Fratelli comprised of (a) a subscription for 125 million units at the Subscription Price of 5 pence per unit; and (b) a further subscription for 27.5 million units at a subscription price of 5 pence per unit. The company procured third party investment not deemed to be acting in concert with Fratelli for 47.5 million units.

Each unit comprises one new ordinary share and one half of a warrant. Each whole warrant entitles the holder to subscribe for one new ordinary share at a price of 6p for a period of two years from the date of issue.

Following completion of the share placement the Company repaid a short-term loan facility of US\$7.5 million plus accrued interest that had been provided to the Company by Fratelli. At the time of repayment a total of US\$5.5 million had been advanced under the loan facility. Interest due under the facility was US\$104,877 as at the date of the repayment of the loan facility.

On 20 December 2013, the Company entered into a secured loan agreement for a total facility of US\$7.5 million with Fratelli Investments Limited ("Fratelli") and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 162.5 million units as part of a placement of up to 200 million units to raise up to UK£10 million. As at 31 December 2013, the Company had drawn down US\$2.75 million of the US\$7.5 million facility. Under the Loan Agreement Fratelli agreed to provide up to US\$7.5 million, to be drawn down in three instalments commencing from the date of the agreement, to provide working capital to the Company and the Group during the start-up phase of gold production at Palito and to finance the initial development at the Sao Chico gold project. The loan was to be repaid by the earlier of 30 April 2014 and the date falling seven days after the funds due from Fratelli under the conditional subscription were received 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 (i) 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 and (ii) the entire share capital of Kenai Resource Ltd a subsidiary of Serabi Gold plc and the 100 per cent shareholder of Gold Aura do Brasil Mineração Ltda, which is the licence holder for the Sao Chico project. 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 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

On 30 June 2014 the Company's net assets amounted to US\$77.35 million which compares to US\$60.03 million as reported at 31 December 2013. This increase reflects the issue of new shares competed in March 2014 which raised gross proceeds of UK£10.0 million (US\$16.65 million).

Non-current assets totalling US\$69.9 million at 30 June 2014 (31 December 2013: US\$60.7 million), are comprised of property, plant and equipment, which as at 30 June 2014 totalled US\$43.4 million (31 December 2013: US\$36.0 million), and includes



US\$21.9 million (US\$20.7 million as of 31 December 2013) attributable to the Palito Mine Property and US\$15.2 million (US\$10.8 million as of 31 December 2013) representing the current expenditure on Projects in Construction incurred on the rehabilitation programme. Deferred exploration costs as at 30 June 2014 totalled US\$26.5 million (31 December 2013: US\$24.7 million) of which US\$15.7 million relates to past exploration expenditures around the Palito Mine and the wider Jardim Do Ouro project area (US\$14.9 million as at 31 December 2013) and US\$10.85 million (31 December 2013: US\$9.8 million) relates to the past exploration costs relating to the Sao Chico gold project.

The Company had a working capital position of US\$9,958,237 at 30 June 2014 compared to US\$2,091,941 at 31 December 2013 as per the table below:

Note	June 2014 US\$	December 2013 US\$	Variance US\$
Current assets			
Cash at bank and in hand	5,920,963	3,789,263	2,131,700
Inventories	4,482,101	3,890,880	591,221
Prepayments	2,358,282	1,264,654	1,093,628
Trade and other receivables	5,278,884	75,977	5,202,907
Total current assets	18,040,230	9,020,774	9,019,456
Total current liabilities			
Trade and other payables	3,675,731	2,871,546	804,183
Interest bearing liabilities	4,241,523	3,790,363	451,160
Accruals	137,739	266,924	(129,185)
Total current liabilities	8,054,993	6,928,833	1,126,160
Working capital	9,985,237	2,091,941	7,893,296
Non-current liabilities			
Interest bearing liabilities	527,168	833,560	(306,392)
Provisions	1,574,875	1,480,665	94,210
Trade and other payables	456,979	410,330	46,649
Total non-current liabilities	2,559,022	2,724,555	165,533

The increase in the cash balances of US\$2,131,700 results from the placing of new shares which was completed on 3 March 2014 raising gross proceeds of UK£10 million. Part of these funds were applied to the repayment of a short term shareholder loan of US\$5.5 million (excluding interest) of which US\$2.75 million was included in working capital at 31 December 2013. Further funds have been used to meet the on-going capital development and working capital expenditures of Palito and the initial development activity for the Sao Chico project.

Whilst the Company has started to generate revenues from the sale of copper/gold concentrate that is produced from the floatation process at the Palito mine, it can only recognise these revenues in accordance with IFRS at such time as the ownership transfers to the Buyer. This is generally considered to be the date on which the copper/gold concentrate leaves Brazil on its way to the Company's designated refinery. In accordance with normal industry practice initial payments from the refinery only occur after specified contractual periods following the arrival of the material with the refinery. As at 30 June 2014 the company had produced 507 wet metric tonnes of copper/gold concentrate of which revenue has been recognised for 400 tonnes which were either en route to or had already been delivered to the refinery. Revenue accrued in respect of these sales was US\$5.2 million all of which was outstanding as at 30 June 2014.

To minimise the effect of these settlement delays on the working capital of the Company, it has agreed a facility with a precious metals trading group whereby the Company can secure an advance payment for the copper/gold concentrate that has left Brazil secured against the debt due from the refinery. As at 30 June the amount advanced under this facility was US\$3,188,179.



The increase in the Company's cash at bank position together with the amounts due for sales of copper/gold concentrate is the principal reason for the improvement in the working capital position of the company. Some of the other items which have had an impact on the Companies working capital position include the following.

- (i) The levels of inventories have increased by US\$0.6 million compared with 31 December 2013. Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 June 2014 being US\$1.12 million have increased by US\$0.23 million compared the holdings at 31 December 2013 which had a value of US\$0.89 million. The Company acquires stocks of certain materials including reagents and explosives and other consumables in quantities that are sufficient for up to 3 to 4 months consumption requirements to minimise freight and other logistics costs and improve pricing. Accordingly stock levels at any time will reflect variations potentially caused by the timing of delivery of items into inventory. In addition the Company is in the final stages of completing the remediation of the CIP plant and has been acquiring reagents and consumables in preparation for the commissioning and operation of this additional process circuit. Inventories of work in progress comprising mined ore, material in the course of processing or product stocks awaiting sale, have increased by US\$0.4 million between 31 December 2013 and 30 June 2014. At 31 December 2013, the Company valued the stockpile of ore that had been established on surface in preparation for processing at US\$3.0 million. Whilst this stockpile has been depleted during the six months to 30 June 2014, from approximately 25,000 tonnes at 31 December 2013 to approximately 13,000 tonnes, at the same time the Company had on hand at 30 June 2014 an inventory of approximately 107 wet metric tonnes of copper/gold concentrate either at Palito or en-route to the port of Belem from where this material is shipped to a refinery in Europe. The valuation of US\$1.63 million ascribed to this finished goods inventory accounts for most of the increase in inventory value at 30 June 2014, whilst the value of the ore stockpile has reduced by US\$1.27 million over the same period.
- (ii) The level of prepayments has increased by US\$1.09 million from US\$1.26 million at 31 December 2013 to US\$2.36 million at 30 June 2014. The prepayments represent:
 - a. Prepaid taxes in Brazil amounting to US\$1.62 million, (31 December 2013: US\$1.10 million), 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 has increased by approximately US\$0.52 million in comparison to the prior year due to an increase in the level of social taxes the Company has prepaid at 30 June 2014.
 - b. Supplier down-payments reflecting the timing and 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 (including down payment on new machinery) or items being fabricated of US\$653,104 (31 December 2013 : US\$228,000).
- (iii) Receivables of US\$5.3 million as at 30 June 2014 have increased by US\$5.2 million compared to the balance of US\$76,000 at 31 December 2013. As noted already this is attributable to the amounts owed of US\$5.2 million in respect of revenue due on shipments of copper/gold concentrate that have departed from Brazil during the first six months of 2014.
- (iv) Trade and other payables amounting to US\$3,675,731 at 30 June 2014 compare with an amount owed by the Company of US\$2,871,546 at 31 December 2013, an increase of US\$804,185. The items comprising this total balance are:
 - a. Trade Creditors have increased by US\$886,276 in comparison to 31 December 2013 which is partly due to the increase in activity and operating equipment being utilised for mine development as well as the actual timing of settlement payments to trade creditors;
 - b. The standard wage accrual and social welfare accrual have decreased by US\$79,931 from 31 December 2013 to 30 June 2014. This decrease results from the settlement during the first quarter of 2014 for a liability for the thirteenth salary which Brazilian employees are entitled to receive. The cost is accrued during the year and final settlement and taxes are paid in December and January;
- (v) Interest bearing liabilities due within one year increased by US\$451,160. During the period the Company settled a short term shareholder loan of which US\$2.75 million was outstanding at 31 December 2013. The loan including all accrued interest was repaid in March 2014.



It has received advances of US\$3.19 million against revenue accrued for the sale of copper/gold concentrate production through a facility with a precious metals trading group.

The Company acquired certain assets during 2013 under finance leases. At 30 June 2014 the Company had liabilities under these financial leases of US\$557,617 due within one year (31 December 2013: US\$600,280), and a further US\$527,168 due in more than one year. The leases are for a term of three years and carry interest at a rate of 6.45% per annum.

Also included within interest bearing liabilities is US\$494,728 including accrued interest (December 2013: US\$440,083) attributable to £300,000 of convertible loan stock 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.

(vi) Non-current liabilities include the amount of US\$1,574,875 (December 2013: US\$1,480,665) in respect of provisions including US\$1,214,000 (December 2013: US\$1,141,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity. The increase in the liability of US\$73,000 is due to a movement in the exchange rate. The Company undertook a review of the underlying cost assumptions during 2013.

The Company does not have any asset backed commercial paper investments. As the Company has during 2014 generated only limited 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.

On 3 March 2014, the Company completed a further placing of shares and share purchase warrants that raised gross proceeds of UK£10.0 million. These funds are to be used to provide working capital to the business during the start-up phase of the Palito operations and the next stage of development of the Sao Chico project. Commissioning of the process plant at Palito started on 13 December 2013 and the production rates have been increasing since that date. The final major stage of the remediation process will be the rehabilitation of the Carbon-In-Pulp circuit. The Company plans to start commissioning of this gold recovery process circuit during August 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.



Condensed Consolidated Statements of Comprehensive Income

	For the three months ended 30 June		For the six months ended 30 June	
(expressed in US\$)	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
CONTINUING OPERATIONS				
Revenue	—	—	—	—
Operating expenses	—	—	—	—
Gross loss	—	—	—	—
Administration expenses	(1,482,040)	(805,633)	(2,394,018)	(1,714,386)
Share based payments	(43,840)	(47,846)	(73,428)	(95,692)
Depreciation of plant and equipment	(140,322)	(112,974)	(266,305)	(220,641)
Operating loss	(1,666,202)	(966,453)	(2,733,751)	(2,030,719)
Foreign exchange gain/(loss)	18,794	23,400	8,876	(231,818)
Finance expense	(25,802)	(20,753)	(205,956)	(63,252)
Investment income	4,473	6,291	4,473	9,048
Loss before taxation	(1,668,737)	(957,515)	(2,926,358)	(2,316,741)
Income tax expense	—	—	—	—
Loss for the period from continuing operations ^{(1) (2)}	(1,668,737)	(957,515)	(2,926,358)	(2,316,741)
Other comprehensive income (net of tax)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	1,797,215	(4,024,661)	3,717,965	(3,415,186)
Total comprehensive income/(loss) for the period ⁽²⁾	128,478	(4,982,176)	791,607	(5,731,927)
Loss per ordinary share (basic and diluted) ⁽¹⁾	(0.25c)	(0.27c)	(0.50c)	(0.69c)

(1) All revenue and expenses arise from continuing operations.

(2) The Group has no non-controlling interests and all losses are attributable to the equity holders of the Parent Company.



Condensed Consolidated Balance Sheets

	As at 30 June 2014	As at 30 June 2013	As at 31 December 2013
(expressed in US\$)	(unaudited)	(unaudited)	(audited)
Non-current assets			
Deferred exploration costs	26,508,924	16,375,076	24,659,003
Property, plant and equipment	43,412,368	30,228,704	36,008,318
Total non-current assets	69,921,292	46,603,780	60,667,321
Current assets			
Inventories	4,482,101	784,844	3,890,880
Trade and other receivables	5,278,884	1,541,830	75,977
Prepayments and accrued income	2,358,282	1,437,737	1,264,654
Cash and cash equivalents	5,920,963	13,993,628	3,789,263
Total current assets	18,040,230	17,758,039	9,020,774
Current liabilities			
Trade and other payables	3,675,731	2,823,871	2,871,546
Interest bearing liabilities	4,241,523	--	3,790,363
Accruals	137,739	628,328	266,924
Total current liabilities	8,054,993	3,452,199	6,928,833
Net current assets	9,985,237	14,305,840	2,091,941
Total assets less current liabilities	79,906,529	60,909,620	62,759,262
Non-current liabilities			
Trade and other payables	456,979	119,309	410,330
Provisions	1,574,875	1,487,279	1,480,665
Interest bearing liabilities	527,168	374,030	833,560
Total non-current liabilities	2,559,022	1,980,618	2,724,555
Net assets	77,347,507	58,929,002	60,034,707
Equity			
Share capital	61,668,212	52,773,993	60,003,212
Share premium	69,119,848	54,479,151	54,479,151
Option reserve	2,214,909	2,118,596	2,330,789
Other reserves	931,144	427,615	789,076
Translation reserve	(7,053,208)	(8,021,497)	(10,771,173)
Accumulated loss	(49,533,398)	(42,848,856)	(46,796,348)
Equity shareholders' funds	77,347,507	58,929,002	60,034,707

The interim financial information has not been audited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. Whilst the financial information included in this announcement has been compiled in accordance with International Financial Reporting Standards ("IFRS") this announcement itself does not contain sufficient financial information to comply with IFRS. The Group statutory accounts for the year ended 31 December 2013 prepared under IFRS as adopted in the EU and with IFRS and their interpretations adopted by the International Accounting Standards Board have been filed with the Registrar of Companies following their adoption by shareholders at the last Annual General Meeting. The auditor's report on these accounts was unqualified but did contain an Emphasis of Matter with respect to the Company and the Group's dependency on its ability to successfully re-commission and commence commercial gold production at the Palito Mine in order to continue as a going concern. The auditor's report did not contain a statement under Section 498 (2) or 498 (3) of the Companies Act 2006.



Condensed Consolidated Statements of Changes in Shareholders' Equity

(expressed in US\$)	Share capital	Share premium	Share option reserve	Other reserves ⁽¹⁾	Translation reserve	Accumulated loss	Total equity
(unaudited)							
Equity shareholders' funds at 31 December 2012	31,416,993	50,182,624	2,019,782	780,028	(4,606,311)	(40,532,115)	39,261,001
Foreign currency adjustments	—	—	—	—	(3,415,186)	—	(3,415,186)
Loss for the period	—	—	—	—	—	(2,316,741)	(2,316,741)
Total comprehensive income for the period	—	—	—	—	(3,415,186)	(2,316,741)	(5,731,927)
Issue of new ordinary shares for cash	21,357,000	4,182,600	—	88,800	—	—	25,628,400
Costs associated with issue of new ordinary shares for cash	—	(327,286)	—	—	—	—	(327,286)
Warrants lapsed in period	—	441,213	—	(441,213)	—	—	—
Share option expense	—	—	98,814	—	—	—	98,814
Equity shareholders' funds at 30 June 2013	52,773,993	54,479,151	2,118,596	427,615	(8,021,497)	(42,848,856)	58,929,002
Foreign currency adjustments	—	—	—	—	(2,749,676)	—	(2,749,676)
Loss for the period	—	—	—	—	—	(3,947,492)	(3,947,492)
Total comprehensive income for the period	—	—	—	—	(2,749,676)	(3,947,492)	(6,697,166)
Issue of new ordinary shares for acquisition	7,229,219	—	—	361,461	—	—	7,590,680
Costs associated with issue of new ordinary shares for cash	—	—	—	—	—	—	—
Share option expense	—	—	212,193	—	—	—	212,193
Equity shareholders' funds at 30 December 2013	60,003,212	54,479,151	2,330,789	789,076	(10,771,173)	(46,796,348)	60,034,707
Foreign currency adjustments	—	—	—	—	3,717,965	—	3,717,965
Loss for the period	—	—	—	—	—	(2,926,358)	(2,926,358)
Total comprehensive income for the period	—	—	—	—	3,717,965	(2,926,358)	791,607
Issue of new ordinary shares for cash	1,665,000	14,765,000	—	220,000	—	—	16,650,000
Costs associated with issue of new ordinary shares for cash	—	(202,235)	—	—	—	—	(202,235)
Warrants lapsed in period	—	77,932	—	(77,932)	—	—	—
Share options lapsed in period	—	—	(189,308)	—	—	189,308	—
Share option expense	—	—	73,428	—	—	—	73,428
Equity shareholders' funds at 30 June 2014	61,668,212	69,119,848	2,214,909	931,144	(7,053,208)	(49,533,398)	77,347,507

(1) Other reserves comprise a merger reserve of US\$361,461 (2013: US\$ 361,461), a warrant reserve of US\$308,801 (December 2013: US\$166,733) and the initial fair value for the equity component of the convertible loan stock of US\$260,882 (2013: US\$ 260,882).



Condensed Consolidated Cash Flow Statements

	For the three months ended		For the six months ended	
	30 June 2014	2013	30 June 2014	2013
(expressed in US\$)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating activities				
Operating loss	(1,668,737)	(957,515)	(2,926,358)	(2,316,741)
Depreciation – plant, and equipment	140,322	112,974	266,305	220,641
Net financial expense	2,535	(8,938)	192,607	286,022
Option costs	43,840	47,846	73,428	95,692
Interest paid	5,155	(5,100)	(154,753)	(112,705)
Foreign exchange loss	(148,423)	(60,528)	4,022	(365,844)
Changes in working capital				
(Increase)/ decrease in inventories	1,426,974	(66,201)	(330,233)	(127,788)
(Increase)/decrease in receivables, prepayments and accrued income	(5,106,354)	(2,216,686)	(6,164,899)	(2,383,622)
Increase/(decrease) in payables, accruals and provisions	442,743	710,652	495,381	1,133,999
Net cash flow from operations	(4,861,947)	(2,443,496)	(8,544,500)	(3,570,346)
Investing activities				
Sales revenues recognised to date	4,566,868	—	5,220,713	—
Capitalised pre-operating costs	(6,619,822)	—	(8,132,926)	—
Purchase of property, plant and equipment and projects in construction	(1,531,155)	(3,705,076)	(2,291,845)	(5,784,467)
Other development expenditures	(24,207)	—	(38,160)	—
Exploration and development expenditure	(349,549)	(92,796)	(724,508)	(203,933)
Interest received	—	6,291	—	9,048
Net cash outflow on investing activities	(3,957,865)	(3,791,581)	(5,966,726)	(5,979,352)
Financing activities				
Issue of ordinary share capital	—	—	16,650,000	25,628,400
Payment of share issue costs	—	(45,627)	(202,235)	(327,286)
Repayment of short term loan facility	—	—	(5,500,000)	(4,500,000)
Drawdown of short term loan facility	—	—	2,750,000	—
Receipts from trade finance facility	3,188,178	—	3,188,178	—
Payment of finance lease liabilities	(109,350)	—	(255,150)	—
Net cash inflow/(outflow) from financing activities	3,078,828	(45,627)	16,630,793	20,801,114
Net (decrease)/ increase in cash and cash equivalents	(5,740,984)	(6,280,704)	2,119,567	11,251,416
Cash and cash equivalents at beginning of period	11,616,469	20,222,386	3,789,263	2,582,046
Exchange difference on cash	45,478	51,946	12,133	160,166
Cash and cash equivalents at end of period	5,920,963	13,993,628	5,920,963	13,993,628