SERABI GOLD

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months periods ended 30 September 2014

14 November 2014

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Introduction

This Management's Discussion and Analysis ("MD&A") dated 14 November 2014 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 2014 and also read in conjunction with the Company's annual report and audited consolidated financial statements and it's MD&A for the twelve month period ended 31 December 2013.

For further information on the Company, reference should be made to its public filings (including its most recently filed annual information form ("AIF") which is available on SEDAR at www.sedar.com. Technical reports, press releases and other information including the AIF are also available on the Company's website www.serabigold.com.

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 development 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 Mineraçăo S.A. and Gold Aura do Brasil Mineraçăo Ltda.

The Company's primary interests are the wholly owned Palito Gold Mine ("Palito") and the Sao Chico Gold Project ("Sao Chico") both of which are located in the Tapajos region of northern Brazil. These two properties lie within the larger Jardim do Ouro Gold Project ("JDO Project") which comprises a series of contiguous exploration licences of approximately 43,000 hectares, 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.

Work commenced at Palito in October 2012 to remediate and develop the existing underground mine and renovate the process plant with a view to commencing gold production by the end of 2013. The commissioning of the process plant started in December 2013 and during the first half of 2014 the planned production ramp-up has been on-going, with the first consignments of gold/copper concentrate transported from the mine in February 2014. On 23 July 2014, the Company declared that Palito had achieved commercial production with effect from 1 July 2014. The Palito Mine is fully permitted and has a mining licence covering 1,150 hectares which was issued in October 2007.

Sao Chico is a high-grade deposit located approximately 25 kilometres by existing road from Palito. The Company intends that ore mined from Sao Chico will be trucked to Palito and be processed using the existing gold recovery plant at Palito. Work commenced early in 2014 on earthworks to allow the company to expose the bedrock and construct a mine portal. The portal was established shortly prior to the end of September 2014 and during the fourth quarter of 2014 the decline ramp will be advanced towards the first two underground development levels.

The Company holds further exploration licences within the Tapajos region covering approximately 38,000 hectares. Exploration work undertaken by the company on these licences is at an early stage.

On 3 March 2014, the Company completed a placement of shares and warrants to raise gross proceeds of UK£10 million. These proceeds are being used in part to finance the next stage of evaluation and development of the Sao Chico project in advance of a decision to enter into commercial mining operations. On 26 September 2014, the Company entered into a credit facility for US$8 million with the Sprott Resource Lending Partnership to provide development and working capital for Palito and Sao Chico.

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.

Operational Highlights – For three and nine month periods ending 30 September 2014

- Gold production of 5,002(1) ounces for the third quarter 2014
- Cash cost for third quarter 2014 of US$1,002 per ounce. Estimated cash cost for fourth quarter 2014 of US$875 to US$925.
- Total mined ore production for third quarter of 32,454 tonnes @ 11.77 g/t Au.
- Total milled production for third quarter of 24,273 tonnes @ 9.94 g/t Au.
- Approximately 4,900 metres of underground horizontal development has been completed in the nine months to 30 September 2014.
- Surface ore stockpile at 30 September 2014 of approximately 20,000 tonnes @ over 7.0 g/t Au.
- At 30 September 2014 more than 54,000 tonnes of flotation tailings stockpiled and awaiting cyanidation treatment, with a gold grade in excess of 2.2 g/t.

Financial and Corporate Highlights – For three and nine month periods ending 30 September 2014

- Commercial production at Palito declared with effect from 1 July 2014 and this third quarter is the first quarter to report revenues and operating costs.
- Gold sales in the third quarter of 3,775 ounces at a realised price of US$1,261.
- Equity financing closed on 3 March 2014 raising gross proceeds of UK£10 million.
- US$8.0 million loan facility completed with Sprott Resource Lending Partnership on 26 September 2014 of which US$3 million draw-down at 30 September 2014.
- Cash holdings at 30 September 2014 of US$6.7 million.
- Over 11,500 ounces of contained gold held in inventory at 30 September 2014 including 3,800 ounces in copper/gold concentrate awaiting sale.

Post Period Highlights

- The first gold pour from the Carbon in Pulp ("CIP") plant was completed on 31 October 2014.
- Gold production for October 2014 of approximately 2,900(1) ounces.
- Mined ore production of 8,725 tonnes @ 9.00 g/t Au for October 2014.
- Mill throughput of 9,112 tonnes @ 10.11 g/t Au for October 2014.

(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.

Production guidance

- With the commissioning of the CIP plant completed and the planned throughput of ore, the Company is projecting that production for the fourth quarter of 2014 will be

in the range of 8,500 to 9,500 ounces at an estimated cash cost of US$875 to US$925 per ounce.
- Full year production is anticipated to be 19,000 to 20,000 ounces.

Outlook and Strategy

Palito

The third quarter of 2014 which also represented the first quarter of commercial production continued the trend of increasing gold production through 2014. This has continued into October 2014, when with the Carbon in Pulp ("CIP") CIP plant coming on-stream, production for that month has been in excess of approximately 2,900 ounces with the first pouring of gold recovered from the CIP plant gold pour being completed on 31 October 2014. During the third quarter of 2014 the gold recovery circuit remained limited to milling, flotation (producing a high grade copper/gold concentrate) and gravity separation (producing a high grade gold concentrate) of the flotation tailings.

A second ball mill was acquired during the second quarter of 2014 and, following a period of remediation, started operating in late July. Whilst primarily acquired to provide a second processing line 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. This additional capacity along with continued optimisation of the process plant has contributed to the increased gold production in the third quarter compared with previous quarters.

In the latter part of the quarter commissioning of the Carbon in Pulp ("CIP")CIP leaching plant was completed and the tailings produced following flotation and gravity treatment ("Flotation Tailings") now pass directly to the CIP circuit allowing the recovery of a significant portion of the residual gold contained in these Flotation Tailings and it is anticipated that this will increase overall gold recovery above 90%. Following a period of some three weeks whilst it became fully loaded with gold, the first batch of loaded carbon was drawn off in mid-October and the first elution and gold pour completed on 31 October 2014.

Flotation Tailings that have been produced from the processing operations, since these commenced in January 2014 and prior to the completion of the CIP process circuit, have been stockpiled and are now being prepared for re-treatment in the leaching tanks. At the end of September 2014, there was approximately 54,000 tonnes of this stockpiled material with a contained gold content estimated at approximately 4,000 ounces. It is planned that this material will be processed through the CIP plant over the next six to eightnine months and this will provide a short term boost to gold production over the remainder of 2014 and during the first half of 2015.

Short delays in increasing the milling rates to the levels that the Company had initially hoped to achieve and the commissioning of the CIP plant meant that production in the third quarter was slightly below the company's expectations. However tThe Company anticipates a strong final quarter for 2014. The commissioning of the CIP plant is expected to increase gold recoveries to over 90% which combined with the increased processing capacity provided by the second ball mill and the commencement of the treatment of the stockpiled flotation tailings accumulated over the past nine months, will increase the plant throughput and production significantly. Short delays in increasing the milling rates to the levels that the Company had initially hoped to achieve and the commissioning of the CIP plant meant that production in the third quarter was slightly below the company's expectations. The Company expects that total gold production for 2014 will be between 19,000 and 20,000 ounces. The Company has however established a 20,000 tonne surface stockpile of coarse ore with a grade of over 7.0 g/t in addition to the 55,000 tonnes of Flotation Tailings. It therefore has stockpiles of over 8,000 ounces of contained gold at surface and fully expects any production shortfalls in 2014 to be quickly recovered in the first quarter of 2015.

Sao Chico

Development work at Sao Chico has progressed well during the quarter and shortly prior to the end of the September 2014, the mine portal was established and underground mine development has now commenced. The decline ramp 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 known strike limits to the East and West, currently estimated as 500 development metres per level. At the time of writing the ramp had been advanced for approximately 50 metres.

The Company hopes to generate an updated geological resource for Sao Chico in the first quarter of 2015. To facilitate this, the Company hopes to commence a surface drill programme during the fourth quarter of this year. During the course of excavations of the 20 metres of deep unconsolidated saprolite that overlays the bedrock, the Company identified a further five vein structures lying to the south of the previously known extent of the mineralisation at Sao Chico. The Company has always considered that the potential for identifying a series of parallel vein structures at Sao Chico was high and considers that these discoveries in combination with the results of the drilling undertaken in 2013 and management's expectations for the planned 2014 drilling programme will serve to demonstrate the significant potential that exists for further resource growth at Sao Chico.

The Final Exploration Report ("FER") was completed and submitted to the Departamento Nacional de Produção Mineral ("DNPM") in February 2014, representing the first part of the process of transforming the exploration license into a mining license. Work is now underway on the preparation of the Plano de Approveimento 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.

Palito Gold Mine – Para State, Brazil

<u>History</u>
The Palito gold mine is wholly owned by the Company, through its 100% owned subsidiary Serabi Mineraçăo S.A. The Palito mine and infrastructure 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-east by paved road of the city of Itaituba which is also the municipal capital.

Palito is a high-grade, narrow vein, underground mine which was operated by the Company from late 2003 until the end of 2008. Between the beginning 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.

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

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

Mineral Resources	Tonnage	Gold (g/t Au)	Copper (% Cu)	Contained Gold (Ounces) (1)	Contained Gold Equivalent (Ounces) (2)
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.

(3) Addition errors arise through rounding differences.

Since placing the operation on care and maintenance in 2008, the Company kept as much of the infrastructure intact as possible. This included a 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 and 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.

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 was issued on 29 June 2012. On 17 January 2013 a placement of new shares raising gross proceeds of UK£16.2 million was completed to finance the development of the project in line with the plans and scope outlined in the PEA.

<u>Palito operational review for the first nine months of 2014</u>

By the end of December 2013 the Company had established a Run of Mine ("ROM") stockpile of ore of approximately 25,000 with an average grade of over 8.00 grams per ton ("g/t"). Initial commissioning of the gold process plant commenced on 13 December 2013. For the first quarter of 2014 the operation was in a planned ramp-up phase and during the second quarter the Company continued to build upon this successful start-up targeting long-term plant throughput rates of 7,500 tonnes per month. On 23 July 2014 the Company announced that the Palito Mine had achieved commercial production with effect from 1 July 2014. The total resource at Palito comprises 25 high grade, sub vertical, narrow vein ore-bodies, of which eight are in the current mine plan. These eight veins are split between the Palito Main zone and the Palito West sectors. The veins are accessed and developed by a series of lode drives on levels set 30 vertical metres apart. The highly competent ground conditions allow open stope mining to be used.

During the first quarter of 2014, ore production from stopes began with mining from the first three stopes, and three more in preparation. During the second quarter the preparation of these additional three stopes was completed and ore production from stopes slowly increased as the swell was drawn off. At the end of June 2014, management was satisfied that mine development was sufficiently advanced, with a number of future production stopes accessible, that it could from that time maintain an optimal balance between continued mine development and ore production from stopes. For the first six months of 2014 development ore had generated over 70% of the mined ore tonnes with a significant shift in the production balance being expected in the second half of 2014 with stoping now contributing the majority of the mined ore tonnage.

Underground development mining has continued well with almost 4,894 metres of horizontal development completed to the end of September 2014 (1,594 metres in Q3 being 32.6% of the total), of which, 2,158 metres (958 metres in Q3 being 44.4% of the total) has been ore development. Production activity is now in eight mining areas, three sectors in the Palito West area and five sectors in the Palito Main Zone. The main ramp has continued to be deepened and has now reached the 54 metre relative level ("mRL"), and is advancing to the 24 mRL which is expected to be reached by the end of November 2014.

Mining operations during the third quarter exceeded plan and the company completed approximately 1,594 metres of development being 102% of the planned rates for the quarter. Production of ore was 32,454 tonnes being 144% of planned rates reflecting improved payability of the ore zones that were in development and production during the quarter. As a result the production from the mine has exceeded plant capacity and the by the end of the third quarter, the surface stockpile of coarse ore totalled approximately 20,000 tonnes, with a grade of over 7.0 g/t.

In the plant, processing rates have continued to improve having averaged approximately 8,000 tonnes per month during the third quarter. Throughput rates have shown consistent improvement having averaged 4,700 tonnes per month during the first quarter, increasing to an average of over 6,200 tonnes in the second quarter. The Company deliberately elected to process lower grade stockpiled material during the initial period of the first quarter of 2014 whilst the plant was being commissioned and from mid-March feed grades were increased. Feed grades for the third quarter averaged 9.84 g/t an increase of 23% over the preceding quarter. Gold production for the third quarter was approximately 5,002oz(1) an increase of 54% over the preceding quarter, which itself had been a 41% improvement over the first quarter of 2014. For the first nine months of 2014 the gold recovery process has been limited to flotation and gravity concentration only and as a result gold recoveries to date are below the longer term expectations for the Palito operation. The tailings from flotation and gravity processing have been stockpiled for further processing through the CIP plant during 2014 and 2015.

The commissioning of the CIP plant was completed shortly before the end of the third quarter a delay of about a month compared with management's previous expectation. The first batch of gold loaded carbon was withdrawn from the circuit during mid-October and the first elution and gold pour completed on 31 October 2014. The introduction of the CIP plant will allow the operation to increase gold recoveries and the Company anticipates, based on past performance and test-work, that gold recoveries on excess of 90% will be achieved.

A second ball-mill acquired in March 2014 became operational during the second half of July 2014 following a period of remediation. It was been purchased in anticipation of establishing a second process line for ore from a future Sao Chico operation, however, in the near term it will provide additional milling capacity to process some of this stockpiled material and maximise short-term production.

SUMMARY PRODUCTION STATISTICS FOR THE NINE MONTHS TO 30 SEPTEMBER 2014

		Quarter 1	**Quarter 2**	**Quarter 3**	**Year to date**
Horizontal development	Metres	1,491	1,804	1,594	4,889
Mined ore	Tonnes	9,666	9,072	32,454	51,192
	Gold grade (g/t)	5.03	10.55	11.77	10.28
Milled ore	Tonnes	14,050	18,645	24,273	56,968
	Gold grade (g/t)	6.91	8.08	9.94	8.58
Gold production (1)	Ounces	2,300	3,242	5,002	10,544
Total gold sales				3,775	
Average realised price				$1,261	
Total cash cost of production (per ounce)				$1,002	

(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.

As the first nine months of 2014 have been the first period in which the plant has been operational there is no comparative information available for the equivalent period of 2013. The third quarter is the first quarter of operation following the declaration of commercial production effective from 1 July 2014.

The mining fleet at Palito is relatively new and comprises three 20 tonne trucks, three underground drill rigs and four underground loaders. A fourth 20 tonne truck is deployed at Sao Chico on the preparatory works involved in the development of this deposit. The Company also owns various other mobile equipment including three front end loaders, a bulldozer and other smaller vehicles. Whilst additional equipment purchases are planned during the year these will primarily be dedicated to Sao Chico and from time to time the Company will transfer equipment between the two locations to supplement capacity as required.

Sao Chico Gold Project – Para State, Brazil

History

Sao Chico, acquired by the Company in July 2013 as part of the acquisition of Kenai Resources Ltd ("Kenai"), is represented by a single exploration licence area (AP 12836). Sao Chico is a small but very high grade gold deposit some 25km from Palito. The Sao Chico exploration licence was in force until 14 March 2014 and the Company, prior to its expiry, commenced the process of converting the concession to a full mining licence. A trial mining licence has also been issued for the property which expired 22 April 2014, and the Company is also in the process of extending this licence for a further period.

Sao Chico is a historic garimpo mining operation but exploration over the area has been limited. Prior to the acquisition of the project by the Company, 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 the acquisition of the property by Serabi, the Company has undertaken 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 was supplemented by ground geophysics, and a further 1,120 metre diamond drilling to test initial geophysical anomalies. The results from the ground geophysics have established other potential areas of interest within the Sao Chico exploration licence but the Company will undertake other confirmatory exploration work, including geochemistry, over these identified anomalies before embarking on any further drilling activity. 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	21,423	29.14	20,006
Measured and Indicated	26,487	29.77	25,275
Inferred	85,577	26.03	71,385

- 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 mineralisation.

Sao Chico operational review for the first nine months of 2014

Work commenced during February 2014 on the preparatory earth-works required to expose the bed-rock, and thereafter establish the mine portal. Whilst these earth-works were started during the rainy season it had been anticipated that they would take three months to complete, based on the assumption that the rainy season would, as usual, end in late March. Initial progress was good but the heavy rains continued until early June and as the ground became increasingly saturated, excavation conditions became extremely difficult and significantly worse than had been anticipated. With the onset of hot and dry conditions from early June, the ground rapidly dried out and work to complete the excavation of the 20 metres of the deep unconsolidated saprolite that overlays the bedrock was restarted and was completed during the third quarter.

Shortly before the end of September 2014, the first excavations to establish the mine portal were completed and work is now progressing to advance the decline ramp underground, towards the first ore zone which management anticipates will be reached during November 2014. The decline ramp is being driven at a 12% gradient initially to two development levels, L1 and L2, respectively at the 30 vertical metre and 60 vertical metre intervals from surface. The development levels will follow the principal structure, known as the Main Vein, to its strike extents to the East and West, which is expected to represent approximately 500 development metres per level. This work will allow the Company to better evaluate the continuity and payability of the mineralisation. It is expected that any ore derived from development mining during 2014 will be transported to the Palito plant for processing.

Additional drainage and "water run off" areas are being constructed to ensure the long term stability of the cut-back and protect the roadway that is the access point to the Sao Chico mine. These features should help to ensure that a similar period and level of prolonged rainfall will not affect movement around and access to the mine.

The Company had planned to undertake an underground drilling campaign from within the development drives to identify parallel structures and to supplement this with additional surface drilling. Given the delays encountered to date and the Company's desire to generate an updated geological resource in the first quarter of 2015, management now plan to undertake the required additional drilling from surface and hope that this surface drill programme can commence during the fourth quarter of 2014. The Company will use this updated mineral resource to develop a definitive and robust mine plan.

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

Jardim do Ouro Exploration

The Jardim do Ouro exploration area ("JDO Project") covers a total area of approximately 41,000 hectares, incorporating the Palito mining licence granted on 23 October 2007 covering an area of 1,150 hectares, with three exploration licences and five 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 recent focus of the Company has been on the identification and development of satellite ore deposits located in close proximity to Palito. The Company completed two air-borne electro-magnetic ("VTEM") surveys in 2008 and 2010 over a total area of 14,500 hectares. From these surveys the Company identified a number of geophysical anomalies which it considers worthy of further investigation. During 2010 and 2011 the Company undertook a 12,000 metre drilling campaign over nine of these anomalies which resulted in the discovery of the Palito South, Currutela and Piaui prospects.

<u>Palito – Near Mine Exploration</u>

The underground development of Palito is being driven towards the Palito South area but the Company has no plans during 2014 to undertake further exploration on either this or the Currutela and Piaui prospects or undertake further investigation of other anomalies. Once adequate cash-flow is being generated from production operations, the Company intends to use some of this cash flow to advance these exploration opportunities.

Sao Chico Exploration

Sao Chico is located in the South West corner of the JDO Project. During 2013 the Company completed a 6,000 metre drilling programme which more than doubled the known 150 metre strike extension of the principal mineralised structure ("the Main Vein") at Sao Chico and confirmed the presence of a number of parallel mineralised structures. The development work planned during 2014 will further evaluate the Main Vein and the immediate parallel structures. At this time no additional work is planned in the immediate area around Sao Chico although the Company has identified a number of other prospective zones. Once adequate cash-flow is being generated from production operations, the Company intends to use some of this cash flow to advance these exploration opportunities.

Other Exploration Prospects

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 during the past 12 months, and has currently not budgeted for any exploration activity during the next 18 months.

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 2014 compared to the three month period ended 30 September 2013

The three month period ended 30 September 2014 represents the first financial period following the announcement by the Company on 23 July 2014 that the Palito Mine had achieved commercial production effective as of 1 July 2014. As the operation was in a construction phase during the same period in 2013 there were no sales revenues or operating expenses relating to gold production operations reported in the Income Statement for the three month period ended 30 September 2013 and all costs related to the Palito mine during this three month period ended 30 September 2013 were capitalised.

The Company has recognised a gross profit for the quarter of US$1,874,791 (3 months to 30 September 2013 : US$ nil) and an operating loss for the three month period ended 30 September 2014 of US$362,199 in comparison to a loss of US$1,255,833 for the 3 months ended 30 September 2013. In addition to recording on its Income Statement its first revenues and operating costs since the declaration of commercial production that was effective from 1 July 2014 , the Company has also recorded an amortisation charge in respect of its Mine Property of US$677,555 in the period (3 months to 30 September 2013 : US$ nil). This charge is calculated by reference to the production of period compared with the total expected recoverable ounces during the currently anticipated life of the Palito mine.

The gross profit of US$1,874,791 can be analysed as per the table below:

Revenue from Ordinary Activity	**US$**	**US$**
Gold Concentrate	4,427,515	
Gold Bullion	333,382	
Copper	468,407	
Silver	24,019	
Total Sales		**5,253,323**
Costs of Operation		
Operational Costs	2,459,679	
Royalties	75,612	
Shipping Costs	647,143	
Treatment Charges	196,098	
Total Operating Costs		**3,378,532**
Profit from Operations		**1,874,791**

The Company can only recognise revenues in accordance with IFRS at such time as the risks and rewards of ownership of the goods transfers to the buyer. This is considered to be the date on which the copper/gold concentrate arrives in Hamburg where the Company's designated refinery is located.

During the third quarter of 2014 the Company recognised total sales of US$5,253,323. The sales can be separated between sales of copper/gold concentrate of US$4,919,941 and sales of gold bullion of US$333,382. During the three months to 30 September 2014 the company had produced 476 wet metric tonnes of copper/gold concentrate but revenue has only been recognised for 340 tonnes which had been delivered to the refinery in Hamburg. The unsold material is held as inventory.

Operating costs of US$2,459,679 relate to all mining and plant processing costs, as well as all general site costs incurred at Palito during the period to produce the final product sold. Labour costs for the 3 month period amounted to approximately US$1.3 million, mining consumables including maintenance costs amounted to US$0.73 million and plant consumables amounted to US$0.18 million. General site costs less than US$0.25 million make up the balance of the costs.

Royalty payments of US$75,612 comprise statutory levies payable in Brazil. Rates are uniform across all mining operations and currently comprise a 1% royalty on gold production and a 2% royalty on copper production.

Shipping costs of US$647,143 includes all domestic road and river freight in Brazil from the Palito mine to the international port at Belem and also international sea freight from Belem to Hamburg in Germany.

Treatment Charges of US$196,098 include US$179,484 relating to the treatment of the copper concentrate and levied by the refinery in Hamburg, Germany and US$16,614 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Company.

The gross profit of US$1,874,791 was offset by a combined increase of other operating costs totalling US$981,157 comprising administration expenses (an increase of US$163,433), share based payments (an increase of US$28,160), depreciation (an increase of US$111,999) and mine asset amortisation (an increase of US$677,555).

The increase in administration expenses of US$172,266 for the 3 month period ended 30 September 2014 in comparison to the three month ended 30 September 2013 is due to:

(i) An increase of US$207,866 in professional and legal fees which is primarily due to one off professional costs totalling US$365,000 directly related to the legal and other fees associated with securing the US$8 million credit facility from the Sprott Resource Lending Partnership LLP ("Sprott"), (including a US$75,000 fee to the broker for organising the facility, US$250,000 in transactions fees for the initial US$3 million drawn down, and US$40,000 initial arrangement fee payable to Sprott). During the third quarter of 2013, the Company incurred legal and professional fees of US$210,990 relating to the acquisition of Kenai Resources Ltd (Kenai).
Other professional fees which contributed to the additional US$53,856 in professional fees incurred during the third quarter of 2014 in comparison to 2013 include an increase in brokers and registrar fees of US$41,286 which were not incurred during the same period in 2013.

(ii) An increase of US$201,111 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 September 2013, the level of administrative costs capitalised as part of the overall capital development costs of Palito was approximately US$173,217. During the three months to 30 September 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) Taxes incurred in the period have decreased by US$84,528 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 September 2014 amounting to US$5,289 (3 months to 30

September 2013 - US$2,012). Taxes relating to the period including property and licence fees were US$7,760 (3 months to 30 September 2013 – US$95,564).

(iv) During the three months ended 30 September 2013, the company incurred costs of US$166,298 relating to Kenai and its personnel, primarily salary and termination expenses immediately following the acquisition of that Company. There have been no comparative costs incurred during the three month period ended 30 September 2014.

The increase in depreciation charges of US$111,999 on mine and plant equipment between the two periods reflects the purchase of new plant and equipment during 2014 as the Palito Mine was returned to production. Since commercial production was announced from 1 July 2014 all depreciation charges, which amounted to approximately US$239,850, for the three months to 30 September 2014 are being expensed through the Income Statement. In accordance with standard practice depreciation charges relating to certain mining equipment were capitalised during the 3 month period ended 30 September 2013.

Following the commencement of commercial production on 1 July 2014, the company has begun to amortise the capitalised value of the Palito mine property. The cost base for the Mine Property is US$37.35million being the combined value of Mining Property and Assets in Construction which gives rise to a charge for the period of US$677,555. Amortisation charges are calculated on a unit of production basis using the estimated total recoverable ounces from the Preliminary Economic Assessment report issued in June 2012.

Share based payments increased from US$47,846 for the three month period ended 30 September 2013 to US$76,006 for the three month period ended 30 September 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 September 2014 is in respect of options granted between 1 January 2011 and 30 September 2014.

The Company recorded a foreign exchange loss of US$68,037 in the 3 month period to 30 September 2014 which compares with a foreign exchange gain of US$98,077 recorded for the 3 months ended 30 September 2013. These foreign exchange gains and losses primarily arise 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 income for the 3 month period to 30 September 2014 was US$24,806 compared with a net interest loss of US$44,174 for the same period of 2013. An analysis of the composition of these charges is set out in the table below:

	September 2014 US$	**September 2013 US$**
Interest on trade finance loans	126,648	-
Interest expense on convertible loan stock	17,727	18,576
Other interest and finance expenses	10,607	33,025
	154,982	51,601
Interest income	(16,793)	(7,427)
Finance income	(162,995)	-
	(24,806)	44,174

The interest on trade finance loans of US$126,648 is the interest charged at source by Auramet Trading LLC who provide a working capital and gold trading facility secured against the debts due to the Company in respect of the sale of copper/gold concentrates.

The finance income receivable of US$162,995 relates to the income due to the Company arising from short term movements in the gold price between the contractual pricing arrangements with the designated refinery and the price ruling when the Company draws down on the trade finance arrangement.

Nine month period ended 30 September 2014 compared to the nine month period ended 30 September 2013

The nine month period ended 30 September 2014 incorporates the first financial period following the announcement by the Company on 23 July 2014 that the Palito Mine had achieved commercial production effective as of 1 July 2014. As the operation was in a construction phase during the same period in 2013 there were no sales revenues or operating expenses relating to gold production operations reported in the Income Statement for the nine month period ended 30 September 2013 and all costs related to the Palito mine during this nine month period ended 30 September 2013 were capitalised.

The operating loss decreased by US$190,603 from a loss of US$3,286,552 for the nine months to 30 September 2013 to a loss of US$3,095,949 for the nine month period to 30 September 2014. Whilst the Company has recognised a gross profit of US$1,874,792 following the commencement of commercial production, this has been offset by a higher level of administrative expenses in the period and higher depreciation and amortisation charges incurred during the nine month period to 30 September 2014 compared with the nine month period to 30 September 2013.

The Company can only recognise revenues, in accordance with IFRS, at such time as the risks and rewards of ownership of the goods transfers to the Buyer. This is generally considered to be the date on which the copper/gold concentrate arrives in Hamburg where the Company's designated refinery is located. 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.

During the first nine months of 2014 the company had produced 983 wet metric tonnes of copper/gold concentrate whilst revenue has been recognised for only those 660 tonnes which have been delivered to the refinery in Hamburg. Of this revenue US$4,126,078 received from the sale of 320 tonnes of concentrate has been treated as relating to the period prior to 30 June 2014. As revenue generated prior to the declaration of commercial production this was credited against the developments costs relating to the Palito mine. Revenue of US$4,919,941, relates to 240 tonnes of concentrate revenue recognised after 1 July 2014, the date at which commercial production was declared. At 30 September 2014, 140 tonnes of concentrate was in transit from the Palito mine to the port of Belem, Brazil and a further 120 tonnes of concentrate was in transit from the port of Belem, Brazil to Hamburg, Germany. There was 43 tonnes of finished product held at site. This unsold material is held as inventory.

The gross profit of US$1,874,791 was offset by a combined increase of other operating costs totalling US$1,699,622 comprising administration expenses (increase of US$843,075), share based payments, depreciation (an increase of US$157,663) and mine asset amortisation (US$677,555) resulting in an overall operating loss of US$3,095,949..

The increase in administration expenses of US$843,075 from US$2,797,523 for the nine months ended 30 September 2013 to US$3,637,598 for the nine months ended 30 September 2014 can be accounted for as follows:

(i) An increase of US$704,802 in corporate costs relating to legal and professional fees which is primarily due:

   a) One-off professional costs totalling US$365,000 directly related to the legal and other fees associated with securing the US$8 million credit facility from the Sprott Resource Lending Partnership LLP ("Sprott"), (including a US$75,000 fee to the broker for organising the facility, US$250,000 in transactions fees for the initial US$3 million drawn down, and US$40,000 initial arrangement fee payable to Sprott).
   b) During the first nine months of 2014 the company incurred other legal and professional fees of US$404,588 relating to 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$240,081 representing the listing charges for these new shares levied by the Toronto Stock Exchange and AIM. The increase in these one-off legal and professional fees

incurred during the first nine months of 2014 are offset by the one- off legal fees totalling US$405,699 incurred during the first nine months of 2013, the majority of which were directly related to completing the acquisition of the Kenai Resources.

c) Bank fees and advancement charges increased by US$78,150 for the nine month period to 30 September 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.

d) Audit fees have increased by approximately US$40,528 primarily because of the increasing complexity of the audit work given the increased level of the company's operational activity compared with the same period in 2013.

(ii) An increase of US$522,848 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, environmental 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 and including the local Country Manager would be treated as an administrative cost of the business. During the nine month period to 30 September 2013, the level of administrative costs capitalised as part of the overall capital development costs of Palito was approximately US$454,912. During the nine months to 30 September 2014, there has also been an increase in the level of administrative staffing, environmental work performed and travel expenses required as the Company has commenced production operations at Palito. These personnel are principally involved in the accounting, environmental, information technology and personnel departments.

(iii) The Company has incurred an expense in the nine month period ended 30 September 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.

(iv) Taxes incurred in the period have increased by US$41,363 compared with the corresponding nine month period in 2013. Provisions in respect of unpaid taxes from prior years have increased by US$20,305 to US$19,427. Taxes relating to the period including property and licence fees were US$116,221 (nine months to 30 September 2013 – US$95,564).

(v) Tax charges in relation to old tax agreements from 2008-10 have decreased by US$130,599 from US$150,026 to US$19,427. The company was made aware during 2013 that in preceding calendar years it had incorrectly set-off certain taxes that were repayable to the Company against other taxes that it owed. There is no corresponding charge to be incurred during the same period in 2014. The Company will settle this liability over the period to June 2018.

(vi) During the nine months ended 30 September 2013, the company incurred costs of US$166,298 in administrative costs relating to Kenai and its personnel, primarily salary and termination expenses following the acquisition, which it did not incur during the same period in 2014.

The increase in depreciation charges of US$157,663 from US$348,491 for the nine months to 30 September 2013 to US$506,154 for the nine months ended 30 September 2014, reflects the purchase by the Company of new plant and equipment during the last twelve months as it returned the Palito Mine to production. It should be noted that the depreciation charges for underground mining fleet which was delivered during the third quarter of 2013 was capitalised as a pre-production cost whist the mine remained in a commissioning and ramp-up phase. Following the declaration of commercial production on 1 July 2014 the depreciation charges in respect of this mining fleet, as well as all other assets, are being expensed through the Income Statement.

Following the commencement of commercial production on 1 July 2014, the company has begun to amortise the capitalised value of the Palito mine property. The cost base for the Mine Property is US$37.35million being the combined value of Mining Property and Assets in Construction which gives rise to a charge for the period of US$677,555. Amortisation charges are calculated on a unit of production basis using the estimated total recoverable ounces from the Preliminary Economic Assessment report issued in June 2012.

Share based payments were roughly in line for the nine month period ended 30 September 2014, with a cost of US$149,433 in comparison to US$143,538 for the nine month period ended 30 September 2013. 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 nine months to 30 September 2014 is in respect of options granted between 1 January 2011 and 30 September 2014.

The Company recorded a foreign exchange loss of US$59,161 in the nine month period to 30 September 2014 which compares with a foreign exchange loss of US$133,740 recorded for the nine months ended 30 September 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 nine month period to 30 September 2014 were US$176,677 compared with US$98,378 for the first nine months of 2013. An analysis of the composition of these charges is set out in the table below:

	30 September 2014	**30 September 2013**
	US$	**US$**
Interest on trade financing loan	126,648	-
Interest on short term loan	101,782	26,630
Interest expense on convertible loan stock	59,200	49,868
Other interest and finance expenses	73,308	38,355
	360,938	114,853
Interest income	(21,266)	(16,475)
Finance income	(162,995)	-
	176,677	98,378

The interest on the short term loan of US$101,782 relates to interest paid on the short term loan provided by Fratelli investments Limited which is documented further in the subsequent section, Liquidity and Capital Resources.

The Finance expenses of US$73,308 relates to lease interest paid on mine equipment, a contract which the Company entered into during the third quarter of 2013, which explains the increase in cost year on year .

The interest on trade finance loans of US$126,648 is the interest charged at source by Auramet Trading LLC who provide a working capital and gold trading facility secured against the debts due to the Company in respect of the sale of copper/gold concentrates.

The finance income receivable of US$162,995 relates to the income due to the company arising from short term movements in the gold price between the contractual pricing arrangements with the designated refinery and the price ruling when the Company draws down on the trade finance arrangement.

Summary of quarterly results

	Quarter ended 30 September 2014 US$	Quarter ended 30 June 2014 US$	Quarter ended 31 March 2014 US$	Quarter ended 31 December 2013 US$
Revenues	5,253,323	–	–	–
Operating expenses	(3,378,532)	–	–	–
Gross profit/(loss)	1,874,791	–	–	–
Administration expenses	(1,243,580)	(1,389,209)	(911,979)	(872,677)
Provision for indirect taxes	–	(92,831)	–	(213,220)
Option costs	(76,006)	(43,840)	(29,587)	(161,226)
Write-off of past exploration expenditures	–	–	–	(1,007,233)
Amortisation of Mine Property	(677,555)	–	–	–
Depreciation of plant and equipment	(239,849)	(140,322)	(125,983)	(186,000)
Operating loss	(362,199)	(1,666,202)	(1,067,549)	(2,440,356)
Exchange	(68,037)	18,794	(9,918)	(36,618)
Net finance costs	24,806	(21,329)	(180,154)	(268,589)
Loss before taxation	(405,430)	(1,668,737)	(1,257,621)	(2,745,563)
Loss per ordinary share (basic and diluted)	(0.06) cents	(0.25) cents	(0.24) cents	(0.60) cents
Deferred exploration costs	24,888,399	26,508,924	25,607,411	24,659,003
Property, plant and equipment	39,318,145	43,412,368	38,549,235	36,008,318
Total current assets	21,558,828	18,040,230	19,954,894	9,020,774
Total assets	85,828,372	87,961,522	84,111,540	69,688,095
Total liabilities	15,939,911	10,614,015	6,936,353	9,653,388
Shareholders' equity	69,888,461	77,347,507	77,175,187	60,034,707

	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 profit/(loss)	–	–	–	(296,017)
Administration expenses	(816,887)	(655,607)	(908,753)	(679,272)
Provision for indirect taxes	(263,250)	(150,026)	–	–
Option costs	(47,846)	(47,846)	–	(33,244)
Write-off of past exploration expenditures	–	–	(47,846)	(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)
Exchange	98,078	23,400	(255,218)	(4,380)
Net 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
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

Liquidity and Capital Resources

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 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 comprised 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 UK£0.06 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 26 September Serabi Gold plc entered into a US$8 million credit facility (the "Sprott Facility") with the Sprott Resource Lending Partnership ("Sprott") to be used to provide additional funding for the continued development of the Palito Mine and the Sao Chico gold project, to finance an additional drilling programme at Sao Chico and for general corporate purposes. The Sprott Facility is for a term expiring on 31 December 2015 and carries interest at a rate of 10% per annum.

On 30 September 2014 the Company's net assets amounted to US$69.9 million which compares to US$60.03 million as reported at 31 December 2013. This increase primarily reflects the new capital raised through issue of new shares completed in March 2014 raising gross proceeds of UK£10.0 million (US$16.65 million). This increase in assets has been offset by the reduction in new assets arising from the reported loss for the nine month period of US$3.3 million and the exchange differences resulting from the translation of the results of foreign operations which have totalled US$3.4 million for the nine month period to 30 September 2014.

Non-current assets totalling US$64.3 million at 30 September 2014 (31 December 2013: US$60.7 million), are comprised of property, plant and equipment, which as at 30 September 2014 totalled US$39.4 million (31 December 2013: US$36.0 million) and is attributable to the Palito mine property including US$13.7 million (US$10.8 million as of 31 December 2013) which had previously been categorised as Projects in Construction, representing expenditure incurred in the rehabilitation and remediation programme at Palito. Following the declaration of commercial production effective 1 July 2014, this capitalised expenditure was re-categorised as Mining Property. Deferred exploration costs as at 30 September 2014 totalled US$24.9 million (31 December 2013: US$24.7 million) of which US$14.6 million relates to capitalised 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$10.3 million (31 December 2013: US$9.8 million) relating to the capitalised exploration and development costs for the Sao Chico gold project.

The Company had a working capital position of US$8,712,638 at 30 September 2014 compared to US$2,091,941 at 31 December 2013 as per the table below:

	September 2014 US$	December 2013 US$	Variance US$
Current assets			
Cash at bank and in hand	6,719,202	3,789,263	2,929,939
Inventories	7,554,145	3,890,880	3,663,265
Prepayments	2,441,265	1,264,654	1,176,611
Trade and other receivables	5,164,216	75,977	4,768,238
Total current assets	**21,878,828**	**9,020,774**	**12,538,053**
Total current liabilities			
Trade and other payables	4,416,758	2,871,546	1,225,212
Interest bearing liabilities	8,611,693	3,790,363	4,821,331
Accruals	137,739	266,924	(129,185)
Total current liabilities	**13,166,190**	**6,928,833**	**5,917,357**
Working capital	**8,712,638**	**2,091,941**	**6,620,696**
Non-current liabilities			
Interest bearing liabilities	1,678,556	833,560	844,996
Provisions	1,415,165	1,480,665	(65,501)
Trade and other payables	—	410,330	(410,330)
Total non-current liabilities	**3,093,721**	**2,724,555**	**369,165**

The increase in the cash balances of US$2,929,939 includes the receipt of US$3 million on 29 September 2014 as part of a credit facility provided by Sprott Resource Lending Partnership which will be used for the continued development of the Palito Mine and the Sao Chico gold project, to finance an additional drilling programme at Sao Chico and for general corporate purposes.

During the first quarter, a placing of new shares 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. The remaining funds raised 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 flotation process at the Palito mine, it can only recognise these revenues, in accordance with IFRS, at such time as the risks and rewards of ownership transfers to the buyer. This is considered to be the date on which the copper/gold concentrate arrives in Hamburg where the Company's designated refinery is located. In accordance with normal industry practice initial payments from the refinery only occur after specified contractual periods following the arrival of the material at the refinery. As at 30 September 2014 the company had produced 983 wet metric tonnes of copper/gold concentrate of which revenue has been recognised for 660 tonnes which had been delivered.

As at 30 September the Company was owed US$4.84 million in respect of shipments of concentrate that had been made to the refinery but in accordance with the contractual payment terms remained outstanding at that date. Under the terms of the contract the Company receives instalments against the total value of each shipment on pre-determined dates with final settlement only being made once the final metal content has been agreed between the Company and the refinery which may be up to 120 days after the date of arrival.

The levels of inventory held by the Company have increased by US$3.7 million compared with 31 December 2013, primarily due to increases in the levels of inventories of work in progress comprising mined ore, material in the course of processing or product stocks awaiting sale.

At 31 December 2013, the Company valued at US$3.0 million, the stockpile of coarse ore of approximately 25,000 tons that had been established on surface in preparation for processing. At the 30 September 2014 this coarse ore stockpile had decreased to approximately 18,750 tons with a value of US$1.3 million. The reduction in the unit values per tonne reflects the higher ratio of ore to waste being mined in the last quarter. During the first half of the year, the Company continued to prioritise mine development and as a result of the total material mined a high proportion was waste and therefore the total mining cost was spread over a relatively low volume of ore. In the third quarter whilst total mined volumes and costs remain broadly consistent, a higher proportion of the material mined is ore and therefore the total mining costs is allocated over a higher tonnage of ore.

The Company has established at 30 September 2014 a 54,000 tonne stockpile of material that has passed through the flotation processing circuit but retains a gold grade of approximately 2.5g/t. The Company will be processing these "flotation tailings" through the CIP plant over the coming months and has ascribed a value of US$2.77 million as the cost of establishing this stockpile. There was no similar stockpile of material at 31 December 2013 as processing operations had not commenced at that time.

The Company also had an additional US$0.23 million worth of material which was in the course of production in its gold processing plant.

At the 30 September 2014, the Company had on hand an inventory of approximately 323 wet metric tonnes of copper/gold concentrate either at Palito (43 tonnes), en-route to the port of Belem (160 tonnes) or en route to Hamburg, Germany (120 tonnes). The value of this inventory of copper/gold concentrate awaiting sale was approximately US$2.4 million. There was no similar stockpile of material at 31 December 2013 as processing operations had not commenced at that time

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 September 2014 of US$0.87 million were consistent with the value of the same inventory of consumables at 31 December 2013 (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. Also, as all consumable stock is valued in Brazilian Reais, the valuation is also subject to exchange rate fluctuations.

The improvement in the Company's cash holdings, its inventory levels and the debts due in respect of sales of copper/gold concentrate are the principal reasons for the improvement in the current asset position of the Company. Other items which have impacted on the Company's improved current asset position include the following.

(i) The level of prepayments has increased by US1.18 million from US$1.26 million at 31 December 2013 to US$2.441 million at 30 September 2014. The prepayments represent:

    a. Prepaid taxes in Brazil amounting to US1.72 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$0.62

million in comparison to the prior year due to an increase in the level of social taxes the Company has prepaid at 30 September 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), items being fabricated and supplies of services of US$701,361 (31 December 2013 : US$228,000).

Current liabilities have increased from US$6.9 million at 31 December 2013 to US$12.8 million at 30 September 2014. This increase is partly as a result of an increase in the level of trade payables owed by the Company as the activities have expanded over the last nine months and also as an increase in short term trade finance debts.

Trade and other payables amounting to US$4,096,758 at 30 September 2014 compare with an amount owed by the Company of US$2,871,546 at 31 December 2013, an increase of US$1,225,212. This is because:

(i) Trade Creditors have increased by US$940,924 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;

(ii) The standard wage and social welfare accruals and the provision for the thirteenth salary have increased by US$297,900 from 31 December 2013 to 30 September 2014. This increase results from a provision for the thirteenth salary payment 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.

Interest bearing liabilities due within one year have increased by US$4,821,331 from US$3,790,363 at 31 December 2013 to US$8,611,694 at 30 September 2014.

To minimise the effect on the working capital of the Company caused by the delay between production of copper/gold concentrate and payments for the material from the refinery, the Company has entered into a facility with a precious metals trading group whereby the Company can obtain an advance payment for the copper/gold concentrate once it has left the port in Belem, Brazil, secured against the debt due from the refinery.

As at 30 September the total funds received by the Company under this facility was US$9,154,249 of which US$5,182,038 was owed by the Company at the period end. The total amount of monies received of US$9,154,249 represents the advance payments of the 660 tonnes of recognised sales as well as a further 120 tonnes of copper/gold concentrate which had left the port in Belem en route to Hamburg, but at the end of the period had not yet been recognised as a sale. At 31 December 2013, as the Company had not generated any production of copper/gold concentrate at that time there was no requirement for any similar financing facility.

Loans due within one year have decreased by US$500,000 between 31 December 2013 and 30 September 2014. The Company, on 26 September 2014, entered into a US$3 million dollar credit facility (the "Sprott Facility") with the Sprott Resource Lending Partnership ("Sprott") of which US$2.25 million is due for repayment in less than one year. However, also during the first nine months of 2014, the Company settled a short term shareholder loan of which US$2.75 million was outstanding at 31 December 2013. This loan including all accrued interest was repaid in March 2014.

The Company acquired certain assets during 2013 and 2014 under finance leases. At 30 September 2014 the Company had liabilities under these financial leases of US$717,769 due within one year (31 December 2013: US$600,280). The leases are for a term of three years and carry interest at a rate of 6.45% per annum. (See below for more details on the amounts owed in more than one year.)

Also included within interest bearing liabilities is US$461,887 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. This loan was repaid on 31 October 2014.

Non-current liabilities have increased by US$369,165 from US$2,724,555 at 31 December 2013 to US$3,093,720 at 30 September 2014. The primarily reflects US$750,000 of Sprott Facility which is due for repayment in October 2015 to December 2105 which has been offset by reductions in taxation related liabilities as monthly repayments have been made.

The Company's liability for finance leases due in more than one year is US$760,560 which has decreased from US$833,560 at 31 December 2013. The Company entered into new lease arrangements during 2014 for a total liability of approximately US$315,000. Reductions in the liability reflect the monthly settlements that are being made.

The amount of US$1,415,164 (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 decrease in the liability of US$65,501 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.

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 approximately US$180,000.

On 9 November 2009 (as further detailed in note 16 of the Company's 2013 annual financial statements) the Company entered into a Convertible Loan Stock agreement with Greenwood Investments Limited ("Greenwood") whereby Greenwood made available to the Company a loan of UK£300,000 repayable on 31 October 2014. The convertible loan stock and accrued interest could at any time be converted into ordinary shares at a conversion price of 15 pence per share. Interest accrued at the rate of 1 per cent per annum and is compounded. The convertible loan stock together with all accrued interest was repaid on 31 October 2014.

		Payments due by period			
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	$	**$**	**$**	**$**	**$**
Long term debt	3,461,887	2,711,887	750,000	—	—
Capital lease obligations	1,478,329	717,769	760,560	—	—
Operating leases	—	—	—	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	**4,940,216**	**3,429,656**	**1,510,560**	**—**	**—**

Transactions with related parties of the Company

On 20 December 2013, the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") to provide working capital to the Company and to enable the Company to commence initial development works at the Sao

Chico project and at the same time entered into a conditional subscription agreement with Fratelli as part of an overall placement of shares and warrants to raise a minimum of UK£6.25 million and a maximum of UK£10.0 million. At that time Fratelli held a 40.5% interest in the issued share capital of the Company. Under the 2013 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 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 Mineraçăo 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 Mineraçăo 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 Mineraçăo 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 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.

As a result of their subscription, Fratelli acquired a direct interest of 51.4% in the share capital of the Company and became a controlling party.

Non IFRS Financial Measures

This MD&A refers to total cash costs per ounce of gold produced because certain investors use this and similar information to assess the Company's performance. The Company has conformed its total cash cost definition to the measure as set out in the guidance note released by the World Gold Council. The measure captures all of the important components of the Company's production and related costs. In addition, management utilizes this and similar metrics as a valuable management tool to monitor cost performance of the Company's operations. This measure and similar measures have no standardised meaning under IFRS and may not be comparable to similar measures presented by other companies. This measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IRFS.

Total cash cost

The following table provides reconciliation between non-IFRS cash cost to production costs included in cost of sales as disclosed in the consolidated statement of comprehensive income. No comparative data has been provided as the current quarter being the three months ended 30 September 2014 is the first quarter since the declaration of commercial production which was effective as of 1 July 2014.

	Q3 2014 (US$)
Total operating costs (calculated on a sales basis)	3,378,531
Add/(subtract)	
Finished goods and WIP inventory stock adjustment	2,224,434
Adjustment for refining, treatment, shipping and royalties on a production basis	178,324
By-product credits	(774,190)
Total cash cost of production	5,007,099
Gold ounces produced	5,002
Total cash cost of production (per ounce)	US$ 1,002

Financial and other instruments

The Company's financial assets at 30 September 2014 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 entered into some derivative transactions during the course of 2014 but management consider that the company's exposure to risk in respect of these transactions is limited. It has granted as part of the Sprott Facility a call option in favour of Sprott to acquire 4,812 ounces of gold from the Company at a strike price of US$1,285 expiring on 31 December 2015. The fair value at the date of grant in respect of this call option is recorded on the Balance Sheet and will be amortised over the option period and any adjustment to fair value recognised in the period that it arises. As part of its arrangements with Auramet Trading LLC, the Company enters into fixed pricing arrangements for each drawdown providing the Company with short term protection against future movements in the gold price. Any contracts outstanding at the end of each period are re-valued at the end of that period and any potential gain or loss arising reflected in the the income statements at that time.

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

At the end of the nine month period ended 30 September 2014 the Company had produced approximately 10,500 ounces of gold and had entered into contracts to sell 6,430 ounces at an average price of US$1,285 per ounce. The company had entered into contracts for an advance payment facility with Auramet Trading LLC for a total of 6,920 ounces over the nine month period. The remaining production in the period, including copper production and silver production, remains subject to pricing for which the basis is contractually agreed but is subject to prevailing prices at a future date.

The Company has an agreement with Auramet Trading LLC for an advance payment facility (see *Interest rate risk*) through which it can also fix the prices of metals that are subject to any advance payment during the advance payment period and thus manage its short term exposure to commodity price risk.

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

Interest rate risk
The Group and Company has historically financed its operations through equity financing. At 30 September 2014 had a convertible loan of UK£300,000 which bore interest at the rate of 1% per annum compounded and had a repayment date of October 2014. Subsequent to the end of the period this convertible loan was repaid together with accrued interest (see "*Subsequent Events*"). It has during 2013 and 2014 taken out fixed rate finance leases for the acquisition of some equipment and has utilised floating rate short term trade finance in respect of sales of its copper/gold concentrate production.

At 1 January 2014 the Company had outstanding US$2.75 million plus accrued interest which formed part of a secured loan agreement for a total facility of US$7.5 million with Fratelli Investments Limited ("Fratelli"). A further amount of US$2.75 was drawn down during the first quarter of 2014. The loan 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 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

The Company has entered into an agreement with Auramet Trading LLC, for a facility of USS$7.5 million under which Auramet will provide advance payment for shipments of copper/gold concentrate for the period between shipments leaving Brazil and settlement from the refinery. The advance payments bear interest at 3 month US$ LIBOR plus 5%.

Serabi Gold plc has also entered into a US$8 million credit facility (the "Sprott Facility") with the Sprott Resource Lending Partnership ("Sprott") to be used to provide additional funding for the continued development of the Palito Mine and the Sao Chico gold project, to finance an additional drilling programme at Sao Chico and for general corporate purposes. The Sprott Facility is for a term expiring on 31 December 2015 and carries interest at a rate of 10% per annum.

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 Group has relied primarily on funding raised from the issue of new shares to shareholders but has also received short term loans from its shareholders. It also uses floating rate short-term trade finance and fixed rate finance leases to finance its activities.

In 2009 the Group drew down on a convertible loan stock instrument for UK£300,000 which was repaid during October 2014. On 23 December 2013 the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 200 million units, whereby Fratelli agreed to subscribe for a minimum of 125 million units and to subscribe for up to a further 37.5 million units by matching subscriptions received from third party investors. At that time Fratelli held a 40.5% interest in the issued share capital of the Company. On 3rd March 2014 the Company completed the placement, raising gross proceeds of £10m and the outstanding loan and accrued interest was repaid to Fratelli and all security released.

On 26 September, Serabi Gold plc and the Sprott Resource Lending Partnership ("Sprott") entered into a US$8 million credit facility ("the Sprott Facility"). The Sprott Facility is for a term expiring on 31 December 2015 and carries interest at a rate of 10% per annum. The Sprott Facility will be used to provide additional funding for the continued development of the Palito Mine and the Sao Chico gold project, to finance an additional drilling programme at Sao Chico and for general corporate purposes.

The Sprott Facility is subject to a number of conditions precedent, including execution of security documentation in favour of Sprott over the assets of the Group, and may be drawn down in up to three tranches with the first Tranche of US$3 million having been released on 26 September 2014 concurrent with the closing of the transaction. The second and third tranches will be available until 31 December 2014 and drawdown will be subject to Serabi's on-going compliance with the terms of the

Sprott Facility and the completion of the registration of all the security arrangements subjects to Sprott's right to waive in whole or part any such requirement at any time.

Serabi has provided to Sprott certain covenants and undertakings, consistent with normal bank lending arrangements, including an undertaking to maintain at all times working capital in excess of US$4 million and a minimum of US$1 million in unrestricted cash and cash equivalents . The Facility is subject to standard events of default.

Serabi has granted to Sprott a call option over 4,812 ounces of gold at a strike price US$1,285. Sprott has the right to exercise its call option, subject to a minimum of 500 ounces, at any time up to 31 December 2015. The call options when exercised will be settled in cash and at the option of the Borrower may be added to the Facility provided that in so doing this does not cause a breach of the Facility and that the principal balance of the Facility does not exceed US$8 million.

Serabi may prepay in whole or part any amount of the Facility prior to 31 December 2015 without penalty provided that not less than six months of interest on the amount prepaid, has been paid to Sprott.

As at 30 September 2014, in addition to the convertible loan stock and the Sprott Facility, the Company had obligations under fixed rate finance lease amounting to US$1,478,329.

The Group's objectives when managing its capital are to maintain financial flexibility to achieve its development plans, safeguard its ability to continue to operate as a going concern through management of its costs whilst optimising its access to capital markets by endeavouring to deliver increases in value of the Group for the benefit of shareholders. In establishing its capital requirements the Group will take account of the risks inherent in its plans and proposed activities and prevailing market conditions. Gold production operations at the Palito Mine commenced at the start of 2014 and during the first six months of 2014 the site was in a commissioning and ramp-up phase. On 1st July 2014 the Company commenced Commercial Production. The cash flow generated from gold production operations as well as the financing available from the Sprott credit facility agreement are expected to be sufficient to allow the Company to meet its on-going operational obligations as and when they fall due and to provide working capital to develop other exploration projects that the Company controls. The Company, where appropriate, will use fixed rate finance arrangements for the purchase of certain items of capital equipment and use short term trade finance particularly in respect of its projected sales of copper/gold concentrate. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Company to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

Currency risk

Although the Parent Company is incorporated in the United Kingdom its financial statements and those of the Group are presented in US Dollar, which is also considered to be the functional currency of the Parent Company as funding of activities of its subsidiaries is generally made in US Dollars and future remittances of dividends, loans or repayments of capital are expected to be received in US Dollars.

Share issues have historically been priced solely in Sterling but an issue of Special Warrants undertaken in December 2010 and an issue of new ordinary shares and Warrants on 30 March 2011 were priced in Canadian Dollars. The Company expects that future issues of ordinary shares may be priced in Sterling or Canadian Dollars. Expenditure is primarily in Brazilian Real but the Group also incurs liabilities denominated in other currencies being primarily Sterling, Euros, US Dollars, and Australian Dollars.

The Company's main 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 2013 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 2014 $	31 December 2013 $
US Dollar	4,711,940	2,577,709
Canadian Dollar	14,266	236,132
Sterling	1,275,653	579,904
Australian Dollar	13,436	7,554
Euro	421,386	62,686
Brazilian Real	282,520	325,278
Total	6,719,202	3,789,263

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

Credit risk

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US$11,563,418 (2013: US$3,865,240). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings. The Group seeks to receive full settlement by bank transfer on delivery of its product to the purchaser to minimise its exposure to credit risk on its receivables and works with purchasers with good reputations within the industry and a good credit risk history and otherwise provides credit in respect of any other receivables only with parties that themselves have good credit history or otherwise to hold some form of lien pending settlement.

Subsequent events

Between the end of the financial period and the date of this management discussion and analysis, the Company repaid on 31 October 2014 a convertible loan of UK£300,000. With this exception there has been no item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the continuing operations of the entity, the results of these operations, or the state of affairs of the entity in future financial periods.

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 2014.

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 19 of the financial statements for the year ended 31 December 2013, 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 2013, 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 2013.

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 2013, 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 2013, 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 2014 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 had the following Ordinary Shares, Stock Options and Warrants outstanding at 14 November 2014:

Ordinary Shares	656,389,204
Stock Options	38,846,285
Other Warrants	108,135,035
Fully diluted ordinary shares outstanding	803,370,524

The Company also has in issue 140,139,065 deferred shares of 9.5 pence each and 456,389,205 deferred shares of 4.5 pence each. These deferred shares were issued following re-organisations of the Company's share capital. The deferred shares carry no voting or dividend rights or any right to participate in the profits or assets of the Company and all the deferred shares may be purchased by the Company, in accordance with the Companies Act 2006, at any time for no consideration. In the event of a return of capital, after the holders of the ordinary shares have received in aggregate the amount paid up thereon plus £100 per ordinary share, the holders of deferred shares shall receive an amount equal to the nominal value of the deferred shares and thereafter any further surplus shall be distributed amongst the holders of ordinary shares.

Fratelli Investments Limited holds 343,613,082 Ordinary Shares in the Company and 84,385,135 Warrants. In anticipation of the placing of new Ordinary Shares which closed on 3 March 2014 and as a result of which Fratelli acquired 152,500,000 shares and 76,250,000 warrants, Fratelli entered into a relationship and orderly marketing agreement on 28 January 2014. 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 3 March 2015.

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 sought to introduce a new Mining Code as a matter of some urgency during 2013. Whist no new legislation was introduced the matter remains under debate and it should be expected that a new Mining Code will be implemented in the future. The implications of the proposed legislation in respect of existing exploration licences and also the process for conversion of these to mining licences was unclear but any new 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 expired March 2014. The Company has begun the process of applying for a full mining licence and has 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 any new Mining Code the application process may be amended and the DNPM could 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 licence forfeiture. Generally, the licences 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 during the first nine months of 2014 has been continuing the process of development of the Palito Gold Mine with a view to generating cash-flow positive cash-flow in the future.

For the financial year ended 31 December 2013 the Company had negative cash flow from operations whist it was undertaking the development and rehabilitation of the Palito Mine and its associated gold processing plant and other supporting infrastructure. Processing of ore commenced at the start of 2014 and for the first six months of 2014 the plant was in a ramp-up and commissioning phase. On 23 July 2014, the Company declared that Commercial Production at Palito had been achieved effective from 1 July 2014. However the Carbon in Pulp gold recovery process plant was still being remediated at that time and only became operational at the end of September 2014. The introduction of this process plant will increase the gold recovery and therefore revenues that the Company can generate. Once Palito is in full operation 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 Company is in the process of developing and starting mining operations at the Sao Chico gold project located close to the Company's Palito Mine but there is no certainty that the Company will be able to establish a commercially viable long term operation at Sao Chico.

Sao Chico has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource and the Company has commenced development mining activity, with a view to establishing mine production operations to augment gold production levels for the Company. There is however 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.

The exploration and development of the Company's other 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 the end of 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.

Although the Company generated revenue from mining operations in the past those operations were discontinued. The Company, has in the third quarter of 2014, completed most of its planned work for the redevelopment and rehabilitation of the Palito Gold Mine although this operation for the first six months of 2014 was in a ramp-up and commissioning phase. Commercial Production at Palito was declared effective as of 1 July 2014 although certain elements of the gold process and recovery plant remained in construction and commissioning notably the CIP leaching, elution and gold-winning circuits. The CIP plant was completed and commissioned at the end of September 2014 and the first elution was only undertaken during the latter part of October 2014. 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 generate consistent 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. The Company has no declared mineral reserves. 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 licences 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 primarily 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.

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 licences 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.