



SERABI GOLD

MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the three month period
ended 31 March 2015**

14 May 2015

SERABI GOLD PLC
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Introduction

This Management's Discussion and Analysis ("MD&A") dated 14 May 2015 provides a review of the performance of Serabi Gold plc ("Serabi", the "Company" or the "Group"). It includes financial information from, and should be read in conjunction with, the interim unaudited condensed financial statements of the Group for the three month period ended 31 March 2015 and also read in conjunction with the Group's annual report and audited consolidated financial statements and the Group's MD&A for the twelve month period ended 31 December 2014.

For further information on the Group, 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 Group's website www.serabigold.com

Please refer to the cautionary notes at the end of this MD&A.

The Group 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 Group'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 Group's primary interests are the wholly owned Palito Gold Mine ("Palito") and the Sao Chico Gold Mine ("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 Group 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 Group will truck ore that is mined at Sao Chico across and be processed using the existing gold recovery plant at Palito. Work commenced early in 2014 on earthworks to allow the Group 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 Main Vein was intersected in January 2015, and by the end of April 2015 approximately 440 horizontal metres of ore development has been completed. At the end of March 2015 the high grade stockpile of ore awaiting the commissioning of the Sao Chico production line at the Palito process plant, stood at approximately 2,900 tonnes. The first of this stockpiled ore was transported to Palito during March and April 2015 and the processing of this first development ore from Sao Chico started in the last two weeks of April.

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

On 3 March 2014, the Group 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 Group 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.

Key Financial Information

	3 months to 31 March 2015	3 months to 31 March 2014
	US\$	US\$
Revenue	7,484,215	–
Cost of Sales	(4,859,909)	–
Depreciation and amortisation charges	(1,117,720)	–
Gross profit	1,506,586	–
Profit / (loss) before and after tax	191,398	(1,257,621)
Profit / (loss) per ordinary share (basic)	0.029c	(0.241c)
	As at 31 March 2015	As at 31 December 2014
Cash and cash equivalents	5,794,982	9,813,602
Net assets	56,197,442	66,918,551

Cash Costs and All-In Sustaining Costs

	Q1 2015
Gold ounces produced	7,759
	Q1 2015
Total Cash Cost of production (per ounce)	US\$599
Total All-In Sustaining Cost of production (per ounce)	US\$759

Key Operational Information

SUMMARY PRODUCTION STATISTICS FOR THE QUARTER ENDING 31 MARCH 2015

		Quarter 1
Horizontal development	Metres	1,491
Mined ore	Tonnes	25,812
	Gold grade (g/t)	10.90
Milled ore	Tonnes	31,412
	Gold grade (g/t)	8.52
Gold production ⁽¹⁾	Ounces	7,759

Financial Highlights

- All-In Sustaining Costs for the first quarter of 2015 of US\$759
- Cash holdings of US\$5.8 million at 31 March 2015.
- The Brazilian Real has devalued by approximately 13% since 31 December 2014, providing potential cost benefits for 2015.
- Average gold price of US1,212 received on gold sales in the first quarter of 2015.

Operational Highlights

- Gold production for the quarter totaled 7,759 ounces⁽¹⁾, with March production of 3,005 ounces⁽¹⁾, the highest monthly production level to date with steady production now reached.
- Current forecast for gold production in 2015 remains at approximately 35,000 ounces.
- Processing of ore from Sao Chico commenced at the end of April 2015.

Palito

- Mine production for the quarter totaled 25,812 tonnes of ore averaging 10.90 g/t gold, containing 9,040 ounces.
- Mill throughput for the quarter totaled 31,412 tonnes at a grade of 8.52 g/t.
- Gold recoveries were approximately 91%⁽¹⁾ with Copper recovery estimated at 92%⁽¹⁾.
- Over 300 ounces⁽¹⁾ of gold production from the processing 6,300 tonnes of the surface stockpile of flotation tailings at a grade of 2.64 g/t. A further 50,000 tonnes at approximately 2.5 g/t remains, and this material will be treated through the Carbon in Pulp ("CIP") plant over the next 6 to 8 months.
- At the end of the quarter, the Palito surface stockpiles of coarse ore were estimated at approximately 8,000 tonnes at 5.0 g/t gold.

(1) Gold production figures are subject to amendment pending final agreed assays of the gold content of the copper/gold concentrate and gold dore that is delivered to the refineries.

Sao Chico

- Over 773 metres of sub-horizontal development has now been completed at Sao Chico, 440 metres of which has been in ore through the development of the Main Vein on the first 216mRL development level.
- The Main Vein was initially intersected in January this year exhibiting a true thickness of 3.6 metres at 42.0 g/t gold.
- The main ramp is being driven to the next planned development level and is currently mid-way between the 216mRL and the next planned 178mRL main level.

- During the first quarter of 2015, a high grade stockpile of 2,900 tonnes at 9.75 g/t gold was generated and the transportation of this material to Palito commenced in March 2015. The Sao Chico ore is now being processed concurrently with Palito ore.
- A new surface diamond drill programme at Sao Chico commenced in late March 2015 with 2,200 metres completed to date out of approximately 5,000 metres that are planned. The Company intends to issue a new resource estimation by the end of the third quarter of 2015.

Outlook and Strategy

Palito

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 running down surface stockpiles of ore that have been established over the first 12 months of operations and by the reprocessing, through the Carbon in Pulp (“CIP”) recovery circuit, of the stockpiled tailings accumulated from the initial flotation recovery process during the first three quarters of 2014.

As at the beginning of March 2015 the mine has been developed to the 24 metre relative level (“mRL”) and whilst the Group 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 Group 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 Group 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 Group 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 Group 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 775 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, approximately 30 vertical metres below the portal entrance, in 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.

Approximately 2,900 tonnes of high grade ore development material had been extracted by the end of March 2015, with over 1,100 tonnes processed through the gold recovery plant located at Palito during April 2015.

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 Group 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 Group 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 Aprovimientto 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 Group 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 Group 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 Group 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 Group as well as having the potential to be value enhancing for its shareholders.

Palito Gold Project – Para State, Brazil

History

The Palito gold mine is wholly owned by the Group, 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 Group from late 2003 until the end of 2008. Between the beginning of 2005 until the end of 2008 the Group 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 Group 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 Group 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 (Irirí) River.

In January 2012, the Group 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 Group 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 the first three months of 2015

Management considers that Palito is now in a steady state of operation. Production during the first quarter of 2015 was 7,759 ounces⁽¹⁾ with 3,005 ounces⁽¹⁾ being produced during March 2015, the highest monthly production level to date. Ore and tailings material from Palito remained the sole production source for the Group during the quarter with the processing of run of mine (“ROM”) ore from the Palito Mine, combined with the Palito surface coarse ore stockpiles, and the stockpiled flotation tailings established during 2014.

Performance of the mining operations has exceeded target levels during the quarter with over 25,800 tonnes being extracted during the first quarter of 2015, approximately 14% above projected levels. This additional ore is arising from higher levels of payability in those areas currently being mined than was forecast. The gold grade of the ore being mined during the quarter of 10.90 g/t has also been higher than projected levels. The Group has adopted selective mining (re-suing) in some of the development drives and this has reduced dilution and resulted in higher grades of development ore being extracted from development mining activities.

A total of 1,491 metres of horizontal development was completed during the period which compares with an average of 1,471 per quarter for the last two quarters of 2014. Management remains focused on ensuring that development mining rates are maintained to ensure that adequate stopes are generated each quarter to maintain ore production rates.

The better than forecast mining performance at Palito has resulted in the surface ore stockpiles not being run down to the levels initially forecast and at the end of the first quarter of 2015, this surface stockpile was 7,500 tonnes with an estimated average grade of 5.00 g/t.

Total volumes processed during the quarter were 31,400 tonnes equivalent to an average daily rate of approximately 350 tonnes per day. Milling performance at the start of the quarter was affected by power stoppages resulting from an inconsistent electricity supply CELPA, the regional power supply company. The Group has, in the short term and during the rainy season when grid power is particularly subject to interruption, taken the decision to commit to the use of diesel generated power for the operation of the plant. Management expects that the benefits of increased plant availability will significantly outweigh the increased operational costs.

The Group has also commenced processing of the flotation tailings that were produced during the first three quarters of 2014 through the CIP plant. This material generated prior to the completion and commissioning of the CIP plant at the start of the fourth quarter of 2014, is being used as top-up feed for the CIP plant as and when the opportunity arises. A stockpile of more than 50,000 tonnes of material which management anticipates has an average grade of approximately 2.5 g/t had been established at the start of 2015 and management hopes to be able to process this material during the course of 2015 although this will be dependent of adequate capacity being available in the CIP plant. Priority will always be given to higher grade material and in particular the treatment through the CIP plant of Sao Chico ore.

**SUMMARY PRODUCTION STATISTICS FOR THE
FIFTEEN MONTHS TO 31 MARCH 2015**

		2014				2015	
		Quarter 1	Quarter 2	Quarter 3	Quarter 4	FY 2014	Quarter 1
Horizontal development	Metres	1,491	1,804	1,594	1,348	6,237	1,491
Mined ore	Tonnes	9,666	9,072	32,454	25,308	76,500	25,812
	Gold grade (g/t)	5.03	10.55	11.77	9.28	9.95	10.90
Milled ore	Tonnes	13,766	18,929	24,533	28,759	85,987	31,412
	Gold grade (g/t)	7.43	8.33	9.88	8.95	8.84	8.52
Gold production ⁽¹⁾	Ounces	1,882	3,236	5,515	7,819	18,452	7,759
Average realised price	US\$	— ⁽²⁾	— ⁽²⁾	\$1,199	\$1,220	\$1,230	\$1,212
						Average July to Dec 2014	
		Quarter 1	Quarter 2	Quarter 3	Quarter 4		Quarter 1
Total cash cost of production (per ounce)	US\$	— ⁽²⁾	— ⁽²⁾	\$908	\$712	\$793	\$599
All-In Sustaining Costs (per ounce)	US\$	— ⁽²⁾	— ⁽²⁾	\$1,192	\$922	\$1,034	\$759

(1) Gold production figures are subject to amendment pending final agreed assays of the gold content of the copper/gold concentrate and gold dore that is delivered to the refineries.

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

The mining fleet at Palito is relatively new and comprises four 20 tonne trucks, three underground drilling jumbo rigs and four underground scooptram/loaders. A fourth 20 tonne truck is deployed at Sao Chico on the preparatory works involved in the development of this deposit. The Group also owns

various other mobile equipment including three front end loaders, a bulldozer and other smaller vehicles. Whilst further equipment purchases are planned during 2015 these will primarily be dedicated to Sao Chico and from time to time the Group 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 Group 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 Group, 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 valid to 20 November 2015.

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 Group, 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 Group 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 Group 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 the first three months of 2015

With the completion of the portal in October 2014, the fourth quarter saw underground development begin and by the end of the first quarter 2015 over 550 metres of development had been completed. In January 2015 the ramp development intersected the Main Vein, the principal currently identified structure at Sao Chico, approximately 30 vertical metres below the portal entrance, in 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.

Whilst the Group is continuing to drive the ramp down to the next level at 178mRL where it will intersect the Main Vein again, development of the Main Vein itself on the initial level at 216mRL has

been ongoing since the initial intersection. Over 400 metres of development following the Main Vein to the east and west of the initial intersection had been completed at the end of April 2015 producing a total ore stock of both low grade and high grade ore in excess of 9,000 tonnes.

This ongoing development has demonstrated reasonable continuity with over 100 metres exhibiting the mineralised widths encountered in the initial intersection of the Main Vein. The Group is reconsidering the existing geological model for Sao Chico and will use data gathered from the current 5,000 meters diamond drill programme which commenced late in March 2015 in conjunction with historic data to review its existing understanding of Sao Chico.

The decline ramp is being driven at a 12% gradient initially to two development levels, at the 216 mRL and the 178mRL respectively, 30 vertical metres and 70 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 Group to better evaluate the continuity and payability of the mineralisation. The Group 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 Group expects to see continued good progress at Sao Chico. Ore transportation to Palito began in February and processing of Sao Chico ore commenced in April 2015.

To enable processing of the Sao Chico ore through the Palito gold recovery plant, a separate process line has been established with a dedicated feed hopper which can feed one of the two mills with a dedicated feed of Sao Chico ore. The construction of the hopper was completed at the end of the first quarter 2015 and after an initial commissioning period using ore from Palito, the processing of the Sao Chico ore commenced in the last two weeks of April. Over 9,000 tonnes of high grade and low grade development ore had been extracted by the end of April 2015, and during the same month over 1,100 tonnes of Sao Chico ore was processed through the gold recovery plant located at Palito.

The Group commenced a 5,000 metre drill programme in March 2015 and to date a total of 1,200 metres have been completed in 22 holes. The drilling campaign is 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 the remainder of 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 Aproveitamento Economico which is the next major requirement in the conversion process.

In undertaking the initial earthmoving and development of the mine portal 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, approximately 30 vertical metres below the portal entrance, in 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.

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 Group plans to undertake over 750 metres of ramp development and 2,700 metres of ore development at Sao Chico during the course of 2015.

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 Group has been on the identification and development of satellite ore deposits located in close proximity to Palito. The Group completed two air-borne electro-magnetic (“VTEM”) surveys in 2008 and 2010 over a total area of 14,500 hectares. From these surveys the Group identified a number of geophysical anomalies which it considers worthy of further investigation. During 2010 and 2011 the Group 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.

Palito – Near Mine Exploration

The underground development of Palito is being driven towards the Palito South area but the Group 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 Group intends to use some of this cash flow to advance these exploration opportunities.

Sao Chico Exploration

Sao Chico is located in the South West corner of the JDO Project. During 2013 the Group 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 Group has identified a number of other prospective zones. Once adequate cash-flow is being generated from production operations, the Group intends to use some of this cash flow to advance these exploration opportunities.

Other Exploration Prospects

The Group 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 Group 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 Group 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 Group'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.

Three month period ended 31 March 2015 compared to the three month period ended 31 March 2014

The three month period ended 31 March 2015 represents the first financial quarter of the first full year that the Palito Mine will be in full commercial production following the announcement by the Group on 23 July 2014 that the Palito Mine had achieved commercial production effective as of 1 July 2014. As the Palito Mine operation was in a construction phase during the same period in 2014 there were no sales revenues or operating expenses relating to gold production activities reported in the Income Statement for the three month period ended 31 March 2014 and all costs related to the Palito Mine during this three month period ended 31 March 2014 were capitalised. The Group's Sao Chico Mine is currently in development and all costs related to this operation are being capitalised until commercial production is declared.

The Group has recognised a gross profit for the quarter of US\$1,506,586 (three months to 31 March 2014: US\$nil) and a profit after taxation for the three month period ended 31 March 2015 of US\$191,398 in comparison to a loss of US\$1,257,621 for the three months ended 31 March 2014. The Group has reported total revenue of US\$7,484,215 during the three month period to 31 March 2015 (three months to 31 March 2014: US\$nil).

The gross profit of US\$1,506,586 can be analysed as follows:

	US\$	US\$
Revenue from Ordinary Activity		
Gold Concentrate	4,987,504	
Gold Bullion	1,993,738	
Copper	476,393	
Silver	26,580	
Total Sales		7,484,215
Costs of sales		
Operational costs	(4,103,140)	
Shipping costs	(457,035)	
Treatment charges	(214,602)	
Royalties	(85,132)	
Amortisation of Mine Property	(964,901)	
Depreciation of Plant & Equipment	(152,819)	
Total Operating costs		(5,977,629)
Gross profit		1,506,586

The Group 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 Group's designated smelter is located.

During the first quarter of 2015 the Group recognised total sales of US\$7,484,215. The sales can be separated between sales of copper/gold concentrate of US\$5,490,477 and sales of gold bullion of US\$1,993,738. During the three months to 31 March 2015 the Group produced 459 wet tonnes of copper/gold concentrate, (an estimated 5,048 ounces) but revenue has only been recognised for 420

tonnes, (an estimated 4,242 ounces) which had been delivered to the refinery in Hamburg. The unsold material is held as inventory.

The Group also sold 1,667 ounces of gold bullion earning total revenue of US\$1,993,738 during the first quarter of 2015.

Operating costs of US\$4,103,140 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 three month period amounted to approximately US\$2.0 million, mining consumables including maintenance costs amounted to US\$0.95 million and plant consumables amounted to US\$0.73 million. General site costs of approximately US\$0.4 million make up the balance of the costs.

Shipping costs of US\$457,035 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\$214,602 include US\$198,579 relating to the treatment of the copper concentrate and levied by the refinery in Hamburg, Germany and US\$16,023 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group.

Royalty payments of US\$85,132 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.

Following the commencement of commercial production on 1 July 2014, the Group has begun to amortise the capitalised value of the Palito Mine property. The cost base for the Mine Property is US\$38.97 million, (including a provision for future mine development of US\$5.2m), which has given rise to an amortisation charge for the period of US\$964,901 (three months to 31 March 2014: 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. There was also a depreciation charge of US\$152,819 charged during the period on mining plant and equipment which is an increase of US\$26,836 on the charge of US\$125,983 incurred during the first quarter of the previous year. This is due to the increase in plant and equipment on site as the Group completed the development of the Palito Mine.

The Group has recognised an operating profit before interest and other income of US\$500,062 after incurring US\$905,505 in administrative expenses as well as US\$101,019 on share based payments. 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 March 2015 is in respect of options granted between January 2012 and 31 March 2015.

Administration costs of US\$905,505 for the three month period ended 31 March 2015 are roughly in line with administration costs of US\$911,979 incurred during the period ended 31 March 2014.

- (i) Administration costs incurred in Brazil have decreased by US\$30,300. The main reason for this decrease is due to the movement in the foreign exchange rate between the US Dollar and the Brazilian Real. Administration costs in Brazil in local currency have actually increased by approximately 11% due to the increased level of activity. The decrease is also due in part, to a once off tax charge incurred of US\$35,949 (including fines & penalties) during the first quarter of 2014 in respect of ICMS (a sales related tax) relating to the period 2004-2010. There was no similar charge during the same period of 2015.
- (ii) Corporate costs in London have increased by US\$23,848 for the period ended 31 March 2014 in comparison to the same period the previous year. The primary reasons for this increase are the following:
 - a. The Group incurred legal and arrangement fees during the period relating to the negotiation and documentation for the Spratt loan facility. The total value of these costs of approximately US\$365,000 was incurred during the third quarter of 2014 but accounting convention requires the Group to amortise these cost over the life of the

loan. The amortisation charge for the quarter to 31 March 2015 was US\$75,610. There was no similar expense during the quarter ended 31 March 2014.

- b. During the first quarter of 2015, a pension cost of US\$83,725 was incurred in relation to the Group's Chief Executive as part of remuneration arrangements. No corresponding payment was made during the same period in the previous year.
- c. During the first quarter of 2014 the Group incurred professional fees in relation to the share placement which occurred to raise capital of £10 million. The total decrease in professional fees as a result of this share placement was US\$219,468.
- d. During the first quarter of 2014 the Group also recovered costs of approximately US\$85,000 relating to the acquisition of Kenai Resources Ltd which were set off against other administrative costs.

The Group recorded a foreign exchange gain of US\$228,663 in the three month period to 31 March 2015 which compares with a foreign exchange loss of US\$9,918 recorded for the three month period ended 31 March 2014. These foreign exchange gains and losses primarily arise in respect of the cash holdings of the Group in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Group holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net finance expenses for the three month period to 31 March 2015 were US\$537,907 compared with a net finance cost of US\$180,154 for the same period of 2014. An analysis of the composition of these charges is set out in the table below:

	March 2015	March 2014
	US\$	US\$
Charge on revaluation of warrants	287,590	–
Interest expense on Sprott loan	184,932	–
Interest on trade finance facility	88,342	–
Finance cost on Sprott loan	64,000	–
Finance arrangement fee	42,500	25,000
Interest expense on convertible loan stock	22,796	20,247
Interest on short term loan	–	104,877
Asset finance charges	7,255	30,030
	<hr/>	<hr/>
	697,415	180,154
Finance income	(106,961)	–
Gain on revaluation of derivative	(52,932)	–
Interest income	(194)	–
Net finance expense	<hr/> 537,327 <hr/>	<hr/> 180,154 <hr/>

As part of the share placing completed by the Group on 3 March 2014, the Group issued 100,000,000 warrants at an exercise price of 6 pence. At the date of issue the Group 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 Group is US Dollars, under IAS 32 the warrants are not considered to be equity but instead a liability of the Group at the time of issue. At 31 December 2014, the value of these warrants was US\$332,173. At 31 March 2015, the Group has revalued the warrants in accordance with fair value accounting principles to US\$619,763 and determined that the value of the warrants loss on this revaluation amounting to US\$287,590 has been recorded as a finance expense and the derivative provision liability increased by the same value.

The interest on the Sprott loan of US\$184,932 is the cost of three months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership LLP.

The interest on trade finance loans of US\$88,342 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 Group in respect of the sale of copper/gold concentrates.

The finance cost of US\$64,000 relating to the Sprott loan relates to 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 fee of US\$42,500 is in relation to the renewal of the trade finance facility provided by Auramet Trading LLC in respect of the sales of copper/gold concentrate.

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\$106,961 relates to the income due to the Group arising from short term movements in the gold price between the contractual pricing arrangements with the designated refinery and the price ruling when the Group draws down on the trade finance arrangement that it has in place.

The finance income of US\$52,932 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).

Summary of quarterly results	Quarter ended 31 March 2015 US\$	Quarter ended 31 December 2014 US\$	Quarter ended 30 September 2014 US\$	Quarter ended 30 June 2014 US\$
Revenues	7,484,215	7,374,461	5,253,323	–
Operating expenses	(4,859,909)	(6,319,134)	(3,378,532)	–
Amortisation of mine property	(964,901)	(1,657,307)	(677,555)	–
Depreciation of plant and equipment	(152,819)	207,438	(239,849)	–
Gross profit / (loss)	1,506,586	(394,542)	957,387	–
Administration expenses	(905,505)	(619,941)	(1,243,580)	(1,482,040)
Depreciation of plant and equipment	–	–	–	(140,322)
Option costs	(101,019)	(109,165)	(76,006)	(43,840)
Write-back of provision for contingencies	–	298,088	–	–
Write-back of provision for impairment	–	2,590,532	–	–
Operating profit / (loss)	500,062	1,764,972	(362,199)	(1,666,202)
Exchange	228,663	25,419	(68,037)	18,794
Net finance (cost) / income	(537,327)	1,366,995	24,806	(21,329)
Profit / (loss) before taxation	191,398	3,157,386	(405,430)	(1,668,737)
Profit / (loss) per ordinary share (basic)	0.029 cents	0.48 cents	(0.06) cents	(0.25) cents
Deferred exploration costs	9,769,327	11,799,271	24,888,399	26,508,924
Property, plant and equipment	47,508,148	54,103,898	39,381,145	43,412,368
Total current assets	22,792,315	27,159,740	21,878,828	18,040,230
Total assets	80,069,790	93,062,909	86,148,372	87,961,522
Total liabilities	23,872,348	26,144,358	16,259,911	10,614,015
Shareholders' equity	56,197,442	66,918,551	69,888,461	77,347,507
Summary of quarterly results	Quarter ended 31 March 2014 US\$	Quarter ended 31 December 2013 US\$	Quarter ended 30 September 2013 US\$	Quarter ended 30 June 2013 US\$
Revenues	–	–	–	–
Operating expenses	–	–	–	–
Gross profit / (loss)	–	–	–	–
Administration expenses	(911,979)	(872,677)	(816,887)	(655,607)
Provision for indirect taxes	–	(213,220)	(263,250)	(150,026)
Option costs	(29,587)	(161,226)	(47,846)	(47,846)
Write-off of past exploration expenditures	–	(1,007,233)	–	–
Depreciation of plant and equipment	(125,983)	(186,000)	(127,850)	(112,974)
Operating loss	(1,067,549)	(2,440,356)	(1,255,833)	(966,453)
Exchange	(9,918)	(36,618)	98,078	23,400
Net finance cost	(180,154)	(268,589)	(44,174)	(14,462)
Loss before taxation	(1,257,621)	(2,745,563)	(1,201,929)	(957,515)
Loss per ordinary share (basic and diluted)	(0.24) cents	(0.60) cents	(0.27) cents	(0.27) cents
Deferred exploration costs	25,607,411	24,659,003	25,950,041	16,375,076
Property, plant and equipment	38,549,235	36,008,318	36,603,692	30,228,704
Total current assets	19,954,894	9,020,774	10,134,384	17,758,039
Total assets	84,111,540	69,688,095	72,688,117	64,361,819
Total liabilities	6,936,353	9,653,388	7,504,716	5,432,817
Shareholders' equity	77,175,187	60,034,707	65,183,401	58,929,002

Liquidity and Capital Resources

On 31 March 2015, the Group's net assets amounted to US\$56.20 million which compares to US\$66.92 million as reported at 31 December 2014. This decrease primarily reflects the effect of a weakening of the Brazilian Real between 31 December 2014 when the rate was BrR\$2.6556 to US\$1.00, and 31 March 2014, when the rate was BrR\$3.2074 to US\$1.00. Whilst the Group has reported a small profit after taxation, it has incurred a loss of US\$11.01 million on the re-translation of the results of its Brazilian operations. Subsequent to the period end the Brazilian Real has strengthened and has been trading around the range of BrR\$3.00 to US\$1.00 in the first ten days of May 2015.

Non-current assets totalling US\$57.28 million at 31 March 2015 (31 December 2014: US\$65.90 million), are comprised of property, plant and equipment, which as at 31 March 2015 totalled US\$47.50 million (31 December 2014: US\$54.10 million) of which US\$27.65 million (31 December 2014 : US\$41.07 million) is attributable to the Palito Mine property and US\$12.90 million (31 December 2014 : US\$13.03 million) is attributable to the Sao Chico Mine property. Net losses of \$8.54 million arising on the retranslation of the underlying values from Brazilian Reais to US Dollars account for much of the reduction in value. The Group has acquired additional plant and machinery to the value of US\$0.88 million in the quarter, capitalised US\$0.23 million for on-going capital development of the Palito Mine and capitalised costs in relation to development operations at the Sao Chico Mine of US\$1.84 million. The gross value ascribed to the Palito Mining Property is now being amortised over the expected recoverable ounces, a figure derived from the Preliminary Economic Assessment issued in June 2012.

The 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 Group that commercial production has been achieved.

Deferred exploration costs as at 31 March 2015 totalled US\$9.77 million (31 December 2014: US\$11.8 million) which relates to capitalised exploration expenditures around the Palito Mine and the wider Jardim Do Ouro project area. Whilst the Group has incurred no expenditure on these projects during the quarter, the carrying value has reduced by US\$2.03 million as a result of the variation in the exchange rates.

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 March 2016 and carries interest at a rate of 10% per annum.

The Group had a working capital position of US\$3.21 million at 31 March 2015 compared to US\$5.63 million at 31 December 2014, the movements being detailed in the table below:

	March 2015 US\$	December 2014 US\$	Variance US\$
<u>Current assets</u>			
Inventories	8,701,256	8,070,215	631,041
Trade and other receivables	5,596,179	6,772,046	(1,175,867)
Prepayments	2,699,898	2,503,877	196,021
Cash and cash equivalents	5,794,982	9,813,602	(4,018,620)
Total current assets	22,792,315	27,159,740	(4,367,425)
<u>Current liabilities</u>			
Trade and other payables	4,803,134	4,601,337	201,797
Interest bearing liabilities	13,886,719	16,228,220	(2,341,501)
Derivative financial liabilities	763,171	528,503	234,668
Accruals	133,376	167,377	(34,001)

	March 2015 US\$	December 2014 US\$	Variance US\$
Total current liabilities	19,586,400	21,525,437	(1,939,037)
Working capital	3,205,915	5,634,303	(2,428,388)
<u>Non-current liabilities</u>			
Trade and other payables	1,738,040	1,424,798	313,242
Provisions	2,342,687	2,829,468	(486,781)
Interest bearing liabilities	205,221	364,655	(159,434)
Total non-current liabilities	4,285,948	4,618,921	(332,973)

In accordance with IFRS, revenues may only be recognised at such time as the risks and rewards of ownership transfers to the buyer. In relation to the copper/gold concentrate produced by the Group from its operation at the Palito Mine, this is considered to be the date on which the copper/gold concentrate arrives in Hamburg where the Group's designated smelter is located. In accordance with normal industry practice, initial payments from the smelter only occur after specified contractual periods following the arrival of the material at the smelter. Unsold production is held as inventory at the lower of attributable production costs and net realisable value.

The levels of inventory held by the Group have increased by US\$0.63 million compared with 31 December 2014. The inventory is calculated in Brazilian Reals and converted into US Dollars using the exchange rate at the balance sheet date. Whilst in Brazilian Real terms the value of inventory of goods in progress and finished goods has increased by some 27% between 31 December 2014 and 31 March 2015, this increase has been offset by the effect of the weakening of the Brazilian Real. The increase in product inventory results from increased levels of production and also the establishment of a stockpile of coarse ore from the Sao Chico Mine.

At 31 December 2014, the Group valued at US\$1.05 million, the stockpile of coarse ore from the Palito Mine of approximately 10,150 tonnes that had been established on surface in preparation for processing. At the 31 March 2015 this coarse ore stockpile was approximately 7,989 tonnes with a value of US\$0.87 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 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.

During 2014 the Group had established a 54,000 tonne stockpile of material that had passed through the flotation processing circuit but retained a gold grade of approximately 2.5g/t. The Group has during the first quarter of 2015 commenced the processing of these flotation tailings through the CIP plant and expects that it will process this stockpile over the course of 2015. The value ascribed to this stockpile as at 31 March 2014 is US\$1.72 million which compares to the valuation at 31 December 2014 of US\$2.34 million. The reduction reflects the volume of material that has been processed during the quarter as well as the exchange rate movements.

At the 31 March 2015, the Group had on hand an inventory of approximately 406 wet metric tonnes of copper/gold concentrate of which 26 tonnes was located at Palito (31 December 2014: 87 tonnes), 160 tonnes was en route to the port of Belem (31 December 2014: 120 tonnes) and the remaining 220 tonnes was en route to Hamburg, Germany (31 December 2014: 160 tonnes). The value of this inventory of copper/gold concentrate awaiting sale was approximately US\$3.06 million (31 December 2014: US\$3.59 million).

The valuation attributable to gold locked up the processing plant of waiting to be smelted or in the process of being sold has increased to US\$1.32 million as at 31 March 2014, whilst the Company has also ascribed a valuation to the stockpile of coarse ore extracted at Sao Chico of US\$0.58 million.

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 31 March 2015 of US\$1.15 million had increased by approximately US\$0.24 million in comparison the same inventory of consumables at 31 December 2014 (US\$0.91 million). The Group 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. The levels of inventory will also reflect the increased activity at Sao Chico as this operation continues to develop. As all consumable stock is valued in Brazilian Reais, the valuation is also subject to exchange rate fluctuations.

The reduction in trade and other receivables reflects a lower level of gold and copper awaiting settlement from the smelter at 31 March 2015 compared to 31 December 2014. As at 31 March 2015, the Group was owed US\$5.33 million (2014: 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 Group receives instalments against the total value of each shipment on pre-determined dates with the final settlement only being made once the final metal content has been agreed between the Group and the refinery which may be up to 120 days after the date of arrival.

Monthly shipments of copper/gold concentrate which account for the bulk of the trade receivables, vary according the timing of collections from site and sailing dates, as well as reflecting normal production fluctuations resulting in higher or lower grade material being produced and shipped. The variation in volumes shipped in each month will therefore result in fluctuations in the level of gold and copper recognised as revenue each month and the corresponding debtor balance in addition to prevailing metal prices. At the end of March 2015 the company was awaiting settlement for approximately 4,200 ounces of gold compared with a settlement outstanding at the end of December 2015 of almost 5,000 ounces resulting in a reduced level of debt owed of approximately US\$900,000.

Cash balances have reduced by approximately US\$4.0 million reflecting the repayment of financing arrangements of approximately US\$2.6 million and capital and development expenditure in the period of a further US\$2.0 million. Of the financing arrangements that have been settled the company has repaid US\$2.0 million of the loan received from Sprott during the quarter ended 31 March 2015, experienced a reduction in the liability due under the short term trade finance facility of US\$420,000 and settled finance lease arrangements of US\$156,000. Capital expenditure on plant and equipment and capitalised development costs of the Sao Chico Mine were US\$1.8 million during the quarter ended 31 March 2015 with a further US\$0.23 million spent on capital mine development at the Palito Mine.

Other items which have impacted on the Group's current asset position include the following.

- (i) The level of prepayments has increased by US\$0.20 million from US\$2.50 million at 31 December 2014 to US\$2.70 million at 31 March 2015. The prepayments represent:
 - a. The Group 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 life of the loan facility. As at 31 March 2015 the amount remaining to be amortised during the remainder of the loan term was US\$395,000 (31 December 2014: US\$526,000).
 - b. Prepaid taxes in Brazil amounting to US\$1.32 million (31 December 2014: US\$1.3 million), of which the majority is federal and state sales taxes which the Group expects to recover either through off-set against other federal tax liabilities or through recovery directly.
 - c. Supplier down-payments reflect the timing and level of development and construction activity that are being undertaken at the Group'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 Group 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\$0.67 million (31 December 2014: US\$0.54 million).

Current liabilities have decreased from US\$21.52 million at 31 December 2014 to US\$19.59 million at 31 March 2015.

Trade and other payables amounting to US\$4.80 million at 31 March 2015 compare with an amount owed by the Group of US\$4.60 million at 31 December 2014; a increase of US\$0.20 million. The Group has made a fair value provision for a property acquisition payment that is due to a past owner of the Sao Chico property that is currently valued at US\$2.75 million (31 December 2014: US\$2.26 million) and which the Group will pay by instalments with the first payment being due in 2015. Of this amount US\$1.21 million (31 December 2014: US\$1.09 million) is due within one year and the remainder of the payment valued at US\$1.54 million (31 December 2014: US\$1.17 million) will be paid in instalments commencing in 2016. In addition to this liability, Trade Creditors have decreased by US\$0.22 million in comparison to 31 December 2014. The level of creditors in Brazil has increased reflecting the increasing activity levels in part reflecting the start-up of Sao Chico. This increase is, however, more than offset by the weaker exchange rate of the Brazilian Real.

The liability for derivatives of US\$0.76 million (31 December 2014: US\$0.53 million) represents US\$0.14 million (31 December 2014: US\$0.20 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 life of the loan. The remaining US\$0.62 million (31 December 2014: 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 Group on 3 March 2014. At the date of issue the Group 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 Group is US Dollars, under IAS32 the warrants are not considered to be equity but instead a liability of the Group at the time of issue. At 31 March 2015, the Group has revalued the warrants in accordance with fair value accounting principles and determined that the value of the warrants at 31 March 2015 has increased to US\$619,763 (31 December 2014: US\$332,173). The loss on this revaluation amounting to US\$0.29 million has been recorded as a finance expense and the liability increased by the same value.

Interest-bearing liabilities due within one year have decreased by US\$2.34 million from US\$16.23 million at 31 December 2014 to US\$13.89 million at 31 March 2015. The primary component of this decrease is the repayment of US\$2.0 million to Sprott during the quarter. In addition the Group has continued to pay down liabilities under finance lease obligations and the amount due under the financing facility for copper/gold concentrate sales has reduced slightly, reflecting the timing of sales and fluctuations in the prevailing prices of gold and copper.

To minimise the effect on the working capital of the Group caused by the delay between production of copper/gold concentrate and payments for the material from the refinery, the Group has entered into a facility with a precious metals trading group whereby the Group 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. During the three months ended 31 March 2015 the total funds received by the Group under this facility were US\$5.42 million with US\$5.84 million having been repaid out of the receipts from the sale of copper and gold following refining. As at 31 March 2015 an amount of US\$7.34 million is owed by the Group (31 December 2014: US\$7.76 million) 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 Group acquired certain assets during 2013 and 2014 under finance leases. At 31 March 2015 the Group had liabilities under these financial leases of US\$0.73 million due within one year (31 December 2014: US\$0.72). 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).

Non-current liabilities have decreased by US\$0.33 million from US\$4.62 million at 31 December 2014 to US\$4.29 million at 31 March 2015. This mostly reflects the effects of the weaker Brazilian Real exchange rate.

Liabilities under lease finance arrangements have reduced by US\$0.16 million as the lease agreements continue to mature.

The Group 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 Group at 31 December 2014 was US\$2.83 million. The value at 31 March 2015 is US\$2.34 million representing exchange rate movements during the period. The Group carried out a review of the underlying cost assumptions as at 31 December 2014 and does not anticipate carrying out a further review until the end of 2015 unless there is some significant event including, for example, a legislative change which the Group considers could materially affect the current assumption used in the estimation.

The Group 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 Group 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 Group's production and related costs. In addition, management utilizes these and similar metrics as a valuable management tool to monitor cost performance of the Group'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 IFRS.

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 the period since the declaration of commercial production which was effective as of 1 July 2014.

	Q1 2015 (US\$)	Average July to December 2014 (US\$)
Total operating costs (calculated on a sales basis)	4,859,909	9,697,665
Add/(subtract)		
Finished goods and WIP inventory stock adjustment	112,615	1,738,765
Grossing up of revenue for metal deductions	181,680	424,654
Adjustment for refining, treatment, shipping and royalties on a production basis	–	178,324
By-product credits	(502,973)	(1,465,252)
Total cash cost of production	4,651,231	10,574,156
Corporate G&A	905,505	2,391,759
Share-based remuneration	101,019	185,172
Capitalised cost for mine development	227,750	632,587
All-In Sustaining cost of production	5,885,505	13,783,674

	Q1 2015 (ounces)	Total to December 2014 (ounces)
Gold ounces produced	7,759	13,334
	Q1 2015 (US\$)	Average July to December 2014 (US\$)
Total Cash Cost of production (per ounce)	US\$599	US\$793
Total All-In Sustaining Cost of production (per ounce)	US\$759	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 Group to make certain payments under rental or purchase arrangements allowing the Group 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\$90,000 (31 December 2014: US\$92,000).

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Long term debt	6,250,776	6,250,776	—	—	—
Capital lease obligations	939,315	734,094	205,221	—	—
Operating leases	158,415	130,717	27,698	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	7,348,506	7,115,587	232,919	—	—

Transactions with related parties of the Group

The following transactions have been undertaken with related parties in the 24 months prior to 31 March 2015.

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 Group 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 Group and became a controlling party.

Financial and other instruments

The Group's financial assets at 31 March 2015 which comprise other receivables and cash, and in the case of the Group include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's financial liabilities which comprise trade and other payables and interest bearing liabilities, are classified as liabilities measured at amortised cost.

The Group, 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 Group 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 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 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 31 March 2015, the Group carried inventory valued at US\$7.54 million (31 December 2014: US\$7.16 million) including US\$3.06 million of copper/gold concentrate representing 406 tonnes of material awaiting sale (31 December 2014: US\$3.59 million) and US\$4.49 million of other material in process (31 December 2014: US\$3.57 million). Of the copper/gold concentrate, the Group had, at the end of the quarter ended 31 March 2015, entered into arrangements fixing prices for approximately 95% of the gold content within 380 tonnes of this material. However all other inventory as at 31 March 2015 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 may be affected by any change in commodity prices subsequent to the end of the year.

Interest rate risk

During 2013 and 2014 the Group has 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.

The Group has entered into an agreement with Auramet Trading LLC, for a facility of US\$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 March 2016 and carries interest at a rate of 10% per annum. The amount outstanding under the Sprott Facility at 31 March 2015 was US\$6.0 million (excluding future interest).

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 March 2016 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 March 2016 without penalty provided that not less than six months of interest on the amount prepaid, has been paid to Sprott.

The Group 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 Group 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 March 2015, in addition to the Sprott Facility and the Auramet facility, the Group had obligations under fixed rate finance lease amounting to US\$0.94 million (31 December 2014: US\$1.09 million).

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 Group commenced Commercial Production. During 2014 it commenced development of the Sao Chico Mine and in April 2015 started initial tests for the processing of this ore through the gold recovery plant at Palito. The cash flow generated from gold production operations at Palito and Sao Chico are expected to be sufficient to allow the Group 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 Group controls. The Group, 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 Group 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 March 2015:

	31 March 2015 Group US\$	31 December 2014 Group US\$
Due in less than one month	3,893,129	4,934,049
Due between one month and three months	8,401,294	5,376,028
Due between three months and one year	7,158,601	11,047,983
Total due within one year	19,453,024	21,358,060
Due more than one year	1,943,261	1,789,453
Total	21,396,285	23,147,513

Currency risk

Although the Group 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 Group 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 Group 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 March 2015 US\$	31 December 2014 US\$
US Dollar	4,872,709	8,586,208
Canadian Dollar	27,182	106,031
Sterling	547,524	361,406
Australian Dollar	21,563	29,479
Euro	133,658	250,737
Brazilian Real	192,346	479,741
Total	5,794,982	9,813,602

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\$11,391,161 (31 December 2014: US\$16,585,648). 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 appreciated in value in comparison to the United States dollar, the reporting currency of the Group by approximately 7%, having suffered a reduction in its value in the period between 31 December 2014 and 31 March 2015 of approximately 20%. On 31 December 2014 the exchange rate for US\$1.00 was BrR\$2.6556. As at 31 March 2015 the exchange rate for US\$1.00 was BrR\$3.2074. As at 11 May 2015 the exchange rate for US\$1.00 was BrR\$3.055. Many of the Group's assets and liabilities and in particular the value attributed to non-current assets are recorded in Brazilian Reais. The value of the Group's net assets and liabilities were significantly impacted by the devaluation of the Brazilian Real during the first quarter of 2015. The Group 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 Group'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 Group, 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 Group 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 2015.

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 Group's earnings or shareholders' funds.

Off-balance sheet arrangements

As of the date of this Management's Discussion and Analysis, the Group 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 Group, 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), of the 2014 Financial Statement for the Group, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Further disclosure is provided in note 19 of the 2014 Financial Statements for the Group 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 of 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 Group 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 and 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 Group 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 Group 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 Group's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Group'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 Group'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 Group, put forward by the Financial Reporting Council in their revised guidance for directors on internal controls for UK listed companies (issued 2005).

The Group'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 Group'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 Group's internal controls over financial reporting.

Disclosure of outstanding share data

The Company had the following Ordinary Shares, Stock Options and Warrants outstanding at 13 May 2015:

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

The Group 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 Group's share capital. The deferred shares carry no voting or dividend rights or any right to participate in the profits or assets of the Group and all the deferred shares may be purchased by the Group, 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 Group 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 undertook not to dispose of any of its shares in the Group (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 Group. 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 Group 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 Group'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 Group, information contained herein constitutes forward-looking statements, including any information as to the Group'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 Group 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 Group 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 Group 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 Group 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 Group's business, financial condition and/or future results. These risks are not the only risks facing the Group and readers should also refer to the Group's Annual Information Form filed on SEDAR at www.sedar.com and the Group's website at www.serabigold.com which contains additional discussion of risks and in particular risks for investors in the Group's securities. Additionally risks and uncertainties not currently known to the Group or that management currently deems to be immaterial, may also materially affect the Group's business, financial condition and/or future results.

ECONOMIC RISKS			
<i>Risk</i>	<i>Comment</i>	<i>Business Impact</i>	<i>Mitigation</i>
<i>Changes in gold prices</i>	The profitability of the Group'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 Group. Reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Group'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.
<i>Currency fluctuations may affect the costs of doing business and results of operations.</i>	The Group's major products are traded in prices denominated in US dollars. The Group 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			
<i>Risk</i>	<i>Comment</i>	<i>Business Impact</i>	<i>Mitigation</i>
<i>Future exploration may not result in increased mineral resources</i>	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 Group 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.
<i>No guarantee that the Group's Applications for exploration licences and mining licences will be granted.</i> <i>Existing exploration licences may not be renewed or approved or converted into mining licences.</i>	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 Group has begun the process of applying for a full mining licence and has received no indication that	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 Group is informed at an early stage of any issues of concern that such bodies may have. The Group employs staff and consultants who are experienced in Brazilian mining legislation to ensure that the Group is in compliance with legislation at all times.

OPERATIONAL RISKS			
Risk	Comment	Business Impact	Mitigation
<i>Title to any of the Group's mineral properties may be challenged or disputed</i>	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.		
<i>The Group is in the process of developing and starting mining operations at the Sao Chico gold project located close to the Group's Palito Mine but there is no certainty that the Group will be able to establish a commercially viable long term operation at Sao Chico.</i>	Sao Chico has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource and the Group has commenced development mining activity, with a view to establishing mine production operations to augment gold production levels for the Group. 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.
<i>Exploration and development of the Group'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.</i>	Whilst the Group anticipates that it will use cash flow generated from operation at Palito and Sao Chico to finance further exploration and development activities on the Group's other properties, any cash flow that the Group 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 Group's other properties or even a loss of a property interest.	Low	Management of capital resources is a high priority for the Group and prior to taking any development decision the Group 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.
<i>The Group may experience higher costs and lower revenues than estimated due to unexpected problems and delays.</i>	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 Group's development of its Sao Chico mine would increase its operating costs and delay revenue growth.	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.
<i>Environmental legislation</i>	All phases of the Group's operations are subject to environmental regulation in Brazil.	Low	Environmental regulations are constantly changing and governed by both local and

OPERATIONAL RISKS			
Risk	Comment	Business Impact	Mitigation
	There is no assurance that existing or future environmental regulation will not materially adversely affect the Group's business, financial condition and results of operations.		global concerns and initiatives. Management seeks to ensure that it adopts sound and compliant environmental principles. The operations of the Group 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 Group 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 Group'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 Group'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 Group 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 Group 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 Group 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 Group's efforts to obtain and renew permits and licences are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licencing authority. The Group may not be able to obtain or renew permits and licences	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
	that are necessary to its operations or the cost to obtain or renew permits and licences may exceed what the Group expects.		
<i>The mining industry is intensely competitive in all of its phases and the Group competes with many companies possessing greater financial and technical resources than itself.</i>	<p>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.</p> <p>Such competition may result in the Group 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.</p>	<i>Low</i>	The Group 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
<i>The Group's operations are conducted in Brazil and, as such, the Group's operations are exposed to various levels of political, economic and other risks and uncertainties.</i>	<p>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.</p> <p>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.</p> <p>Against this backdrop the government may seek to reduce state subsidies on certain goods or, increase taxes and or royalties to boost state income.</p>	<i>Medium</i>	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 Group is affiliated with group's who help promote and lobby for the needs of smaller mining enterprises.

OTHER RISKS			
Risk	Comment	Business Impact	Mitigation
<i>Finance risk</i>	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 Group signed a US\$8 million credit arrangement during 2014. The Group is 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.	<i>Low</i>	The Group 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.
<i>Portfolio risk of having a single</i>	The Group is reliant on a single revenue-generating asset (the Palito gold mine). Any	<i>Medium</i>	The commencement of operations at Sao Chico is providing a second source of ore

OTHER RISKS			
<i>Risk</i>	<i>Comment</i>	<i>Business Impact</i>	<i>Mitigation</i>
<i>operating asset</i>	factors that affect production at Palito will consequently have a significant impact on the Group's results.		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.