MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and twelve months periods ended 31 December 2014

31 March 2015

SERABI GOLD PLC
Management's Discussion and Analysis
for the three month and twelve month periods ended 31 December 2014

Introduction

This Management's Discussion and Analysis ("MD&A") dated 31 March 2015 provides a review of the performance of Serabi Gold plc ("Serabi" or the "Company") together with its subsidiaries (the "Group"). It includes financial information from, and should be read in conjunction with the Company's annual report and audited consolidated financial statements for the twelve month period ended 31 December 2014.

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 and contained within the Company's latest AIF.

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 Mineração S.A. and Gold Aura do Brasil Mineração 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 was 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.

Post Period Highlights

- Current forecast for combined gold production from Palito and Sao Chico in 2015 is approximately 35,000 ounces with All-In Sustaining Costs ("AISC") of between US$900 and US$950 per ounce.
- Monthly gold production at Palito during the first two months of 2015 has been maintained at the same monthly levels achieved in the fourth quarter of 2014.
- The Company commenced a surface drilling programme at Sao Chico during March 2015, and intends to release an updated resource estimation before the end of the third quarter of 2015.
- In January 2015, the underground development at Sao Chico reached the principal vein, where a 4.7 metre wide sub-vertical mineralized zone has been intersected recording gold assays of over 40 g/t over a 3.6 metre wide interval. Over 70 metres of development has now been completed and where results have been obtained, the zone continues to exhibit similar widths to the original intersection and grades in excess of 15g/t.
- A surface stockpile of some 5,000 tonnes of ore from Sao Chico has been established and processing of this material at Palito will commence in the second quarter of 2015.

Financial Highlights

- Sales since the declaration of commercial production on 1 July 2014 have been 780 tonnes of copper/gold concentrate generating sales of 8,149 ounces of gold.
- Production of gold bullion has been 1,866 ounces of gold.
- Average gold price received through 2014 was US$1,230 per ounce.
- Cash holdings at 31 December 2014 of US9.8 million.
- Brazilian Real has devalued by approximately 20% since year end providing potential cost benefits for 2015.
- Impairment provision of US$2.59 reversed in the year.
- US$8.0 million loan facility completed with Sprott Resource Lending Partnership on 26 September 2014.
- Commercial production at Palito declared with effect from 1 July 2014.

Operational Highlights – For three and twelve month periods ending 31 December 2014

Palito

- Gold production for 2014 was 18,452 ounces.[(1)]
- 7,819 ounces[(1)] were produced in the fourth quarter, a 42% increase over the third quarter.
- Mine production for the year totaled 76,500 tonnes of ore averaging 9.95 g/t gold, containing 24,400 ounces.
- Mill throughput for the year totaled 85,987 tonnes @ 8.84 g/t gold for the year.
- The fourth quarter saw the Carbon in Pulp plant ("CIP") fully operational with gold recoveries increasing to over 90% as a result.

Sao Chico

- The mine portal was established at the end of September 2014 and over 90 metres of underground development was completed by the end of 2014.
- The first ore zones were intersected underground before the end of 2014 and a small surface ore stockpile was being generated.
- Five newly discovered gold bearing veins were identified in the excavated cutback and three further veins intersected underground, all exhibiting mineable widths and grades, indicating considerable opportunity for increased levels of ore development at Sao Chico than are currently planned.

- During November 2014, the Final Exploration Report ("FER"), submitted in the first quarter of 2014, was approved by the Departamento Nacional De Produção Mineral ("DNPM").
- An application has been submitted and now successfully protocoled by the DNPM for a new exploration licence immediately to the west of the existing Sao Chico licence area.
- All mining and surface mobile fleet, power generation and other necessary initial site infrastructure required for execution of the 2015 mine plan are at site and operational.

(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.

Outlook and Strategy

Palito

2014 represented the first year of operations at Palito and during the year gold production had shown steady rates of increase each quarter with the fourth quarter of 2014 being the best quarter for gold production as all elements of the process plant became operational. For the first nine months of the year processing had been primarily limited to flotation and it was only in October 2014, that the Carbon in Pulp ("CIP") plant came on-stream providing the opportunity to increase gold recoveries to in excess of 90%.

Over the last four months of the year, in excess of 10,000 ounces of gold was produced and during the calendar year approximately 24,000 ounces of contained gold was extracted from the mine. Mined tonnage and grades achieved for the year both exceeded budget.

The Palito Mine has now reached a relatively steady state of operations with mining activities in a balanced cycle of development and production and expected to generate some 90,000 tonnes of ore at around 8.50 g/t of gold during 2015. The gold production generated from this mined ore will be supplemented during 2015 by the reprocessing of stockpiled tailings accumulated during the first three quarters of 2014 by the flotation process and by running down surface stockpiles of ore that have been established over the first 12 months of operations.

As at the beginning of March 2015 the mine has been developed to the 24 metre relative level ("mRL") and whilst the Company plans to undertake further ramp development during the year to access the next level at -19mRL, significant focus will be given to accessing and mining known parallel vein structures on the existing mine production levels. These include the Chico da Santa zone which lies to the north of the primary G1, G2 and G3 veins. In addition, the Company is planning to introduce a new development access into the Senna structure which is located to the south of the Palito West vein complex and which during 2008 and 2009 produced oxide material of between 2.0 to 3.0g/t.

The Company has, during 2014 and in the course of its development mining activity, encountered high grade ore shoots as the underground development was driven in the direction of the Palito South area. Development into these ore shoots is ongoing primarily on the 114mRL, where the Company now has on-lode development some 700m beyond any area that has previously been mined. These payable zones indicate depth continuity, similar to that seen elsewhere at Palito and as a result the Company is incorporating into its future mine plans production of ore from these ore shoots in the upper levels which have to date never been developed but represent a potential good source of additional ore.

Sao Chico

At Sao Chico, the fourth quarter of 2014 saw the underground development commence and over 250 metres of development has now been achieved. Five previously unidentified veins were intersected in the cutback and a further three in the ramp, with all eight of these previously unknown structures exhibiting mineable widths and grades and all of which lie outside the current geological resource. In January 2015 the ramp development intersected the Main Vein, the principal currently identified structure at Sao Chico, which exhibited visible sulphides. The Main Vein orebody has been fully exposed on the 218 mRL, approximately 30 vertical metres below the portal entrance, by a four metre high and four metre wide gallery, crossing the ore perpendicular to its strike. The initial sampling confirmed a payable intersection with a true width of 3.6 metres and a gold grade of 42 g/t gold. This development has now continued along strike, east and west with some 70 metres of on-lode gallery now completed. Sampling is ongoing.

During 2015, the Main Vein will continue to be developed and evaluated by 'on-lode' development. The vein is sampled with each advance. The deepening of the main ramp which is being driven at a 12% gradient, is also continuing to the next level, planned at 178 mRL, where the Main Vein will be intersected once again and similarly evaluated by 'on-lode' development. The Company plans to undertake over 750 metres of ramp development and 2,700 metres of ore development at Sao Chico during the course of 2015.

With the notification of the approval of the Final Exploration Report ("FER") being issued in November 2014, the Company is continuing to progress the conversion of the Exploration License at Sao Chico to a Mining License. As the next major step in the conversion procedure, Serabi is in the process of completing and submitting the Plano Approvimiento Economico, a form of economic assessment prepared in accordance with Brazilian legislation. However, with the Guia de Utilização (a trial mining license) already in place, all mining operations can continue in parallel. The issuing of the mining licence will also require submissions of a risk assessment and management plan, safety assessments, environmental and social impact studies, closure and remediation plans although the detailed scope of these reports is still to be confirmed by the relevant government bodies.

The Sao Chico Mine, whilst contributing to the Group's gold production during 2015, will be primarily in development and is not expected to achieve its full production potential until 2016. A 5,000 metre diamond drilling programme commenced in March 2015 and the results from this in conjunction with the on-lode development mining that will take place during 2015 will help the understanding of the ore body and facilitate the mine planning for 2016. The results will also be used to calculate a new global resource estimation in accordance with Canadian Securities Administrators National Instrument 43-101 ("NI 43-101"). Serabi hopes to be in a position to issue this new NI 43-101 compliant technical report before the end of the third quarter of 2015.

2015 Production Guidance

The Company is currently forecasting gold production for 2015 of approximately 35,000 ounces with an All-In Sustaining Cost of between US$900 and US$950 per ounce.

Longer Term Growth Opportunities

As well as the potential that exists to grow resources at Sao Chico, the Palito South, Currutela and Piaui prospects still provide excellent opportunities for identifying additional resources which could both enhance current production levels as well as extend the mine life. With the exception of the planned 2015 drilling programme that is underway at Sao Chico, no drilling or other exploration activity is currently planned on the other three discoveries. However once adequate cash flow is being generated the Company will step up its exploration activity and will be looking to add to its resource base and production potential through establishing 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.

Management has and will continue to evaluate other opportunities within Brazil that it considers could increase the resource base and longer term production potential of the Company as well as having the potential to be value enhancing for its shareholders.

Palito Gold Mine – Para State, Brazil

History

The Palito gold mine is wholly owned by the Company, through its 100% owned subsidiary Serabi Mineração 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 west/south west 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 approximately 100,000 ounces of gold.

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 an NI 43-101 compliant Measured and Indicated mineral resource of 206,466 ounces of gold and Inferred mineral resources of 392,817 ounces of gold.

Mineral Resources	**Tonnage**	**Gold (g/t Au)**	**Copper (% Cu)**	**Contained Gold (Ounces)** (1)	**Contained Gold Equivalent (Ounces)** (2)
Measured	97,448	9.51	0.26	29,793	32,045
Indicated	753,745	7.29	0.23	176,673	192,228
Measured and Indicated	851,193	7.54	0.23	206,466	224,272
Inferred	2,087,741	5.85	0.27	392,817	443,956

(1) Mineral resources are reported at a cut-off grade of 1.0 g/t.

(2) Equivalent gold is calculated using an average long-term gold price of US$700 per ounce, a long-term copper price of US$2.75 per pound, average metallurgical recovery of 90.3% for gold and 93.9% for copper.

(3) Addition errors arise through rounding differences.

The operation was placed on care and maintenance in 2008, but 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 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.

Palito operational review for 2014

By the end of December 2013 the Company had established a run-of-mine ("ROM") stockpile of ore of approximately 25,000 tonnes with an average gold grade of over 8.00 grams per tonne ("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 approximately 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 occurring in the second half of 2014 with stoping now contributing the majority of the mined ore tonnage.

Underground development mining has continued well with more than 6,200 metres of horizontal development completed to the end of December 2014, with 1,348 metres coming in the fourth quarter, representing 21.6% of the annual total. Of this 1,348 metres, 36% (481 metres), was in 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 24mRL some 200 metres below the portal.

Mining operations during the fourth quarter were slightly below plan as a result of reduced equipment availability during December, with 25,308 tonnes being mined at an average grade of 9.28g/t compared with a plan for the quarter of 27,000 tonnes at an average grade of 9.45 g/t. However for the year in total mined tonnages have exceeded planned levels with an aggregate of 76,500 tonnes having been mined at an average grade of 9.95g/t compared with a plan of 68,300 tonnes at an average grade of 9.00 g/t. The improvements reflect better rates of productivity per employee and improved payability of the ore zones that were in development and production during the quarter. As a result of the higher rates of mine production the surface stockpiles of ore have not been depleted as much as was expected and the surface stockpile of coarse ore totalled approximately 11,000 tonnes at the year end.

In the plant, processing rates throughout 2014 have continued to improve having averaged approximately 9,600 tonnes per month during the fourth 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 and approximately 8,000 tonnes in the third quarter. The Company deliberately elected to process lower grade stockpiled material during the initial months of the first quarter of 2014 whilst the plant was being commissioned and from mid-March feed grades were increased. Feed grades for the fourth quarter averaged 8.95 g/t and averaged 8.84g/t over the calendar year. Gold production for the fourth quarter was 7,819oz(1) an increase of 42% over the preceding quarter, which itself had been a 54% improvement over the second quarter of 2014. For the first nine months of 2014 the gold recovery process had been limited to flotation and gravity concentration only and as a result gold recoveries for the whole of 2014 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 2015.

The majority of gold production from the processing of Palito ore is in the form of a copper/gold concentrate which is then shipped to smelters for further processing and sale. During the fourth quarter of 2014, 493 tonnes of concentrate were produced with average gold grades of approximately 388g/t of concentrate and an average copper grade of approximately 24%. A total of 1,467 tonnes of concentrate was produced during 2014.

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 was 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 over the life of the mine, gold recoveries in 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 purchased in anticipation of establishing a second process line for ore from the Sao Chico operation. However, in the near term it is providing additional milling capacity to process some of the stockpiled material and maximise short-term production.

SUMMARY PRODUCTION STATISTICS FOR THE TWELVE MONTHS TO 31 DECEMBER 2014

		Quarter 1	Quarter 2	Quarter 3	Quarter 4	FY 2014
Horizontal development	Metres	1,491	1,804	1,594	1,348	6,237
Mined ore	Tonnes	9,666	9,072	32,454	25,308	76,500
	Gold grade (g/t)	5.03	10.55	11.77	9.28	9.95
Milled ore	Tonnes	13,766	18,929	24,533	28,759	85,987
	Gold grade (g/t)	7.43	8.33	9.88	8.95	8.84
Gold production (1)	Ounces	1,882	3,236	5,515	7,819	18,452
Average realised price	US$	–(2)	–(2)	US$1,199	US$1,220	US$1,230

SUMMARY PRODUCTION STATISTICS FOR THE TWELVE MONTHS TO 31 DECEMBER 2014						
		Quarter 1	**Quarter 2**	**Quarter 3**	**Quarter 4**	**Average July to December 2014**
Total cash cost of production (per ounce)	US$	–(2)	–(2)	$908	$712	$793
All-In Sustaining Costs (per ounce)	US$	–(2)	–(2)	$1,192	$922	$1,034

(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.

(2) The Company only declared commercial production to be effective from 1 July 2014 and data for these first two quarters is therefore not presented.

As 2014 has been the first year in which the plant has been operational there is no comparative information available for any equivalent period of 2013. The fourth quarter is only the second 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 2015 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 to the south west, along the Transgarimpeiro Highway, 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 on 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 of these anomalies. 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 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.

Additional drainage and "water run off" areas have been 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.

Shortly before the end of September 2014, the first excavations to establish the mine portal were completed and the fourth quarter of 2014 saw the underground development commence with 95 metres completed prior to the end of December and a further 160 metres of development had been completed at the end of February 2015. Five veins were intersected in the cutback and a further three in the ramp and at the intersections all appear to be of mineable widths and grades. All eight of these previously unknown structures lie outside the current geological resource. In January 2015 the ramp development intersected the principal Main Vein which exhibited visible sulphides. The Main Vein orebody, which is the principal structure within the current geological resource, has now been fully exposed at the 218mRL, by a four metre high and four metre wide gallery that had crossed the Main Vein perpendicular to its strike. Sampling confirmed that the intersection had an average true width of 3.6 metres with a gold grade of 42 g/t gold. The Main Vein has now been developed on-lode for some 70 metres, with sampling incomplete. However where results have been obtained, the zone continues to exhibit similar widths to the original intersection and grades in excess of 15g/t.

The decline ramp is being driven at a 12% gradient initially to two development levels, at the 218 mRL and the 178mRL respectively, 30 vertical metres and 60 vertical metres below the surface. The development levels will follow the Main Vein to its strike extents to the East and West. This work will allow the Company to better evaluate the continuity and payability of the mineralisation. The Company plans to undertake over 750 metres of ramp development and 2,700 metres of ore development at Sao Chico during the course of 2015.

With all the mining and fixed fleet required for the 2015 mine plan in place along with the initial workforce, the Company expects to see continued good progress at Sao Chico. Ore transportation to Palito began in February and processing of Sao Chico ore is forecast to commence in the second quarter of 2015.

In March 2015, the Company commenced a 5,000 metre drilling campaign which will be a combination of in-fill and step-out drilling and the results from this, in conjunction with the on-lode development mining that will take place during 2015 will help the understanding of the ore body and facilitate the mine planning for 2016 as well as the preparation of a new NI 43-101 compliant global resource estimation for the Sao Chico project.

In February 2014, the Final Exploration Report ("FER") for Sao Chico was completed and submitted to the Departamento Nacional de Produção Mineral ("DNPM") who issued notification of their approval of this report in November 2014. This represented 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 which is the next major requirement in the conversion process.

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 2015 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.

<u>Sao Chico Exploration</u>
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 mining activities planned during 2015 in conjunction with the planned 5,000 metre surface drilling programme will further evaluate the Main Vein and the immediate parallel structures. At this time no additional work is planned in the wider 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 14,712 hectares, in two exploration licences, one granted and one 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 31 December 2014 compared to the three month period ended 31 December 2013

The three month period ended 31 December 2014 represents the second financial quarter 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 31 December 2013 and all costs related to the Palito Mine during this three month period ended 31 December 2013 were capitalised.

The Company has recognised a gross loss for the quarter of US$394,542 (3 months to 31 December 2013: US$Nil) and an operating gain for the three month period ended 31 December 2014 of US$1,764,972 in comparison to a loss of US$2,440,356 for the 3 months ended 31 December 2013. The Company recorded total revenue of US$7,374,461 on its Income Statement during the 3 month period to 31 December 2014 (3 months to 31 December 2013: US$Nil).

The gross loss of US$394,542 can be analysed as follows:

	US$	US$
Revenue from Ordinary Activity		
Gold Concentrate	5,408,194	
Gold Bullion	1,275,205	
Copper	660,478	
Silver	30,584	
Total Sales		**7,374,461**
Costs of sales		
Operational costs	(5,721,922)	
Shipping costs	(345,928)	
Treatment charges	(186,063)	
Royalties	(65,221)	
Amortisation of Mine Property	(1,657,307)	
Depreciation of Plant & Equipment	207,438	
Total Operating costs		**(7,769,003)**
Gross profit		**(394,542)**

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 smelter is located.

During the final quarter of 2014 the Company recognised total sales of US$7,374,461. The sales can be separated between sales of copper/gold concentrate of US$6,099,256 and sales of gold bullion of US$1,275,205. During the three months to 31 December 2014 the company produced 493 wet tonnes of copper/gold concentrate but revenue has only been recognised for 440 tonnes which had been delivered to the refinery in Hamburg. The unsold material is held as inventory.

Operating costs of US$5,721,922 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$2.5

million, mining consumables including maintenance costs amounted to US$2.1 million and plant consumables amounted to US$0.87 million. General site costs of approximately US$0.25 million make up the balance of the costs.

Shipping costs of US$345,928 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$186,063 include US$166,096 relating to the treatment of the copper concentrate and levied by the refinery in Hamburg, Germany and US$19,967 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Company.

Royalty payments of US$65,221 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.

The Company has undertaken a full review of all its plant and equipment during the fourth quarter of 2014. As a result of this review it has scrapped certain assets resulting in a book loss of US$90,200. It has also reviewed the depreciation charges calculated to date on each asset and identified overcharges arising in both the prior quarters of 2014 and prior financial years. The write back of depreciation charges on mine and plant equipment during the fourth quarter of 2014 of US$207,438 is the results of the adjustment required to correct these excess depreciation charges arising in earlier periods.

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$43.345million, (including a provision for future mine development of US$6.4m), which have given rise to a charge for the period of US$1,657,307. (3 months to 31 December 2013: US$Nil). This charge is calculated by reference to the number of mined ounces during the period compared with the total expected recoverable ounces during the currently anticipated life of the Palito Mine.

The gross loss of US$394,542 for the 3 month period ended 31 December 2014 was offset by a combined decrease against the three month period ended 31 December 2013 of other operating costs totalling US$495,377 comprising a decrease in administration expenses of US$443,317 and a reduction in the value of share based payments of US$52,061.

Administration costs for the three month period ended 31 December 2014 have decreased by US$443,317 compared with the three month period ended 31 December 2013.

(i) Administration costs incurred in Brazil have increased by US$132,000. 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.

(ii) This increase in administration expenses in Brazil is offset by a decrease of approximately US$213,000 relating to ICMS, a state sales tax levied in Brazil on products sold. The rates vary between states and the Company must account retrospectively for the increment on the rate charged in the state of supply and the rate levied in the state of consumption. During 2013 the Company did not assign this tax at source and as a result had an unassigned value at the end of 2013 which it treated as an administrative expense. During 2014 the Company has assigned this tax at source and the cost is included within Cost of Sales.

(iii) In July 2013 the Company acquired Kenai Resources Ltd and incurred expenses during the fourth quarter of 2013 relating to the winding down of his company and employment costs and employee terminations. With no similar expenditure in the fourth quarter of 2014 this has generated a saving in administration cots of US$102,000.

(iv) Legal and professional costs during the fourth quarter of 2013 also included costs relating to the acquisition of Kenai Resources Ltd. No similar expense has been incurred in the same period in 2014 resulting in a saving of US$123,000.

(v) During the three months ended 31 December 2014 the company wrote back professional charges of approximately US$365,000 relating to a credit facility entered into with Sprott Resource Lending for US$8 million. In the preparation of the Company's year-end accounts it was determined that the correct accounting treatment requires that the total costs relating to the negotiation and documentation for this facility should be amortised over the life of the loan. The amortisation charge for the quarter to 31 December 2014 was US$75,000 resulting in a net write-back to administration costs of US$290,000.

(vi) During the fourth quarter of 2014 the cost of the corporate Head Office has increased relative to the fourth quarter of 2013 by approximately US$102,000 as a direct result of the increased activity of the Company. Included are cost increases relating to audit fees (US$30,000), staffing (US$38,000) as well as other general professional costs of approximately US$44,000. The Company has also incurred costs of US$44,000 relating to the evaluation of other projects in the fourth quarter of 2014.

Share-based payments decreased by US$52,061 from US$161,226 for the three month period ended 31 December 2013 to US$109,165 for the three month period ended 31 December 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 31 December 2014 is in respect of options granted between 1 January 2011 and 31 December 2014.

For the financial year ended 31 December 2014, the impairment provision of US$2,590,532 which was first established in 2009 was reversed. The impairment provision was made up of a provision against Mining Property of US$2,123,814 and US$466,718 against Plant and Equipment.

There has also been a write-back of a provision for contingencies of US$298,088 relating to a provision which was held at 31 December 2103 for potential labour settlements which the Company considers to be no longer required.

There was no write-off of deferred exploration costs during the three month period ended 31 December 2014. Deferred exploration expenditure totalling US$1,007,233 was written of during the 3 month period ended 31 December 2013. This exploration expenditure related to work carried out on the Pizon project located in the Amazonas state and was carried out before 2008. The Board determined that the project is no longer a priority for the Group and no further work is planned in the immediate future.

The Company recorded a foreign exchange gain of US$25,419 in the 3 month period to 31 December 2014 which compares with a foreign exchange gain of US$36,617 recorded for the 3 month period ended 31 December 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 finance income for the 3 month period to 31 December 2014 was US$1,366,995 compared with a net interest loss of US$258,888 for the same period of 2013. An analysis of the composition of these charges is set out in the table below:

	December 2014 US$	**December 2013 US$**
Fee for provision of short-term loan	–	225,000
Finance cost on Sprott Loan	120,000	–
Interest on trade finance facility	101,862	–
Other interest and finance expenses	79,726	–
Asset finance charges	24,756	16,606
Interest expense on convertible loan stock	–	18,083
	326,344	259,689
Finance income	(218,316)	–
Gain on revaluation of Sprott derivative	(123,670)	–
Gain on revaluation of warrants	(1,350,827)	–
Interest income	(526)	(801)
	(1,366,995)	258,888

The finance costs relating to the Sprott loan comprise the pro-rated charges for the quarter of the arrangement fees in respect of this transaction and the amortisation charge for the quarter of the fair value ascribed to the call option granted to Sprott over 4,812 ounces of gold at a price of US$1,285 per ounce. The arrangement fees were US$280,000 and the fair value of the derivative was US$320,000. Both are being amortised over the life of the loan which is for a 15 month period expiring 31 December 2015.

The interest on trade finance loans of US$101,862 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 interest on the Sprott loan of US$79,726 is the cost of the first three months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership LLP.

Asset finance charges relate to mining equipment acquired under supplier credit terms. The lease terms are for a three year period and bear interest at the rate of 6.45% per annum. Lease interest charges are reducing as the capital element of the financing is paid down in monthly instalments.

The finance income receivable of US$218,316 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 that it has in place.

The finance income of US$123,670 relates to the gain on the period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership LLP (as noted above).

As part of the share placing completed by the company on 3 March 2014, the Company issued 100,000,000 warrants at an exercise price of 6 pence. At the date of issue the Company valued these warrants using a Black-Scholes model at US$ 1.68 million. Warrants are normally considered as part of equity but in this instance because the exercise price of the warrant is denominated in UK Sterling and the functional currency of the Company is US Dollars, under IAS 32 the warrants are not considered to be equity but instead a liability of the Company at the time of issue. At 31 December 2014, the Company has revalued the warrants in accordance with fair value accounting principles and determined that the value of the warrants at 31 December 2014 has reduced to US$332,173. The gain on this revaluation amounting to US$1,350,827 has been recorded as finance income and the liability reduced by the same value.

Twelve month period ended 31 December 2014 compared to the twelve month period ended 31 December 2013

The twelve month period ended 31 December 2014 incorporates the first two financial quarters 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 twelve month period ended 31 December 2013 and all costs related to the Palito Mine during this twelve month period ended 31 December 2013 were capitalised.

The operating loss decreased by US$4,395,931 from a loss of US$5,726,908 for the twelve months to 31 December 2013 to a loss of US$1,330,977 for the twelve month period to 31 December 2014. Whilst the Company has recognised a gross profit of US$296,541 following the commencement of commercial production, this has been offset by a higher level of administrative expenses during the twelve month period to 31 December 2014 compared with the twelve month period to 31 December 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 year ended 31 December 2014 the Company had produced 1,467 wet tonnes of copper/gold concentrate whilst revenue has been recognised for only those 1,100 tonnes which have been delivered to the refinery in Hamburg. Of this revenue US$4,079,663 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 development costs relating to the Palito Mine. Revenue of US$12,627,784 is comprised of US$11,019,197, (780 tonnes of copper/gold concentrate) and US$1,608,587 of gold bullion, recognised after 1 July 2014, the date at which commercial production was declared. At 31 December 2014, 120 tonnes of concentrate was in transit from the Palito Mine to the port of Belem, Brazil and a further 160 tonnes of concentrate was in transit from the port of Belem, Brazil to Hamburg, Germany. There was 87 tonnes of finished product held at site. This 367 tonnes of unsold material is held as inventory.

The decrease in depreciation charges of US$235,755 from US$534,491 for the twelve months to 31 December 2013 to US$298,716 for the twelve months ended 31 December 2014 is a result of the adjustment made to prior year depreciation charges on plant and equipment. The Company undertook a full review of all its plant and equipment during the fourth quarter of 2014. As a result of this review it has scrapped certain assets resulting in a book loss of US$90,200. It also reviewed the useful economic lives of assets at the commencement of commercial production and the depreciation charges calculated to date on each asset and identified overcharges arising in each of the previous quarters of 2014 and prior financial years. A write-back of depreciation charges on mine and plant equipment was necessary to correct the excess depreciation charges that had been made in earlier years. This adjustment did not have a material impact on the depreciation charge in the 12 month period ending 31 December 2014.

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$43.35million, (including a provision for future mine development of US$6.40m), which has resulted in a charge for the period of US$2,334,862. (twelve months to 31 December 2013: US$Nil). This charge is calculated by reference to the number of mined ounces during the period compared with the total expected recoverable ounces during the currently anticipated life of the Palito Mine.

The effect of recording a gross profit of US$296,541 for the twelve month period ended 31 December 2014 was mitigated by comparison to the results for the twelve month period ended 31 December 2013 by an increase in other operating costs totalling US$353,594. This comprised an increase in administration expenses of US$399,759 and a reduction in the value of share-based payments of US$46,166. During the twelve months ended 31 December 2014 there was a write-back of a provision for contingencies totalling US$298,088 and the impairment loss of US$2,590,532 originally established in 2009 was reversed resulting in an overall operating loss of US$1,330,977.

Administration costs for the twelve month period ended 31 December 2014 have increased by US$399,759 compared with the twelve month period ended 31 December 2013.

(i) In July 2013 the Company acquired Kenai Resources Ltd and incurred expenses during the fourth quarter of 2013 relating to the winding down of his company and employment costs and employee terminations. With no similar expenditure in the 2014 financial year this has generated a saving in administration cots of US$263,000.

(ii) Costs relating to the corporate Head Office for 12 month period to 31 December 2014 have increased by approximately US$440,000. This generally reflects the increased level of activity of the Company compared with 2013 as a result of which salaries have increased by US$139,000 reflecting increased staffing levels and audit fees by US$70,000 reflecting the increased complexity of the financial affairs of the Company. The Company incurred in the first quarter costs relating to the securing of a short term loan from a major shareholder and then a share placement that also required compliance and approval of the UK Panel on Takeovers and Mergers. During 2013 the Company incurred legal costs on the acquisition of Kenai Resources Limited but the overall costs relating to the loan and share placing resulted in an overall increase of US$122,000 in 2014 by comparison with the 2013 financial year. The Company has also incurred an arrangement fee of US$50,000 in respect of a trade finance facility relating to advance payments for its sales of copper/gold concentrate and US$44,000 relating to the evaluation of other projects.

(iii) Administration costs incurred in Brazil have increased by US$313,674. 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.

(iv) Costs relating to bonus payments made by the Company to senior management personnel in the twelve month period ended 31 December 2014 have decreased by US$96,000 in comparison to the payments made during the same period of 2013.

Share-based payments decreased by US$46,166 from US$304,764 for the twelve month period ended 31 December 2013 to US$258,598 for the twelve month period ended 31 December 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 31 December 2014 is in respect of options granted between 1 January 2011 and 31 December 2014.

For the financial year ended 31 December 2014, the impairment provision of US$2,590,532 which was first established in 2009 was reversed. The impairment provision was made up of a provision against Mining Property of US$2,123,814 and US$466,718 against Plant and Equipment.

There has been a write-back of a provision for contingencies of US$298,088 relating to a provision which was held at 31 December 2103 for potential labour settlements which the Company considers to be no longer required.

There was no write-off of deferred exploration costs during the twelve month period ended 31 December 2014. Deferred exploration expenditure totalling US$1,007,233 was written of during the twelve month period ended 31 December 2013 (2013 US$Nil). This exploration expenditure related to work carried out on the Pizon project located in the Amazonas state and was carried out before 2008. The Board determined that the project is no longer a priority for the Group and no further work is planned in the immediate future.

The Company recorded a foreign exchange loss of US$33,742 in the twelve month period to 31 December 2014 which compares with a foreign exchange loss of US$170,358 recorded for the twelve months ended 31 December 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 finance income for the twelve month period to 31 December 2014 was US$1,190,318 compared with US$366,967 for the twelve month period ended 31 December 2013. An analysis of the composition of these charges is set out in the table below:

	31 December 2014	**31 December 2013**
	US$	**US$**
Fee for provision of short-term loan	–	225,000
Interest on trade financing loan	228,510	–
Interest on short-term loan	101,782	26,630
Finance Cost on Sprott Loan	120,000	–
Asset Finance charges	81,501	55,320
Interest on Sprott Loan	79,726	–
Interest expense on convertible loan stock	75,763	67,951
Other interest and finance expenses	–	(359)
	687,282	374,542
Finance income	(366,962)	–
Gain on revaluation of warrants	(1,350,827)	–
Gain on revaluation of Sprott derivative	(123,670)	–
Interest income	(36,141)	(7,575)
	(1,190,318)	366,967

The interest on trade finance loans of US$228,510 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 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 costs relating to the Sprott loan comprise the pro-rated charges for the quarter of the arrangement fees in respect of this transaction and the amortisation charge for the quarter of the fair value ascribed to the call option granted to Sprott over 4,812 ounces of gold at a price of US$1,285 per ounce. The arrangement fees were US$280,000 and the fair value of the derivative was US$320,000. Both are being amortised over the life of the loan which is for a 15 month period expiring 31 December 2015.

Asset finance charges for the year of US$81,501 relate to mining equipment acquired under supplier credit terms. The first instalment was settled in June 2013 when the first item was received in Brazil. The lease terms are for a three year period and bear interest at the rate of 6.45% per annum. Lease interest charges are reducing as the capital element of the financing is paid down in monthly instalments.

The interest on the Sprott loan of US$79,726 is the cost of the first three months of interest paid in relation to the loan provided by Sprott Resource Lending Partnership LLP.

The interest expense relating to the convertible loan represents the amortisation of the fair value of the equity portion of this convertible loan stock prior to its repayment in October 2014. The deemed interest charge calculated under IAS 32 increases annually as the equity portion is amortised and the loan value increased.

The finance income receivable of US$366,962 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.

As part of the share placing completed by the company on 3 March 2014, the Company issued 100,000,000 warrants at an exercise price of 6 pence. At the date of issue the Company valued these warrants using a Black-Scholes model at US$ 1.68 million. Warrants are normally considered as part of equity but in this instance because the exercise price of the warrant is denominated in UK Sterling and the functional currency of the Company is US Dollars, under IAS 32 the warrants are not considered to be equity but instead a liability of the Company at the time of issue. At 31 December 2014, the Company has revalued the warrants in accordance with fair value accounting principles and determined that the value of the warrants at 31 December 2014 has reduced to US$332,173. The gain on this revaluation amounting to US$1,350,827 has been recorded as finance income and the liability reduced by the same value.

The finance income of US$123,670 relates to the gain on the revaluation of the derivative at the period end provided to Sprott Resource Lending Partnership LLP.

The other income received of US$36,140 relates to interest received in both the UK and Brazil on various bank accounts held by the Company and reflects prevailing interest rates and the levels of balances held on short-term deposits.

Summary of financial results for the three most recently completed financial years	**For the year ended 31 December 2014 US$**	**For the year ended 31 December 2013 US$**	**For the year ended 31 December 2012 US$**
Revenue	12,627,784	–	–
Loss from continuing operations	(174,401)	(6,264,233)	(4,736,986)
Total assets less current liabilities	71,537,472	62,759,262	41,449,694
Total non-current liabilities	4,618,921	2,724,555	2,188,693
Distribution of cash dividends	–	–	–
Loss per ordinary share (basic and diluted)	(0.03c)	(1.60c)	(5.29c)

As noted in this review, the Company has transitioned over the past 3 years from an exploration and development company, to become a gold producer in 2014 having declared commercial production at its Palito Mine effective from 1 July 2014. Its losses in the last two years have principally reflected the administrative costs of the business, exploration and development costs that have not been capitalised or past exploration and development costs have been written off. At the beginning of 2013 it embarked on the preparation of a Preliminary Economic Assessment for its Palito Mine and secured access to finance to commence development of the Palito Mining operation during the second half of 2012. The development of the Palito Mine continued during 2013 with commissioning of the major part of the gold processing plant completed in December 2013 and the first shipment of copper/gold concentrate leaving the Palito Mine during February 2014.

The growth in its asset base reflects the raising of capital that has taken place in each year which has primarily been used to finance the development and construction of the Palito Mine and for the acquisition and development of the Sao Chico Mine.

The financial statements have been prepared for each of the last years on a consistent basis and as described in the audited financial statements for each of the last three financial years. The adoption of new accounting standards are not considered to have had any material effect on the financial statements of any prior period had those financial statements been prepared using any new accounting standard.

Summary of quarterly results	Quarter ended 31 December 2014 US$	Quarter ended 31 September 2014 US$	Quarter ended 30 June 2014 US$	Quarter ended 31 March 2014 US$
Revenues	7,374,461	5,253,323	–	–
Operating expenses	(6,319,134)	(3,378,532)	–	–
Amortisation of mine property	(1,657,307)	(677,555)	–	–
Depreciation of plant and equipment	207,438	(239,849)	–	–
Gross profit/(loss)	(394,542)	957,387	–	–
Administration expenses	(619,941)	(1,243,580)	(1,482,040)	(911,979)
Depreciation of plant and equipment	–	–	(140,322)	(125,983)
Option costs	(109,165)	(76,006)	(43,840)	(29,587)
Write-back of provision for contingencies	298,088	–	–	–
Write-back of provision for impairment	2,590,532	–	–	–
Operating profit / (loss)	1,764,972	(362,199)	(1,666,202)	(1,067,549)
Exchange	25,419	(68,037)	18,794	(9,918)
Net finance income / (cost)	1,366,995	24,806	(21,329)	(180,154)
Profit / (loss) before taxation	3,157,386	(405,430)	(1,668,737)	(1,257,621)
Profit / (loss) per ordinary share (basic)	0.48 cents	(0.06) cents	(0.25) cents	(0.24) cents
Deferred exploration costs	11,799,271	24,888,399	26,508,924	25,607,411
Property, plant and equipment	54,103,898	39,381,145	43,412,368	38,549,235
Total current assets	27,159,740	21,878,828	18,040,230	19,954,894
Total assets	93,062,909	86,148,372	87,961,522	84,111,540
Total liabilities	26,144,358	16,259,911	10,614,015	6,936,353
Shareholders' equity	66,918,551	69,888,461	77,347,507	77,175,187

Summary of quarterly results	Quarter ended 31 December 2013 US$	Quarter ended 31 September 2013 US$	Quarter ended 30 June 2013 US$	Quarter ended 31 March 2013 US$
Revenues	–	–	–	–
Operating expenses	–	–	–	–
Gross profit/(loss)	–	–	–	–
Administration expenses	(872,677)	(816,887)	(655,607)	(908,753)
Provision for indirect taxes	(213,220)	(263,250)	(150,026)	–
Option costs	(161,226)	(47,846)	(47,846)	(47,846)
Write-off of past exploration expenditures	(1,007,233)	–	–	–
Depreciation of plant and equipment	(186,000)	(127,850)	(112,974)	(107,667)
Operating loss	(2,440,356)	(1,255,833)	(966,453)	(1,064,266)
Exchange	(36,618)	98,078	23,400	(255,218)
Net finance cost	(268,589)	(44,174)	(14,462)	(39,742)
Loss before taxation	(2,745,563)	(1,201,929)	(957,515)	(1,359,226)
Loss per ordinary share (basic and diluted)	(0.60) cents	(0.27) cents	(0.27) cents	(0.43) cents
Deferred exploration costs	24,659,003	25,950,041	16,375,076	17,696,480
Property, plant and equipment	36,008,318	36,603,692	30,228,704	29,187,365
Total current assets	9,020,774	10,134,384	17,758,039	21,881,077
Total assets	69,688,095	72,688,117	64,361,819	68,764,922
Total liabilities	9,653,388	7,504,716	5,432,817	4,857,524
Shareholders' equity	60,034,707	65,183,401	58,929,002	63,907,398

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 of US$101,782 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.

On 26 September 2014 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 31 December 2014 the Group's net assets amounted to US$66.92 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 net assets arising from the reported loss for the twelve month period of US$1.53 million and the exchange differences resulting from the translation of the results of foreign operations which have totalled US$7.97 million for the twelve month period to 31 December 2014.

Non-current assets totalling US$65.90 million at 31 December 2014 (31 December 2013: US$60.67 million), are comprised of property, plant and equipment, which as at 31 December 2014 totalled US$54.10 million (31 December 2013: US$36.01 million) of which US$41.07 million is attributable to the Palito Mine property and US$13.03 million attributable to the Sao Chico Mine property. Costs at 31 December 2013 of US$10.8 million which had previously been categorised as Projects in Construction and representing expenditure incurred on the redevelopment of the Palito Mine have been re-categorised during 2014 as Mining Property following the declaration of Commercial Production effective 1 July 2014. Total additions to Mine Asset during 2014 were US$6.14 million. Of this amount US$1.185 million represents capital expenditure on the mine development incurred during the year. This reflects the costs of vertical development within the mine, mainly the deepening of the ramp, or other development activity that will be of economic benefit over the life of the mining operation, such as the installation of long term ventilation and secondary points of egress and safety refuges. A further US$1.37 million represents an increase in the provision that has been established for the future rehabilitation of the Palito Mine and the wider Palito site at the end of its life. This provision as at 31 December 2014 is US$2.26 million. The remaining additions of US$3.58 million represent the pre-operating costs net of revenues generated in the 6 months to 30 June 2014 which were capitalised prior to the declaration of commercial production which was effective as of 1 July 2014. The total value ascribed to the Mining Property which amounts to approximately US$38.11 million is now being amortised over the expected recoverable ounces, a figure derived from the Preliminary Economic Assessment issued in June 2012.

Following the decision taken by the Company at the end of 2013, to commence development of its Sao Chico gold project, capitalised costs associated with this project which at 31 December 2013 amounted to US$9.81 million were transferred from Deferred Exploration and Development costs to the asset category Projects in Construction. Additional development expenditures of US$2.6 million have been incurred during 2014 of which the majority relates to the salaries and consumable costs incurred on the surface and underground mine development undertaken during the year. However US$0.65 million represents a provision that has been established for the future rehabilitation of the Sao Chico site at the end of its life. This provision is based on the actual estimated costs of the remediation work that is anticipated to be required. This estimated cost is then in accordance with best practice inflated using the prevailing local inflation rate and then discounted back to current value using the local prevailing interest rates. The Company has also made a provision for a property acquisition payment that is due to a past owner of the Sao Chico property valued at US$2.26 million and which the Company will pay by instalments with the first payment being due in 2015.

These capitalised costs incurred in the redevelopment of the Sao Chico project will be amortised on a unit of production basis when the project is completed and following an announcement by the Company that commercial production has been achieved.

Deferred exploration costs as at 31 December 2014 totalled US$11.8 million (31 December 2013: US$24.7 million) which 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).

The Group had a working capital position of US$5.63 million at 31 December 2014 compared to US$2.09 million at 31 December 2013 the movements being detailed in the table below:

	December 2014 US$	**December 2013 US$**	**Variance US$**
Current assets			
Inventories	8,070,215	3,890,880	4,179,335
Trade and other receivables	6,772,046	75,977	6,696,069
Prepayments	2,503,877	1,264,654	1,239,223
Cash and cash equivalents	9,813,602	3,789,263	6,024,339
Total current assets	**27,159,740**	**9,020,774**	**18,138,966**
Current liabilities			
Trade and other payables	4,601,337	2,871,546	1,729,791
Interest bearing liabilities	16,228,220	3,790,363	12,437,857
Derivative financial liabilities	528,503	–	528,503
Accruals	167,377	266,924	(99,547)
Total current liabilities	**21,525,437**	**6,928,833**	**14,596,604**
Working capital	**5,634,303**	**2,091,941**	**3,542,362**
Non-current liabilities			
Trade and other payables	1,424,798	410,330	1,014,468
Provisions	2,829,468	1,480,665	1,348,803
Interest bearing liabilities	364,655	833,560	(468,905)
Total non-current liabilities	**4,618,921**	**2,724,555**	**1,894,366**

The increase in the cash balances of US$6.02 million includes US$8 million that has been drawdown under the credit facility provided by Sprott Resource Lending Partnership which is being 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 of 2014, 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 31 December 2014 the company had produced 1,467 wet tonnes of copper/gold concentrate of which revenue has been recognised for 1,100 tonnes which had been delivered.

As at 31 December 2014 the Company was owed US$6.20 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$4.2 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 tonnes that had been established on surface in preparation for processing. At the 31 December 2014 this coarse ore stockpile had decreased to approximately 10,150 tonnes with a value of US$1.05 million. The valuation of the ore is calculated by reference to the most recent months of activity and unit cost variances from one period to the next will therefore reflect the mix between production ore, development ore and development waste and also the relative rates of productivity. The reduction in the unit values per tonne between December 2013 and December 2014 reflects the higher ratio of ore to waste being mined in the last quarter of 2014. 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 and fourth quarters of 2014 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 mine is now considered to have settled into a steady pattern and it is expected that recent unit costs of inventory should remain relatively constant going forward.

The Company had established by 31 December 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$2.34 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$0.17 million worth of material which was in the course of production in its gold processing plant.

At the 31 December 2014, the Company had on hand an inventory of approximately 367 wet metric tonnes of copper/gold concentrate either at Palito (87 tonnes), en-route to the port of Belem (120 tonnes) or en route to Hamburg, Germany (160 tonnes). The value of this inventory of copper/gold concentrate awaiting sale was approximately US$3.13 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 31 December 2014 of US$0.91 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 US1.25 million from US$1.26 million at 31 December 2013 to US$2.50 million at 31 December 2014. The prepayments represent:

   a. The Company has incurred transaction costs in respect of the negotiation of a US$8 million loan facility with Sprott Resource Lending. These transaction costs are being amortised over the 15 month life of the loan facility. As at 31 December 2014 the amount remaining to be amortised during 2015 was US$526,000 (31 December 2013: US$Nil).
   b. Prepaid taxes in Brazil amounting to US$1.3 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$0.2 million in comparison to the prior year due to an increase in the level of activity and thus recoverable social taxes the Company expects to recover as at 31 December 2014.
   c. Supplier down-payments reflecting the timing and level of development and construction activity currently being undertaken at the Company's operations to complete the additional works around the gold process plant in readiness for commencing the processing of ore from Sao Chico in the second quarter of 2015. 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$0.54 million (31 December 2013: US$0.14 million).

Current liabilities have increased from US$6.93 million at 31 December 2013 to US$21.2 million at 31 December 2014. The two major components of this increase are the short term facility to finance the sale of copper/gold concentrate which at 31 December 2014 was US$7.8 million and the funds advanced under the US$8.0 million credit facility with Sprott Resource Lending. During March 2014 the Company repaid a short term shareholder loan of which US$2.5 million had been advanced at the end of 2013. Excluding the movements in these interest-bearing liabilities other movements in trade and other payables and accruals are relatively low and in particular when considered in the light of the significant increase in the level of operational activity being undertaken by the Company at the end of 2014 compared with the end of 2013.

Trade and other payables amounting to US$4.60 million 31 December 2014 compare with an amount owed by the Company of US$2.87 million at 31 December 2013, an increase of US$1.73 million. The Company has recorded a provision at the end of the 2014 financial year for a property acquisition payment that is due to a past owner of the Sao Chico property valued at US$2.26million and which the Company will pay by instalments with the first payment being due in 2015. Of this amount US$1.09 million is due within one year and the remainder of the payment valued at US$1.17 million will be paid in 36 instalments commencing in 2016. In addition to this liability Trade Creditors have increased by US$0.57 million in comparison to 31 December 2013 of which US$0.36 million reflects the increased levels of operational activity and operating equipment being utilised for mining and gold processing operations. A further US$0.2 million is accounted for by higher levels of creditors at the end of 2014 at the corporate Head Office principally reflecting charges due for the legal costs relating the Sprott loan transaction.

The liability for derivatives of US$0.53 million represents US$0.2 million in respect of the fair value of a call option over 4,812 ounces of gold at a strike price of US$1,285 per ounce, granted to Sprott as part of the US$8 million loan facility. The fair value of this call option is being amortised over the 15 month life of the loan which expires on 31 December 2015. The remaining US$0.33 million relates to the valuation of 100,000,000 warrants with an exercise price of 6 pence, issued as part of the share placing completed by the company on 3 March 2014. At the date of issue the Company valued these warrants using a Black-Scholes model at US$ 1.68 million. Warrants are normally considered as part of equity but in this instance because the exercise price of the warrant is denominated in UK Sterling and the functional currency of the Company is US Dollars, under IAS32 the warrants are not considered to be equity but instead a liability of the Company at the time of issue. At 31 December 2014, the Company has revalued the warrants in accordance with fair value accounting principles and determined that the value of the warrants at 31 December 2014 has reduced to US$332,173. The gain on this revaluation amounting to US$1,350,827 has been recorded as finance income and the liability reduced by the same value.

Interest-bearing liabilities due within one year have increased by US$12.44 million from US3.79 million at 31 December 2013 to US16.23 million at 31 December 2014. The primary components of this increase are noted above, and in addition there has been a small increase of US$0.12 million in finance lease obligations reflecting an additional lease arrangement entered into by the Company during 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 31 December the total funds received by the Company under this facility was US$16.21 million of which US$8.44 million has been repaid out of the receipts from the sale of copper and gold following refining and the remaining sum of US$7.76 million is owed by the Company at the period end and will be repaid from the sale of the copper and gold extracted from the concentrate when the refining of the unprocessed material is completed. The total amount of monies received of US$16.21 million represents the advance payments of the 1,100 tonnes of recognised sales as well as a further 160 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.

The Company acquired certain assets during 2013 and 2014 under finance leases. At 31 December 2014 the Company had liabilities under these financial leases of US$0.72 million due within one year (31 December 2013: US$0.60). The leases are for a term of three years and carry interest at a rate of 6.45% per annum. (See below for further details on the amounts owed in more than one year).

The Company repaid on 31 October 2014 a convertible loan stock instrument for UK£300,000 (31 December 2013: US$440,083).
Non-current liabilities have increased by US$1.89 million from US$2.72 million at 31 December 2013 to US$4.62 million at 31 December 2014 of which US$1.17 million relates the property acquisition payment due to the past owner of the Sao Chico property.

Liabilities under lease finance arrangements have reduced by US$0.58 million and the lease agreements continue to mature whilst long term trade liabilities have reduced by US$0.15 million again as staged payment settlement agreements mature.

The Company makes provision for the future estimated rehabilitation costs for its mine sites at Palito and Sao Chico. The value of the provision carried by the Company has increased from US$1.48 million at 31 December 2013 to US$2.83 million at 31 December 2014. Of the increase US$0.57 million represent the discounted value of the estimated future costs relating to the remediation of the Sao Chico Mine site whilst approximately US$1.21 million is attributable to a re-estimation of the likely future costs required for the remediation of the Palito Mine site. The Company has during the year released US$0.30 million in provisions for other potential liabilities that it now considers are no longer required.

The Company does not have any asset backed commercial paper investments.

Non-IFRS Financial Measures

The gold mining industry has sought to establish a common voluntary standard to enable investors to assess and compare the performance of companies engaged in gold mining activities. The Company has elected to provide calculations of Cash Costs and All-In Sustaining Costs and has conformed its calculation of these performance measurements with the guidance notes released by the World Gold Council. The measures seek to capture all of the important components of the Company's production and related costs. In addition, management utilizes these and similar metrics as a valuable management tool to monitor cost performance of the Company's operations. These measures 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 and all-in sustaining cost

The following table provides reconciliation between non-IFRS cash cost and non IFRS all-in sustaining cost to production costs included in cost of sales as disclosed in the consolidated statement of comprehensive income. Data is only provided for those quarters since the declaration of commercial production which was effective as of 1 July 2014.

	Q3 2014 (US$)	Q4 2014 (US$)	Average July to December 2014 (US$)
Total operating costs (calculated on a sales basis)	3,378,531	6,319,134	9,697,665
Add/(subtract)			
Finished goods and WIP inventory stock adjustment	2,224,434	(485,669)	1,738,765
Grossing up of revenue for metal deductions	–	424,654	424,654
Adjustment for refining, treatment, shipping and royalties on a production basis	178,324	–	178,324
By-product credits	(774,190)	(691,062)	(1,465,252)
Total cash cost of production	5,007,099	5,567,057	10,574,156
Corporate G&A	1,243,580	1,148,179	2,391,759
Share-based remuneration	76,006	109,166	185,172
Capitalised cost for mine development	247,532	385,055	632,587
All-In Sustaining cost of production	6,574,217	7,209,457	13,783,674

	Q3 2014 (ounces)	Q4 2014 (ounces)	Total to December 2014 (ounces)
Gold ounces produced	5,515	7,819	13,334

	Q3 2014 (US$)	Q4 2014 (US$)	Average July to December 2014 (US$)
Total cash cost of production (per ounce)	US$908	US$712	US$793
Total All-In Sustaining Cost of production (per ounce)	US$1,192	US$922	US$1,034

Contractual commitments

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

The Group holds certain exploration prospects which require the Company 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 these exploration properties in which the Group has an interest is US$92,000 (2013: US$174,000).

		Payments due by period			
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	$	**$**	**$**	**$**	**$**
Long term debt	8,000,000	8,000,000	—	—	—
Capital lease obligations	1,084,829	720,174	364,655	—	—
Operating leases	369,580	155,729	213,852	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	**9,454,409**	**8,875,903**	**578,507**	—	—

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 Ltd, 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. 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$101,782 as at the date of the repayment of the loan facility.

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.

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.

Financial and other instruments

The Company's financial assets at 31 December 2014 which comprise other receivables and cash, and in the case of the Company include amounts due from subsidiaries, are classified as loans and receivables. All of the Company's financial liabilities which comprise trade and other payables and interest bearing liabilities, are classified as liabilities measured at amortised cost.

The Company, through its arrangements with Auramet Trading LLC and with Sprott Resource Lending, entered into the following derivative transactions.

Under its arrangements with Auramet it enters into short term hedging of a significant portion (90 to 95%) of its gold sales protecting the ability of the Group against price variations between the date that it secures loan advances from Auramet for a specific shipment and the pricing that it will received under its contractual arrangements with the refinery to whom the gold is finally sold. The arrangements are revalued at fair value at the period end and any income or expense arising taken to the income statement.

The Company granted a call option to Sprott over 4,812 ounces of gold at a price of US$1,285 for a period expiring on 31 December 2015. The fair value at the date of the grant of these options is charged to the income statement over the option period. The option was revalued at the period end and any gain or loss arising on the revaluation has been taken to the income statement.

The Company had not entered into any derivative transactions during the 12 months ended 31 December 2013.

The main financial risks arising from the Group'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 is 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 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.

Whilst not representing a financial instrument at the end of the current financial year the company carried inventory valued at US$7.16 million comprising US$3.59 million of copper/gold concentrate representing 367 tonnes of material awaiting sale and US$3.57 million of material's in process. Of the copper/gold concentrate the Company had at the end of the year entered into arrangements fixing prices for approximately 95% of the gold content within 120 tonnes of this material. However all other inventory as at 31 December 2014 which is unsold is subject to future variation in commodity prices and accordingly the results for the year and the equity position of the Group and of the Company may be affected by any change in commodity prices subsequent to the end of the year.

Interest rate risk

The Group and Company has historically financed its operations through equity financing. In October 2014 the Company repaid a convertible loan of UK£300,000 which bore interest at the rate of 1% per annum compounded.

During 2013 and 2014 the Group and the Company have taken out fixed rate finance leases for the acquisition of some equipment and have utilised floating rate short term trade finance in respect of sales of 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 million 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.

Liquidity risk

Historically 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.

On 26 September 2014, 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.

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.

The Company has a trade financing arrangement for up to US$7.5 million with Auramet Trading LLC for the sale of its copper/gold concentrate production which is sold to a European refinery. Under the terms of this financing arrangement Auramet will advance to Serabi up to 95% of the gold content of a shipment of copper/gold concentrate secured against the final sale proceeds from the refinery. The period between the date of advance and settlement varies depending on the date of arrival at the refinery but is between 100 and 120 days. Interest is charged at 5.0% above 3 month US$ LIBOR. The arrangements oblige the Company to fix the price of the gold that is subject to an advance payment and in so doing eliminate the pricing risk between the date of the advance and the contractual settlement terms with the refinery.

As at 31 December 2014, in addition to the Sprott Facility and the Auramet facility, the Company had obligations under fixed rate finance lease amounting to US$1,084,829.

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.

The following table sets out the maturity profile of the financial liabilities as at 31 December 2014:

	2014		2013	
	Group	Company	Group	Company
	US$	US$	US$	US$
Due in less than one month	4,934,049	2,877,961	4,017,563	2,750,000
Due between one month and three months	5,376,028	4,347,302	2,304,650	1,920,245
Due between three months and one year	11,047,983	10,525,024	339,696	–
Total due within one year	21,358,060	17,750,287	6,661,909	4,670,245
Due more than one year	1,789,453	203,016	1,243,890	833,560
Total	23,147,513	17,953,303	7,905,799	5,503,805

Currency risk

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

Share issues have historically been priced solely in Sterling but the issue of Special Warrants undertaken in December 2010 and the 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 and also in US Dollars, Sterling, Euros and Australian Dollars.

The functional currency of the Group's operations is US Dollars, which is also the reporting currency. The Group's cash holdings at the balance sheet date were held in the following currencies:

	Group	
	31 December 2014 US$	31 December 2013 US$
US Dollar	8,586,208	2,577,709
Canadian Dollar	106,031	236,132
Sterling	361,406	579,904
Australian Dollar	29,479	7,554
Euro	250,737	62,686
Brazilian Real	479,741	325,278
Total	9,813,602	3,789,263

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

The Group is exposed to foreign currency risk on monetary assets and liabilities, including cash held in currencies other than the functional currency of operations.

The exposure to this risk is managed through the majority of expenditure and cash holdings being denominated in the same currency as the functional currency of individual subsidiaries within the Group. Income is generated in US Dollars. However this exposure to currency risk is managed where the income is generated by subsidiary entities whose functional currency is not US Dollars by either being settled within the Group or in the same month that the sale is transacted where settlement is with a third party.

The Group 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 Group 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.

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$16,585,648 (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 currently sells all of its gold bullion to a single customer. The Group seeks to receive full settlement by bank transfer on delivery of its product to the purchaser to minimise its exposure to any credit risk on that customer.

The Group sells all of its copper/gold concentrate production to a single customer, a publicly quoted major copper smelter located in Europe. Settlement terms are in accordance with industry norms. The customer has a strong reputation within the industry and has a good credit risk history. As at the balance sheet date there were no amounts owed to the Group that were overdue.

Subsequent events

Between the end of the financial period and the date of this management discussion and analysis, the Brazilian Real, the national currency of Brazil, has reduced in value in comparison to the United States dollar, the reporting currency of the Company by approximately 20%. On 31 December 2014 the exchange rate for US$1.00 was BrR$2.6556. As at 27 March 2015 the exchange rate for US$1.00 was BrR$3.225. Many of the Company's assets and liabilities and in particular the value attributed to non-current assets are recorded in Brazilian Reais. The value of the Company's net assets and liabilities will have been significantly impacted by this devaluation of the Brazilian Real. The Company sources the majority of its operational consumables in Brazilian Reais and salaries of all its Brazilian employees are denominated and paid in Brazilian Reais and therefore the Company's operating costs are subject to variation as a result of movements in the exchange rate between the United States Dollar and the Brazilian Real. 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 are based on management's best knowledge of the relevant facts and circumstances. However these judgements and estimates regarding the future are a source of uncertainty and actual results may differ from the amounts included in the financial statements and adjustment will consequently be necessary. Estimates are continually evaluated, based on experience and reasonable expectations of future events.

Accounting estimates are applied in assessing and 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 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 other property, plant and equipment

Determining whether mining assets are impaired requires an estimation of the value in use of the cash-generating units ("CGU's). The value in use calculation requires the entity to estimate the future cash flows expected to arise from a CGU and a suitable discount rate in order to calculate present value. A CGU is a group of assets that generates cash inflows from continuing use. Given their interdependences and physical proximity, the Palito and Sao Chico mines are considered to be a single CGU.

As described in note 1(d) (iv), 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 regarding the key assumptions made in assessing the value in use.

Provisions and contingent liabilities

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.

Mineral resources

Quantification of mineral resources requires a judgement on the reasonable prospects for eventual economic extraction. These judgements are based on assessments made in accordance with the provisions of Canadian National instrument 43-101. These factors are a source of uncertainty and changes could result in an increase or decrease in mineral resources and changes to the categorisation or mineral resources between Ore Reserves, Measured and Indicated Resources and Inferred Resources. This would in turn affect certain amounts in the financial statements such as depreciation and closure provisions, which are calculated on projected life of mine figures, and carrying values of mining property and plant which are tested for impairment by reference to future cash flows based on projected life of mine figures.

Development and deferred exploration expenditure

The recoverability of exploration expenditure capitalised within intangible assets is assessed based on a judgement about the feasibility of the project and estimates of its future cash flows. Future gold prices, operating costs, capital expenditure and production are sources of estimation uncertainty. The Group periodically makes judgements as to whether its deferred exploration expenditure may have been impaired, based on internal and external indicators. Any impairment is based on a variety of estimates and opinions and may include estimates of future cash flows. In particular, the Group recognises that, if it decides, or is compelled due to insufficient funding, to withdraw from exploration activity at a project, then the Company would need to assess whether an impairment is necessary based on the likely sale value of the property.

Inventory valuation

Valuations of gold in stockpiles and in circuit require estimations of the amount of gold contained in, and recovery rates from, the various work in progress. These estimations are based on analysis of samples and prior experience. A judgement is also required about when stockpiles will be used and what gold price should be applied in calculating net realisable value; these are both sources of uncertainty.

Commercial production

Following the commencement of development and construction work intended to advance a mining project into commercial production, the Board will consider and approve the criteria that they will apply in assessing when that mining project has achieved commercial production. These criteria may be agreed in conjunction with other stakeholders particularly financing parties and lenders. There are no set regulations or standards to be applied but the criteria set will primarily consider the performance of the project compared to projections and generally these criteria will be measured over a continuous period of time. The judgements made and the relative performance measures will be based on the Board's view of the complexity and the relative importance of certain key activity areas in determining the long term commerciality of the mining project.

Restoration, rehabilitation and environmental provisions

Such provisions require a judgement on likely future obligations, based on assessment of technical, legal and economic factors. The ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including the timing of expenditure, the discount, inflation ad foreign exchange rates used in calculating the current value of future expenditures and the projected scale of disturbance that is anticipated at the end of the project life.

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 2014, 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 2014.

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 2014, 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 2014, 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 twelve month period ended 31 December 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 30 March 2015:

Ordinary Shares	656,389,204
Stock Options	53,846,285
Other Warrants	100,000,000
Fully diluted ordinary shares outstanding	810,235,489

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 343,613,166 Ordinary Shares in the Company and 76,250,000 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 and readers should also refer to the Company's Annual Information Form filed on SEDAR at www.sedar.com and the Company's website at www.serabigold.com which contains additional discussion of risks and in particular risks for investors in the Company's securities. 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.

ECONOMIC RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
Changes in gold prices	The profitability of the Company's operations is dependent upon the market price of gold. Gold prices fluctuate widely and are affected by numerous factors beyond the control of the Company. 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.	***High***	Management closely monitors commodity prices and economic and other events that may influence commodity prices. The Board will use hedging instruments if and when it considers it appropriate.
Currency fluctuations may affect the costs of doing business and results of operations.	The Company's major products are traded in prices denominated in US dollars. The Company incurs most of its expenditures in Brazilian Reais although it has a reasonable level of expenses in US Dollars and UK Pounds and other currencies.	***Medium***	Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
Future exploration 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.	***Medium***	Management undertakes exploration only following careful evaluation of opportunities and designs programmes that seek to ensure that expenditure is carefully controlled and can be ceased at any time that management considers that the exploration prospect is unlikely to be commercially viable and does not warrant further evaluation.
No guarantee that the Company's Applications for exploration licences and mining licences will be granted. ***Existing exploration licences may not be renewed or approved or converted into***	There is no guarantee that any application for additional exploration licences will be granted by the Departamento Nacional do Produção Mineral ("DNPM"). The DNPM can 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 exploration licence for the Sao Chico property expired March 2014. The Company has begun the process of applying for a full	***High***	Management maintains on-going dialogue with the DNPM and other relevant government bodies regarding its operations to ensure that such bodies are well informed and also to help ensure that the company is informed at an early stage of any issues of concern that such bodies may have. The Company employs staff and consultants who are experienced in Brazilian mining legislation to ensure

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
mining licences. ***Title to any of the Company's mineral properties may be challenged or disputed***	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. 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.		that the Company is in compliance with legislation at all times.
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.	***High***	Management has made its own assessment of the Sao Chico gold project and concluded that the commencement of development mining is the most appropriate next stage of evaluation having considered all the current available information. Management is confident, based on its experience and knowledge, that the Sao Chico project will be a commercially viable mining operation.
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 that it will use cash flow generated from operation at Palito and Sao Chico 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.	***Low***	Management of capital resources is a high priority for the Company and prior to taking any development decision the Company will seek to ensure, to the greatest extent possible, that the development is fully funded and will manage the development budgets and programmes to minimise and anticipate any potential budget over-runs.
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 disruption to operations. Delays in construction or reaching Commercial Production in connection with the Company's development of its Sao Chico mine would increase its operating costs and delay revenue	***Medium***	Management is experienced with similar mining operations and has gained valuable operational experience at Palito. Given the current stage of development of Sao Chico management considers that the risks of any significant delay or cost over-runs are limited.

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
	growth.		
Environmental legislation	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.	***Low***	Environmental regulations are constantly changing and governed by both local and global concerns and initiatives. Management seeks to ensure that it adopts sound and compliant environmental principles. The operations of the Company are relatively small and management does not consider the scale of the operations to have a material environmental impact on its surroundings.
Exposure to mining hazards.	The Company is exposed to a number of risks and hazards typically associated with mining operations including 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.	***Medium***	The Group's operational teams regularly monitor mining risks, and report to the CEO who in consultation with the Board is responsible, on behalf of the Board, for ensuring appropriate measures are in place for anticipating, and responding to, such matters.
If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Company's financial condition and results 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. 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.	***Medium***	The Groups mineral resource estimates are prepared by either in-house staff or third party consultants who have considerable experience and as appropriate are certified in accordance with recognised international standards.
The Company is required to obtain and renew governmental permits and licences in order to conduct mining operations, which can be 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 operations 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	***Low***	The Group maintains good relationships with the appropriate licencing authorities and management are responsible for ensuring that conditions are adhered to and that renewals are submitted in a timely and complete manner.

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
	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.		
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. 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.	*Low*	The Company anticipates that it will be in a position to generate positive cash flow and have re-paid debt by the end of 2015 increasing its relative strength to attract and retain employees and to acquire and develop new properties and projects.

COUNTRY RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
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.	The government of Brazil has been seeking to introduce a new Mining Code for some time and the matter continues to be area of debate. Any new legislation could result in all current applications being cancelled and require applicants to make new applications under the terms of and in compliance with the new Mining Code. Whilst only being re-elected in October 2014, the current government is losing support, the country is struggling economically and the Brazilian Real has fallen by over 35% against the US Dollar since May 2013. Against this backdrop the government may seek to reduce state subsidies on certain goods or, increase taxes and or royalties to boost state income.	***Medium***	The mining industry in Brazil is dominated by a small number of influential local companies and the interests and needs of smaller mining operations can be limited. The Company is affiliated with group's who help promote and lobby for the needs of smaller mining enterprises.

OTHER RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
Finance risk	Many of the Group's assets at the Palito and Sao Chico mines have been pledged as security to Sprott Resource Lending, with whom the company signed a US$8 million credit arrangement during 2014. The Company is	*Low*	The Company is in compliance with its obligations under the loan agreements with Sprott and at the current time anticipates meeting the on-going debt servicing obligations.

OTHER RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
	therefore reliant on meeting its loan obligations with Sprott in order to avoid the potential loss of these assets which could arise from the enforcement of this security.		
Portfolio risk of having a single operating asset	The Company is reliant on a single revenue-generating asset (the Palito gold mine). Any factors that affect production at Palito will consequently have a significant impact on the Group's results.	***Medium***	The commencement of operations at Sao Chico is providing a second source of ore for the Group. The Group remains reliant however on a single process plant although it has some optionality to maintain some production should medium to long term failures be experienced in certain elements of this plant.