



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and nine months periods  
ended 30 September 2015**

**12 November 2015**

**SERABI GOLD PLC**  
**Management's Discussion and Analysis**  
**for the three month and nine month periods ended 30 September 2015**

**Introduction**

This Management's Discussion and Analysis ("MD&A") dated 12 November 2015 provides a review of the performance of Serabi Gold plc ("Serabi" or the "Company") and its subsidiary entities ("Serabi" or the "Group"). It includes financial information from, and should be read in conjunction with, the interim unaudited condensed financial statements of the Group's three month and nine month periods ended 30 September 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](http://www.sedar.com). Technical reports, press releases and other information including the AIF are also available on the Group's website [www.serabigold.com](http://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 assets are its gold projects in the Jardim do Ouro area of the Tapajos region in 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 was 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. In 2014, the Group produced 18,000 ounces of gold from the Palito gold mine. 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. 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 October 2015 the ramp development provided access to three

development levels and the production of ore from the first stopes was underway. Ore from Sao Chico is transported by truck to the Palito gold process plant.

The gold at Palito is associated with occurrences of copper and iron and is hosted in quartz veins with bonanza gold grades associated with massive chalcopyrite-pyrite blowouts within the quartz veins. Gold recovery is undertaken by crushing and grinding prior to passing the ore through a flotation plant which produces a copper/gold concentrate which accounts for approximately 75% of the gold recovered from the Palito ore. The residual tailings from flotation, which has also removed over 90% of the copper content of the ore, are then passed to a conventional Carbon in Pulp ("CIP") recovery circuit plant which can recover approximately 65% to 70% of the residual gold.

The gold at Sao Chico is hosted within a mineralised alteration zone including moderately high concentrations of pyrite, galena, and sphalerite although the gold is not directly associated with the latter two minerals. The gold mineralisation is amenable to direct cyanidation and therefore after crushing and grinding, the Sao Chico ore currently passes directly through to cyanidation, where it is blended with the Palito flotation tailings in the CIP recovery plant. The Group is completing the commissioning of an In-Line Leach Reactor ("ILR"). The ILR is a small but very intensive, closed cyanide leaching process for treating very high gold content material, typically to leach high grade gravity concentrate. Once commissioned the processing flowsheet of the Sao Chico ore will be amended to allow the ore to pass initially to a gravity concentrator after milling, with the concentrate produced being passed through the ILR, where gold will be leached, and then recovered through conventional electro winning and smelting processes to produce bars of gold doré.

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 <sup>(1)</sup>

	3 months to 30 Sept 2015 US\$	9 months to 30 Sept 2015 US\$	3 months to 30 Sept 2014 US\$	9 months to 30 Sept 2014 US\$
Revenue	8,365,289	27,043,682	5,253,323	5,253,323
Cost of Sales <sup>(1)</sup>	(6,302,006)	(19,350,056)	(3,378,532)	(3,378,532)
Depreciation and amortisation charges	(871,576)	(3,603,810)	(917,404)	(1,183,709)
<b>Gross profit</b>	<b>1,191,707</b>	<b>4,089,816</b>	<b>957,387</b>	<b>691,082</b>
<b>Profit / (loss) before and after tax</b>	<b>114,176</b>	<b>191,073</b>	<b>(405,430)</b>	<b>(3,331,787)</b>
<b>Profit / (loss) per ordinary share (basic)</b>	<b>0.02c</b>	<b>0.03c</b>	<b>(0.06c)</b>	<b>(0.54c)</b>
<b>Average gold price received</b>	<b>US\$1,122</b>	<b>US\$1,156</b>	<b>US\$1,199</b>	<b>US\$1,199</b>
		<b>As at 30 September 2015</b>		<b>As at 31 December 2014</b>
Cash and cash equivalents		3,814,439		9,813,602
Net assets		46,229,378		66,918,551

## Cash Costs and All-In Sustaining Costs

	3 months to 30 Sept 2015	9 months to 30 Sept 2015
Gold ounces produced	9,078	24,704
Gold production from Sao Chico	(1,200)	(1,984)
Gold production for cash costs and AISC purposes	7,878	22,720
<b>Total Cash Cost of production (per ounce)</b>	<b>US\$580</b>	<b>US\$702</b>
<b>Total All-In Sustaining Cost of production (per ounce)</b>	<b>US\$756</b>	<b>US\$894</b>

(1) The Sao Chico Mine has not yet been declared to be in Commercial Production and therefore all costs and revenues relating to this mine are being capitalised. The Income Statements therefore only reflect the revenues and costs arising from the gold produced from the Palito Mine and the Cash Costs and AISC therefore also only reflect the activities from the Palito Mine.

## Key Operational Information

<b>SUMMARY PRODUCTION STATISTICS FOR THE THREE QUARTERS ENDING 30 SEPTEMBER 2015 (Palito &amp; Sao Chico)</b>		<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Year to Date</b>
Horizontal development	Metres	1,491	2,078	2,691	6,260
Mined ore	Tonnes	25,812	31,488	36,587	93,887
	Gold grade (g/t)	10.90	9.18	10.65	10.23
Milled ore	Tonnes	31,412	33,279	31,789	96,480
	Gold grade (g/t)	8.52	8.28	9.47	8.75
Gold production <sup>(1)</sup>	Ounces	7,389	8,237	9,078	24,704

(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. Amendments when realised are applied retrospectively to the relevant month of production and therefore figures reported for past periods are subject to change.

### Financial Highlights

- All-In Sustaining Costs of US\$894 for the year to date with cash costs of US\$702.
- All-In Sustaining Costs of US\$756 for the third quarter of 2015 with cash costs of US\$580.
- Cash holdings of US\$3.81 million at 30 September 2015.
- Average gold price of US\$1,122 received on gold sales in the third quarter of 2015 and US\$1,156 for the year to date.
- All-In Sustaining Costs ("AISC") for the full year expected to be approximately US\$900 per ounce.
- At 30 September 2015, the Brazilian Real to US Dollar exchange rate had weakened by approximately 50% compared against 31 December 2014 and by 41% as at 11 November 2015.
- Annual inflation in Brazil for October 2015 was 9.93% the highest rate since November 2003.

### Operational Highlights

- Record gold production for the quarter totaled 9,078 ounces<sup>(1)</sup> a 10.1% increase compared with the second quarter; 7,878 ounces from the processing of Palito run of mine ore ("ROM") and surface stockpiles, and 1,200 ounces from Sao Chico ore.
- Combined quarterly mill throughput, for both Palito and Sao Chico ore, totalled 31,789 tonnes.
- Quarterly mine production totalled 36,587 tonnes, 28,625 tonnes at 11.04 g/t for Palito and 7,962 tonnes at 9.27 g/t gold for Sao Chico.
- At the end of the third quarter, surface stockpiles at Palito and Sao Chico totalled 11,392 tonnes @ 3.50 g/t gold.
- A third Ball mill has been purchased and is planned to be installed and operational together with other improvements in throughput for the Flotation and Carbon in Pulp ("CIP") process circuits at the start of the second quarter 2016.
- Forecast for gold production in 2015 of approximately 33,000 ounces being an 80% improvement on 2014.

(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.

#### Palito development

- Quarterly mine development at Palito totalled 1,850 metres, exceeding internal plans by 35%.

#### Sao Chico development

- Quarterly mine development total was 841 metres.
- The main ramp at Sao Chico has now almost reached the next planned development level at 156mRL. Ore development is on-going on the three higher levels at 216mRL, 199mRL and 186mRL.
- At the end of September 2015, 39 holes totalling 6,014 metres had been drilled from the surface diamond drilling programme.

### Outlook and Strategy

#### Palito

The Palito Mine has now reached a relatively steady operational state with mining activities in a balanced cycle of development and production that is expected to generate approximately 105,000 tonnes of ore at between 8.50 g/t to 9.00 g/t of gold during 2015. The gold production generated from this mined ore is to a limited extent being supplemented during 2015 by surface stockpiles of ROM ore and flotation tailings generated in 2014. The surface ROM ore stock is carryover or remains of the ore mined in 2013, when the mine commenced generating ore 12 months before the plant began operating. The 2014 flotation tails are a result of the plant not having the Carbon in Pulp ("CIP") recovery circuit operational until October 2014. Tailings produced from the flotation process were stockpiled during the first three quarters of 2014. The Group had planned to run down these existing stockpiles during this year, but there has been limited plant capacity to process these stockpiles due to increasing levels of ore beginning to be generated from the Sao Chico Mine as well as higher than planned volumes of low grade development ore being produced at Palito.

The Group has undertaken further ramp development, and has now reached and is developing on the -19 metre relative level ("mRL"), but significant focus is now being given to accessing and developing drilled, parallel vein structures on production levels above the 24mRL. These include the Chico da Santa zone which lies to the north of the primary G1, G2 and G3 veins and the Senna zone which is located to the south of the Palito West vein complex and which during 2008 and 2009 produced oxide material in excess of 3.0g/t. The cross cut to the Chico da Santa zone was completed in October 2015 whilst it is expected that the cross cut to the Senna zone will be completed by the end of November. The opening up of these new sectors will allow the Group to establish more ore faces and in time production areas especially on the upper levels in these zones. In the case of the Senna zone there has never been any previous underground development of the ore zones. Based on the ore grades recovered from the past limited open pit operation, management is hopeful of the potential within the Senna zone. At the Senna zone the Group has recorded a drill intersection in hole PDD289 of 0.55 metres at a grade of 50.99 g/t at approximately 300 metres below surface. Previous exploration activity at Senna highlighted up to four mineralised zones, with structural continuity for three zones of up to 900 metres in strike length and 300 metres vertical depth, of which the most prominent zone was confirmed on surface by trenches for over 600 metres.

The Group, during 2014, continued mine development on G3 towards the Palito South area. This development is primarily on the 114mRL, which has been driven some 700 metres further south than any other underground working at Palito. Having intersected numerous high-grade pay shoots, the Group is testing the down-dip continuity of these pay shoots for future development of the mine at depth, as well as incorporating into its future mine plans the up-dip extensions of these pay shoots in the upper levels. These are as yet undeveloped and represent an excellent potential source of additional ore.

In light of the higher levels of ore production being achieved at Palito and an expectation of ore volumes at Sao Chico also being higher than initially envisaged, the Group has acquired an additional ball mill and is planning further capacity improvements with the Palito gold process plant that will increase the current throughputs rates from 400 tonnes per day ("tpd") to at least 500 tpd. These improvements whilst increasing gold production potential are also intended to create excess plant capacity that will allow the Group to catch up lost production caused by unplanned stoppages. These improvements include the installation of an additional flotation cell, an additional leaching tank and new screens within the CIP tanks to improve inter-tank flow rates. These upgrades

are expected to be completed by early in the second quarter of 2016 at a cost of approximately US\$1.2 million which will be funded from the cash flow of the current operations.

### Sao Chico

At Sao Chico, the fourth quarter of 2014 saw the underground development commence. By the end of the third quarter of 2015 almost 2,000 metres of development had been achieved with three levels now in development and a fourth level shortly expected to be reached and in ore development. During January 2015, the ramp development intersected the Principal Vein, 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 the remainder of 2015 and through the early part of 2016, the Main Vein will continue to be developed and evaluated with the continuation of 'on-lode' development, surface and underground drilling. The vein is sampled with each advance in the gallery. The development of the main ramp which is being driven at a 12% gradient is continuing, with access to the next level at 156mRL planned to be completed in November 2015.

The immediate priority is to evaluate and define stoping blocks on these first four levels to secure mine production for the next 12 to 18 months. Further ramp development will therefore be progressed to pursue the down-dip extension of the current areas that are in development. The rates of lateral development on existing levels will be increased when the Company, through a combination of its current surface and underground drilling programmes and on-lode development, has greater confidence in the distribution of the high grade mineralisation within the lateral strike extensions.

The Group has reported that the high grade mineralisation is dominantly hosted in a consistent alteration zone that can be anything from two to ten metres wide. The alteration zone itself is readily identifiable, however, the high grade gold zones within this alteration zone are much less so, and as result the mining operations will require on-lode development at regular vertical intervals, with regular channel sampling and in-fill drilling between these levels to best define the high grade gold mineralisation. This approach will allow Serabi's mining personnel to readily identify stoping blocks and optimize mining the high gold grade zones.

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 Licence. As the next major step in the conversion procedure, Serabi submitted, in September 2015, the Plano Aprovimientio 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. A submission for a further extension of the Guia de Utilização for a period of one additional year was also submitted in September 2015. The issuing of the mining licence also requires the submission of a risk assessment and management plan, safety assessments, environmental and social impact studies, closure and remediation plans. These additional reports have also either been submitted or are in the process of being finalised, in preparation for submission, to 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 full production until 2016. A diamond drilling programme is taking place during 2015, will help the understanding of the ore body and facilitate the mine planning for 2016. Over 6,000 metres of surface drilling has been completed and the programme has been extended beyond its original planned 5,000 metres level to allow the Group to undertake closer spaced in-fill drilling. The surface programme is being complemented by drilling being undertaken from within the existing underground developments.

The drilling programme which has built on the results and understanding gained from the 2011 and 2013 drilling campaigns has continued to report numerous high grade intersections with gold grades in excess of 100 g/t and indications that the grade and resource potential continues at depth. Further details are set out in a news release issued by the Group on 21 October 2015 which is available on the Group's website [www.serabigold.com](http://www.serabigold.com) and has been filed on SEDAR.

### 2015 Production Guidance

The Group is currently forecasting gold production for 2015 of approximately 33,000 ounces with All-In Sustaining Cost expected to be approximately US\$900 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 current surface drilling programme being undertaken at Sao Chico, no drilling or other exploration activity is currently planned on the Group's properties. 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 by establishing additional satellite high-grade gold mines in relatively close proximity to Palito which will be the 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.

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

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 (Iri) 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.

The PEA estimated that the Palito Mine could be placed back into production for a capital cost of US\$17.8 million and would produce at an average annual production rate of 24,400 ounces per annum through the processing of 90,000 tonnes of ore at an average grade of 8.98 g/t. The Group calculates that total expenditure incurred on the rehabilitation and start-up of the Palito Mine was US\$18.2 million and is currently projecting that for 2015 the operation will process approximately 105,000 tonnes of Palito ore. The average mill feed for the year to date has been 8.93 g/t.

### **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”), was initially 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. An application to renew the trial mining licence for a further 12 month period was submitted in September 2015. In July 2015, the Group was also awarded exploration licences adjoining AP12836 to the south, east and west of AP12836, covering 6,400 hectares, which the Group considers have excellent prospects for hosting extensions of the gold mineralisation identified at the Sao Chico Mine.

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. During 2013 the Group completed an infill and step out diamond drilling programme totalling 4,950 metres to enhance the existing resource in terms of both resource confidence and size. The drill programme was supplemented by ground geophysics, and a further 1,120 metre diamond drilling to test initial geophysical anomalies. The Group has not, to date, commissioned any new independent technical report taking into account this additional drilling. 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.

<b>Mineral Resources</b>	<b>Tonnage</b>	<b>Gold (g/t Au)</b>	<b>Contained Gold (Ounces)</b>
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.

#### Operational review for the first nine months of 2015

Management considers that Palito is now in a steady state of operation. Production during the first nine months of 2015 has been 24,704<sup>(1)</sup> ounces. The third quarter has seen increases in the volume of Sao Chico ore being processed at the Palito plant rising from 4,134 tonnes at the end of June 2015 to a total of 10,306 tonnes at the end of September with average feed grade improving from 6.68 g/t for the six month period to the end of June 2015 to an average of 7.12 g/t for the nine month period to the end of September 2015 indicating an improvement in the average feed grade for the three month period to 30 September 2015 to 7.41g/t. Gold production is now being derived from four ore sources being Palito Mine run of mine ("ROM") ore, the coarse ore stockpiles at Palito, the Sao Chico ROM ore and the flotation tailings produced at Palito during 2014.

#### Mining operations

Performance of the combined mining operations of both Palito and Sao Chico has resulted in approximately 94,000 tonnes of ore being extracted during the first nine months of 2015 with approximately 36,500 tonnes (39%) being produced in the quarter to 30 September 2015. The reported gold grade of the ore being mined during the first nine months of 2015 has averaged 10.23 g/t. At the Palito Mine the Group has adopted selective mining (re-suing) in some of the development drives which has reduced dilution and resulted in higher grades of development ore being extracted from development mining activities.

These mined production figures represent an increase of 13% compared with the third quarter of 2014 when 32,454 tonnes was produced although all of this production was derived from mining operations at the Palito Mine as the Sao Chico mine portal was still in development at that time. With approximately 6,000 tonnes of ore mined from Sao Chico during the third quarter of 2015, this indicates that ore production from Palito was approximately 2,000 tonnes lower than that for the same quarter in 2014. This small reduction of 6% reflects that the third quarter of 2014 was the first significant quarter of ore production from stopes. The Palito Mine up until the end of the second quarter of 2014, had been in development with stopes being prepared for production. The third quarter therefore saw the benefit of this nine month development period in an exceptionally high level of ore production. By comparison ore production for Palito during the fourth quarter of 2014 reduced to 25,308 tonnes illustrating the potential for variation in mined ore tonnages quarter on quarter. With long term planned ore production rates from Palito expected to average around 90,000 to 100,000 tonnes per annum, this would equate to approximately 22,500 tonnes to 25,000 tonnes per quarter.

A total of 6,260 metres of horizontal development was completed during the nine month period to 30 September 2015 with 2,691 metres (43%) of this being completed during the three month period to 30 September 2015. This compares with an average of 1,471 per quarter for the last two quarters of 2014 of which 1,694 was completed in the 3 month period ended 30 September 2014. During 2014, there was no horizontal development undertaken at the Sao Chico operation where, during the 3 months to 30 September 2015, a total of 840 metres was completed. 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.

At the Palito Mine the Group has to date focused its efforts on the veins within the Palito Main Zone and the Palito West areas. During the third quarter of 2015, significant development was undertaken to access the Chico

da Santa and Senna zones to the north and south respectively. Parts of the Chico da Santa zone were mined to a limited degree during previous underground mining activities in the last decade but the Senna zone has never been accessed from underground until now.

The Sao Chico Mine will remain in a development phase for the remainder of 2015 and as a consequence it can be expected that the levels of both horizontal and vertical development as a result of deepening the ramp to access the highest confidence ore zones will remain relatively high in the near term.

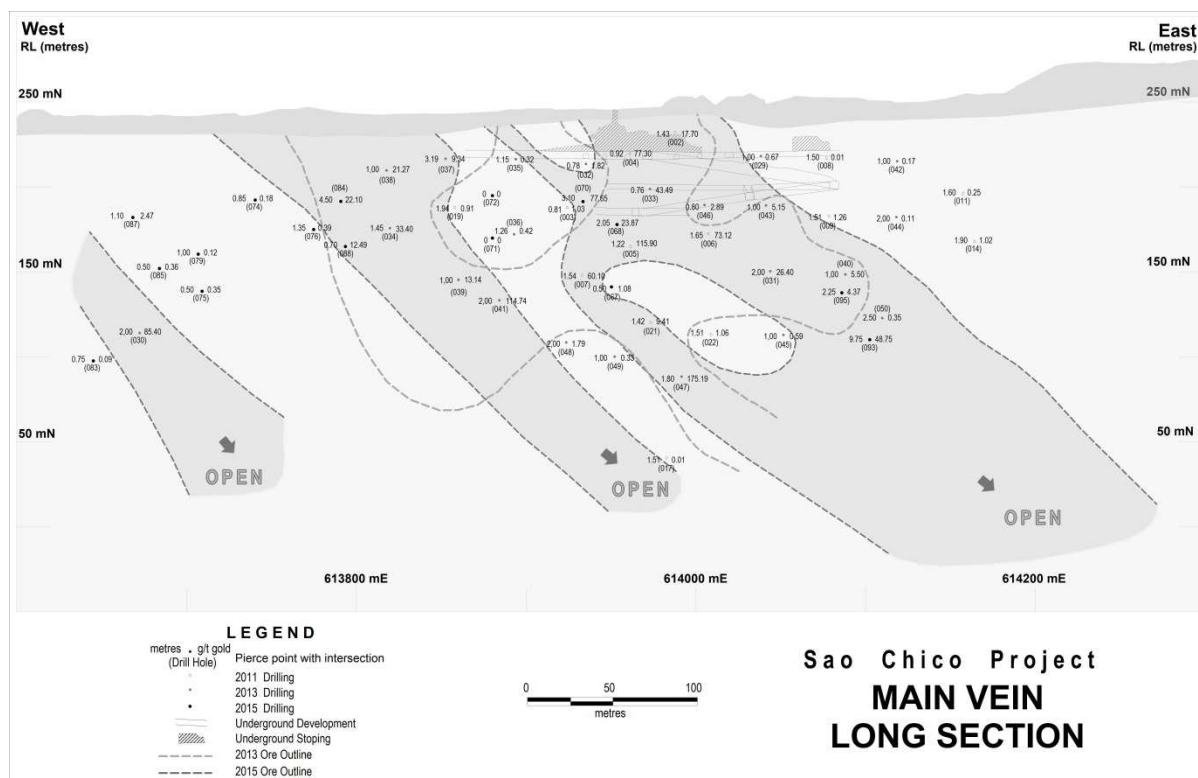
The better than forecast mining performance at Palito has resulted in the surface ore stockpiles not being run down as quickly as management forecast and by the end of September 2015 the surface stockpile of Palito ore was measured at approximately 10,600 tonnes with an estimated average grade of 3.63 g/t of gold. At the same time in 2014, the stockpile of ore from the Palito Mine was estimated at approximately 20,000 tonnes with a grade of 7.0 g/t. In the first six months of the intervening period the Group was able to draw on the higher grade portion of the stockpile to make full use of the processing capability of the Palito gold plant but as the Group has, from the second quarter of 2015, achieved increasing rates of ore production from the Sao Chico Mine, the level of stockpiled material has started to increase again. Over the intervening period whilst the stockpile of Palito ore has been reduced this has in part been replaced with stockpiled ore from the Sao Chico Mine which as at the end of September 2015 has been measured at approximately 4,000 tonnes with an estimated average grade of 3.77 g/t.

At the Sao Chico Mine, with the completion of the portal in October 2014, the fourth quarter of 2014 saw underground development begin and by the end of the third quarter 2015 over 1,800 metres of development had been completed. In January 2015 the 216mRL access off the main ramp intersected the Main Vein, the principal 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. The Group immediately commenced lateral development of this 216mRL following the Main Vein to the east and west and at the same time has continued the development of the ramp.

The Group has now deepened the ramp and expects to reach to the next level at 156mRL during the fourth quarter of 2015. Development of the Main Vein itself on the initial level at 216mRL has been ongoing since the initial intersection in January 2015. A total of over 950 metres of on-lode development following the Main Vein on levels 216m, 199m and 186m has now been completed by the end of the third quarter.

The Company had initially planned to have development levels spaced at approximately 30 metre vertical intervals. However, in light of the geological complexity and need for greater geological understanding, at least in these initial months, the closer spaced 199mRL and 186mRL were introduced. This is allowing, in the near term, better control over the identification of the high grade gold zones with the wider mineralised zones.

Since the end of the second quarter of 2015 the Group has been building up a better picture of the geometry of the mineralisation at Sao Chico.



The original interpretation using surface drill holes suggested a single ore shoot, easterly plunging and covering a strike length of some 250m. The combination of further drilling and underground development now suggests not a single ore shoot, but an ore zone divided into three sub-zones, with low grade areas between each ore zone. Each sub-zone maintains the easterly plunge, and together they cover a cumulative strike length of 300m.

With the development ongoing, the ore zones clearly display locations where the ore can be mined both by selective and more mechanised methods, and over the coming quarter the Group will be optimising its mine plan for 2016.

The mining fleets at Palito and Sao Chico are relatively new. At Palito it comprises four 20 tonne trucks, four underground drilling jumbo rigs and five underground scooptram/loaders. A further underground drilling jumbo, one additional scooptram/loader and two 20 tonne trucks are deployed at the Sao Chico Mine. The Group also owns various other mobile equipment including four front end loaders, a bulldozer and other smaller vehicles. Whilst further equipment purchases are planned during 2015 and 2016, both mining operations are now well equipped. From time to time the Group will transfer equipment between the two locations to supplement capacity as required and a low loader was fabricated during the last quarter to facilitate this. Transportation of the ore from Sao Chico to Palito is undertaken by a contractor and began in February 2015

#### Plant operations

Total volumes processed of both Palito and Sao Chico ore during the first nine months of 2015 were 96,480 tonnes equivalent to an average daily rate of approximately 355 tonnes per day. Milling performance at the start of the first quarter was affected by power stoppages resulting from an inconsistent electricity supply CELPA, the regional power supply company. The reliability of the power supplied by CELPA has remained subject to fluctuation and interruption which is particularly detrimental to the performance of the gold process plant. As a consequence during the second quarter, the Group took 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 power requirements of mining operations together with the day to day needs of the mine-site, camp and other operations continue to be met by power supplied by CELPA expect in exceptional circumstances.

During the first nine months of 2015, the Group has been processing the flotation tailings that were produced during the first three quarters of 2014 through the CIP plant. This material is being used as top-up feed for the CIP plant as and when the opportunity arises. The process plant is however often at capacity and as a result, the Group has not been as successful at running down surface stockpiles as had been hoped. At the beginning of January 2015 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. The Group has processed approximately 15,000 tonnes of these tailings in the nine months to 30 September 2015 but in the last quarter the volume processed was only 2,800 tonnes (18%). Priority will always be given to higher grade material and in particular the treatment through the CIP plant of Sao Chico ore, so processing of these flotation tailings remains very much a secondary priority.

To enable processing of the Sao Chico ore through the Palito gold recovery plant, a separate process line was 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 of 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 2015. In the short term, the crushed and milled Sao Chico ore has passed directly to the CIP plant. During the third quarter of 2015, the Group acquired and installed an ILR which will be commissioned during November 2015. This will allow the milled Sao Chico ore to be passed initially through a gravity concentrator, with the recovered gravity concentrate containing "free-gold" passing through the ILR where in a small closed circuit it is leached with high concentrations of cyanide, dissolving the gold. The gold in solution is then recovered by conventional electro-winning and smelting. Having had some of the gold recovered through gravity the Sao Chico ore will then, as it does today, be passed directly to the existing CIP plant. This additional process will enhance gold recovery for the Sao Chico ore, and help improve efficiencies in the CIP plant.

By the end of September, approximately 18,000 tonnes of ore had been extracted from the Sao Chico Mine, with, to date, over 10,000 tonnes processed through the gold recovery plant located at Palito.

**SUMMARY PRODUCTION STATISTICS FOR THE FIFTEEN MONTHS TO 30 SEPTEMBER 2015**  
**(Palito and Sao Chico combined)**

		2014			2015			
		Quarter 3	Quarter 4	FY 2014	Quarter 1	Quarter 2	Quarter 3	YTD
Horizontal development	Metres	1,594	1,348	6,237	1,491	2,078	2,691	6,260
Mined ore	Tonnes	32,454	25,308	76,500	25,812	31,488	36,587	93,887
	Gold grade (g/t)	11.77	9.28	9.95	10.90	9.18	10.65	10.23
Milled ore	Tonnes	24,533	28,759	85,987	31,412	33,279	31,789	96,480
	Gold grade (g/t)	9.88	8.95	8.84	8.52	8.28	9.47	8.75
Gold production <sup>(1)</sup>	Ounces	5,515	7,819	18,452	7,389	8,237	9,078	24,704
Average realised price	US\$	\$1,199	\$1,220	\$1,230	\$1,194	\$1,162	\$1,122	\$1,156
				<b>Average July to Dec 2014</b>	<b>Average Jan to June 2015</b>	<b>Average July to Sept 2015</b>	<b>Average Jan to Sept 2015</b>	
Total cash cost of production (per ounce)				US\$793	US\$767	US\$580	US\$702	
All-In Sustaining Costs (per ounce)				US\$1,034	US\$967	US\$755	US\$894	

- (1) The Sao Chico Mine has not yet been declared to be in Commercial Production and therefore all costs and revenues relating to this mine are being capitalised. The Income Statements therefore only reflect the revenues and costs arising from the gold produced from the Palito Mine and the Cash Costs and AISC therefore also only reflect the activities from the Palito Mine. 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.

## Exploration and Licensing matters

The Group commenced a surface diamond drill programme in March 2015 initially planned to be 5,000 metres. To date 39 holes totalling over 6,000 metres have been completed, and whilst the Group has now released one of the two contracted rigs, the programme remains on-going to assist with the mine planning and resource modelling. 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. Further details of the results to date are set out in a news release issued by the Group on 21 October 2015 which is available on the Group's website [www.serabigold.com](http://www.serabigold.com) and has been filed on SEDAR.

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. As the next major step in the conversion procedure, Serabi submitted, in September 2015, 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. A submission for a further extension of the Guia de Utilização for a period of one additional year was also submitted in September 2015. The issuing of the mining licence also requires the submission of a risk assessment and management plan, safety assessments, environmental and social impact studies, closure and remediation plans. These additional reports have also either been submitted or are in the process of being finalised, in preparation for submission, to the relevant government bodies.

### **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 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 being undertaken during 2015 in conjunction with the current surface drilling programme are providing essential data for the further evaluation 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 Company's annual audited financial statements and unaudited interim financial information. The audited financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") and adopted for use within the European Union and with IFRS and their interpretations adopted by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Whilst the unaudited interim financial statements are compiled in accordance with IFRS, they do not contain sufficient financial information to comply with IFRS.

### Results of Operations

#### Three month period ended 30 September 2015 compared to the three month period ended 30 September 2014

The three month period ended 30 September 2015 represents the Group's first three month period for which it has a comparative three month period in the previous year as commercial production commenced on the 1 July 2014.

The Group's Sao Chico Mine is currently in development and all revenue earned and costs incurred relating to this operation are being capitalised until commercial production is declared.

The Group has recognised a gross profit for the quarter of US\$1,191,707 (three months to 30 September 2014: US\$957,387) and an operating profit of US\$219,535 (three months to 30 September 2014, operating loss of US\$362,199). The Group recognised a profit before taxation for the three month period ended 30 September 2015 of US\$114,176 in comparison to a loss of US\$405,430 for the three months ended 30 September 2014.

The gross profit of US\$1,191,707 for the financial quarter ended 30 September 2015 can be analysed against the gross profit of US\$957,387 for the same period in 2014 as follows:

	Three Months Ended September 2015		Three Months Ended September 2014		Variance	
Concentrate sold (Ounces)		5,464		3,474		
Bullion Sold (Ounces)		1,963		257		
<b>Total Ounces</b>		<b>7,427</b>		<b>3,731</b>		
<b>Revenue from Ordinary Activity</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Gold Concentrate	5,543,129		4,427,515		1,115,614	
Gold Bullion	2,226,699		333,382		1,893,317	
Copper	554,856		468,407		86,449	
Silver	40,605		24,019		16,586	
<b>Total Sales</b>		<b>8,365,289</b>		<b>5,253,323</b>		<b>3,111,966</b>
<b>Costs of sales</b>						
Operational costs	(5,327,926)		(2,459,679)		(2,868,247)	
Shipping costs	(599,508)		(647,143)		47,635	
Treatment charges	(264,143)		(196,098)		(68,045)	
Royalties	(110,429)		(75,612)		(34,817)	
Amortisation of Mine Property	(564,044)		(677,555)		113,511	
Depreciation of Plant & Equipment	(307,532)		(239,849)		(67,683)	
<b>Total Operating costs</b>		<b>(7,173,582)</b>		<b>(4,295,936)</b>		<b>(2,877,646)</b>
<b>Gross Profit</b>		<b>1,191,707</b>		<b>957,387</b>		<b>234,320</b>



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. For the sales of the copper/gold concentrate produced from the processing of the Palito ore, this is considered to be the date on which the copper/gold concentrate arrives in Hamburg where the Group's designated smelter is located. For the sales of gold bullion the sale occurs when the Group enters into a binding sales agreement and completes the delivery of the gold doré or gold bullion in accordance with that agreement.

During the third quarter of 2015 the Group recognised total sales of US\$8,365,289, (three months to 30 September 2015: US\$5,253,323). The sales can be separated between sales of copper/gold concentrate of US\$6,138,590 and sales of gold bullion of US\$2,226,699. Revenue has been recognised for sales of 620 tonnes, containing an estimated 5,464 ounces, which had been delivered to the refinery in Hamburg during the quarter ended 30 September 2015, (third quarter 2014: 340 tonnes sold containing 3,474 ounces of gold). The unsold material is held as inventory.

During the three months to 30 September 2015 the Group produced 609 wet tonnes of copper/gold concentrate, containing an estimated 5,956 ounces; (during the three months to 30 September 2014: the Group produced 476 wet tonnes of copper/gold concentrate, containing 4,713 ounces of gold).

The Group also recognised revenue for 1,963 ounces of gold bullion earning total revenue of US\$2,226,699 during the third quarter of 2015, (during the three months ended 30 September 2014: the Group sold 257 ounces earning revenue of US\$333,382). However, this does not include revenue of US\$1,340,259 earned from the sale of 1,201 ounces of bullion sold from ore produced from the Sao Chico mine. This income has been treated as capitalised income and set off against capitalised costs of the Sao Chico mine development as the Sao Chico operation had not attained commercial production as at 30 September 2015.

Operating costs of US\$5.33 million relate to all mining and plant processing costs, (three months period to 30 September 2014: US\$2.46 million), as well as all general site costs incurred at Palito during the period to produce the final product sold. Total operating costs have increased by 54% for the three month period ended 30 September 2015 in comparison to the same period in the previous year.

This is in part a reflection of the Group's decision in the second quarter of 2015 to revise the basis on which it calculates the value of inventories of work in progress and finished products. The intention was to better apportion certain of the fixed operational costs over the different work-in-progress categories and as a consequence specifically reduced the value ascribed to each unit of inventory of copper/concentrate that comprises between 40% to 50% of the overall work-in-progress stock valuation. During the third quarter of 2014 operational costs of production are as a result understated by comparison to the same quarter in 2015 and the total valuation of the work-in-progress stockpiles overstated.

Labour costs of US\$2.09 million for the three month period ended 30 September 2015 represent a reduction of 16% in comparison to the same period in the previous year. Labour costs actually increased by 27% in Brazilian Reals between the two periods due to an increase in the number of staff employed at the mine site by 20% (341 staff during the third quarter of 2015 in comparison to 284 during the third quarter of 2014), due to increased activity, as well as each member of staff receiving an increase in their base salary of 8% in May 2015 as part of a national collective agreement which all workers in Brazil have a right to receive. Therefore, this reduction in labour costs is the result of the movement in the exchange rate between the two periods. The average exchange rate for the three month period ended 30 September 2014 was approximately US\$1.00 to BrR\$2.32 in comparison to an average exchange rate of US\$1.00 to BrR\$3.53 during the same period in 2015.

The cost of mining consumables of US\$1.02 million for the three month period ended 30 September 2015 is in line with the costs incurred during the same period in the prior year. However, in Brazilian Reals, costs have actually increased by 52% as a result of increased activity. For the three month period ended 30 September 2015 the cost of mining consumables per tonne mined were approximately US\$43 per tonne in comparison to US\$52 per tonne during the same period in the previous year, a reduction of 18%.

Maintenance costs of US\$0.59 million have increased by 34% for the three month period ended 30 September 2015 in comparison to the same three month period in the previous year. This is in part the result of an expansion of the mining fleet as the Company purchased new vehicles during the year totalling US\$0.87 million, as well as

new support equipment for the mine and processing plant of US\$1.36 million. Also, each machine which was used during the third quarter of 2014 is now a year older and requires more maintenance work to continue operating at an efficient level.

Plant operating costs of US\$0.81 million for the three month period ended 30 September 2015 have increased by 121% in comparison to the same period of the previous year following increased rates of production. During the three month ended 30 September 2015 the plant produced 9,078 ounces of Palito ore in comparison to 5,002 ounces during the same period in the previous year. The plant production costs per ounce produced have decreased by 14% from US\$99 per ounce to US\$85 per ounce.

Site costs have increased from US\$0.60 million during the three month period ended 30 September 2014 to US\$0.822million during the same period in 2015. This is as a result of the increased mining, production and administration staff working on the Palito site as detailed above as well as the increased support costs such as electrical distribution and fuel to power generators to support the increased activity.

Shipping costs of US\$599,508 (three months to 30 September 2014: US\$ 647,143) includes all domestic road and river freight in Brazil from the Palito Mine to the international port at Belem and also international sea freight from Belem to Hamburg in Germany. The shipping charges are incurred as soon as the goods they relate to depart from the port of Belem. During the three month period ended 30 September 2015 660 tonnes departed from the port of Belem, in comparison to the 460 tonnes which departed from Belem during the same period in the previous year. The cost per tonne shipped in Brazilian Reais has decreased by 3% from the 3 month period ended 30 September 2014 in comparison to the same period in 2015, however in US Dollars the costs have decreased by 35% due to the movement in the exchange rate between the two periods as detailed above.

Treatment Charges of US\$264,143 (three months to 30 September 2014: US\$196,098) predominantly relate to charges for the processing of copper/gold concentrate and include an estimate US\$247,086 relating to the expected cost that will be levied by the refinery in Hamburg, Germany (three months to 30 September 2014: US\$179,483), and US\$17,057 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group (three months to 30 September 2014: US\$16,615). The treatment charges of copper/gold concentrate levied by the refinery in Hamburg are a best estimate based on volume and values of sales achieved during the period. The actual treatment charge incurred for the 340 tonnes of concentrate sold during the third quarter of 2014 was finalised at US\$142,740 or approximately US\$420 per tonne sold, (rather than the US\$179,483 or US\$528 per tonne sold as detailed above.) With more history the Group is now better able to estimate charges and the current estimate for the three months to 30 September 2015 equates to US\$399 per tonne.

Royalty payments of US\$110,429 comprise statutory levies payable in Brazil, (three months to 30 September 2014: US\$75,612). Rates are uniform across all mining operations and currently comprise a 1% royalty on gold production and a 2% royalty on copper production. Royalty charges on shipments of copper/gold concentrate are incurred as soon as the goods they relate to depart from the port of Belem, (whereas sales are recognised when goods arrive in the port of Hamburg). During the three month period ended 30 September 2015, 660 tonnes departed from the port of Belem resulting in royalties payable of \$77,300 in comparison to the 460 tonnes which departed from Belem during the same period in the previous year the variance reflecting prevailing gold and copper prices and gold and copper content of the concentrate. Royalties on bullion sales totalled US\$33,000 for the 3 month period to 30 September 2015. There was no bullion production in the 3 month period ended 30 September 2014

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\$33.4 million at 30 September 2015, (30 September 2014: US\$37.05 million), including a provision for future mine development of US\$4.75m (30 September 2014: US\$Nil), which has given rise to an amortisation charge for the three month period of US\$564,044 (three months to 30 September 2014: US\$677,555). This charge is calculated by reference to the number of mined ounces during the period compared with the total expected recoverable ounces during the currently anticipated life of the Palito Mine. The charge during the three months ended 30 September 2014 is higher than the amortisation charge during the same period during 2014 as a result of the Group adjusting its accounting policy to conform with the requirements of IAS 2 requiring that inventories of work in progress should include indirect costs of production including the depreciation and amortisation of infrastructure used in the production process.

There was also a depreciation charge of US\$307,532 charged during the third quarter on mining plant and equipment which is an increase of US\$67,683 on the charge of US\$239,849 incurred during the third quarter of the previous year. The Company purchased new mine and production equipment totalling US\$1.71 million as well as purchasing US\$1.09 million of new mobile equipment during the first nine months of 2015. It is the company's policy to charge depreciation to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment beginning in the month subsequent to the month that the item of plant and equipment is purchased.

The Group has recognised an operating profit before interest and other income of US\$219,535, (three months to 30 September 2014: loss of US\$362,199) after incurring US\$871,153 in administrative expenses, (three months to 30 September 2014: US\$1,243,580) as well as a charge of US\$101,019 on share based payments, (three months to 30 September 2014: US\$76,006). The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the three months to 30 September 2015 is in respect of options granted between January 2012 and 30 September 2015.

The profit from operations increased by US\$581,734 from a loss of US\$362,199 for the 3 month period ended 30 September 2014 to a profit of US\$219,535 for the three month period ended 30 September 2015. Administration expenses have decreased during this period by US\$372,427 from US\$1,243,580 for the three months ended 30 September 2014 to US\$871,153 for the same period in 2015, while the cost of share based payments have increased by US\$25,013. This decrease in administration expenses for the three month period can be accounted for as follows:

- (i) Administration costs in Brazil have decreased by US\$177,184, 37%, from US\$477,523 for the three month period ended 30 September 2014 to US\$270,339 for the same period in 2015. However, in Brazilian Reais, Brazilian administration costs have decreased by only 9% during the same period due to general cost saving exercises undertaken by the Company.
- (ii) An increase of US\$52,481 in London based corporate costs between the three month period ended 30 September 2014 and the three month period ended 30 September 2015. The Group incurred an increase in legal fees of US\$81,035 between the two periods reflecting work completed during the third quarter of 2015 related to the cancellation of its share Premium account as well as all of its Deferred Shares.
- (iii) This increase in corporate costs was offset by a decrease in legal and arrangement fees totalling US\$247,723. Legal and arrangement costs of approximately US\$365,000 were charged to the Income Statements during the third quarter of 2014 relating to the negotiation of the US\$8 million loan facility with Sprott. This charge was reversed in the fourth quarter of 2014 and this cost in accordance with accounting convention is now being amortised over the life of the loan (March 2016).

The Company recorded a foreign exchange loss of US\$364,869 in the 3 month period to 30 September 2015 which compares with a foreign exchange loss of US\$68,037 recorded for the 3 months ended 30 September 2014. These foreign exchange gains and losses primarily relate to the settlement of foreign currency liabilities from Brazil reflecting the devaluation of the Brazilian Real and the cash holdings of the Company in currencies other than US Dollars as at the period end. The exchange movements on cash holdings do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest gain for the 3 month period to 30 September 2015 was US\$259,510 compared with a loss of US\$24,806 for the same period of 2014. An analysis of the composition of these charges is set out in the table below:

	<b>Quarter Ended September 2015</b>	<b>Quarter Ended September 2014</b>
	<b>US\$</b>	<b>US\$</b>
Interest expense on Sprott loan	140,091	–
Interest on trade finance facility	105,397	126,648
Arrangement fees on finance facilities	132,000	–
Interest expense on convertible loan stock	–	17,727
Asset finance charges	10,586	
Other interest charges	–	10,607
	<hr/>	<hr/>
	388,074	154,982
Gain on revaluation of warrants	(424,773)	–
Finance income	(173,246)	(162,995)
Gain on revaluation of derivative	(49,564)	–
Interest income	(1)	(16,793)
Net finance (income) / expense	<hr/>	<hr/>
	(259,510)	(24,806)

The interest on the Sprott loan of US\$140,091 is the cost of three months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership. This loan was not in place during the third quarter of 2014.

The interest on trade finance loans of US\$105,397 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 charge for arrangement fees comprises US\$72,000 relating 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 and the amortisation charge for the quarter of the arrangements fees relating to the US\$8 million Sprott loan facility.

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.

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 30 June 2015, the value of these warrants was US\$486,149. At 30 September 2015, the Group has revalued the warrants in accordance with fair value accounting principles to US\$61,376 and the gain on this revaluation of the warrants amounting to US\$424,773 has been recorded as finance income and the derivative provision liability decreased by the same value.

The finance income receivable of US\$173,246 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 gain on the revaluation of the derivative of US\$49,564 relates to the gain on the period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership (as noted above).

## Nine month period ended 30 September 2015 compared to the nine month period ended 30 September 2014

The Group has recognised a gross profit for the nine month period of US\$4,089,816 (nine months to 30 September 2014: US\$691,082 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014) and an operating profit of US\$762,089 (nine months to 30 September 2014, operating loss of : US\$3,095,949).

The Group recognised a profit before taxation for the nine month period ended 30 September 2015 of US\$191,073 in comparison to a loss of US\$3,331,787 for the nine months ended 30 September 2014.

The gross profit of US\$4,089,816 for the period ended 30 September 2015 can be analysed as follows:

	US\$	US\$
<b>Revenue from Ordinary Activity</b>		
Gold Concentrate	17,574,493	
Gold Bullion	7,633,753	
Copper	1,730,968	
Silver	104,468	
<b>Total Sales</b>		<b>27,043,682</b>
<b>Costs of sales</b>		
Operational costs	(16,772,075)	
Shipping costs	(1,544,012)	
Treatment charges	(728,783)	
Royalties	(305,186)	
Amortisation of Mine Property	(2,851,319)	
Depreciation of Plant & Equipment	(752,491)	
<b>Total Operating costs</b>		<b>(22,953,866)</b>
<b>Gross profit</b>		<b>4,089,816</b>

During the first nine months of 2015 the Group recognised total sales of US\$27,043,682 (nine months to 30 September 2015: US\$5,253,323 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014). The sales can be separated between sales of copper/gold concentrate of US\$19,409,929 (nine months to 30 September 2015: US\$4,919,941 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014) and sales of gold bullion of US\$7,633,753 (nine months to 30 September 2015: US\$333,382 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014).

During the nine months to 30 September 2015 the Group produced 1,608 wet tonnes of copper/gold concentrate, (containing an estimated 16,297 ounces). Revenue has been recognised for sales of 1,580 tonnes, (containing an estimated 15,748 ounces) which had been delivered to the refinery in Hamburg during the nine months ended 30 September 2015. During the nine months ended 30 September 2014 the Group produced 983 wet tonnes of copper/gold concentrate, (containing an estimated 9,933 ounces). However Revenue was only recognised on sales for 340 tonnes sold containing 3,474 ounces as commercial production began on 1<sup>st</sup> July 2014 and all sales and costs relating to the Palito mine prior to this date were capitalised. All unsold material is held as inventory.

The Group also recognised revenue for 6,430 ounces of gold bullion earning total revenue of US\$7,633,753 during the first nine months of 2015, (nine months to 30 September 2014: US\$333,382; 257 ounces as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014). However, this does not include revenue of US\$2,267,350 earned from the sale of 1,984 ounces of bullion sold from ore produced from the Sao Chico mine, nine months to 30 September 2014: US\$Nil). This income has been treated as capitalised income and set off against capitalised costs of the Sao Chico mine development as the Sao Chico operation had not attained commercial production as at 30 September 2015.

Operating costs of US\$16,772,075 relate to all mining and plant processing costs, (nine months period to 30 September 2014: US\$2.46 million as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014), as well as all general site costs incurred at Palito during the period to produce the final product sold.

Labour costs for the nine month period to 30 September 2015 amounted to approximately US\$6.32 million (nine month period to 30 September 2014: US\$7.21 million, comprising six months prior to commercial production being declared of US\$4.72 million and three months of post the declaration of commercial production of US\$2.49 million), a decrease of 12%. Labour costs actually increased by 28% in Brazilian Reais between the two nine month periods due to an increase in the average number of staff employed at the mine site by approximately 23% (329 staff on average during the first nine month of 2015 in comparison to 268 during the first nine months of 2014), due to increased activity, as well as each member of staff receiving an increase on their base salary of 8% in May 2015 as part of a national collective agreement which all workers in Brazil have a right to receive. Therefore, this reduction in labour costs is as a result of the movement in the exchange rate between the two periods. The average exchange rate for the nine month period ended 30 September 2014 was approximately US\$1.00 to BrR\$2.30 in comparison to an average exchange rate of US\$1.00 to BrR\$3.15 during the same period in 2015.

The cost of mining consumables of US\$2.91 million for the nine month period ended 30 September 2015 is an increase of 9% with the costs incurred during the same period in the prior year. However, in Brazilian Reais, costs have actually increased by 60% as a result of increased activity. For the nine month period ended 30 September 2015 the cost of mining consumables per tonne mined were approximately US\$39 per tonne in comparison to US\$52 per tonne during the same period in the previous year, a reduction of 25%.

Maintenance costs of US\$2.09 million have increased by 90% for the nine month period ended 30 September 2015 in comparison to the same nine month period in the previous year. This is because the mining fleet has expanded in size as the Company purchased new vehicles during the year totalling US\$0.87 million, as well as new support equipment for the mine and processing plant of US\$1.36 million. Also, each machine which was used during 2014 is now a year older and requires more maintenance work to continue operating at an efficient level.

Plant operating costs of US\$2.67 million for the nine month period ended 30 September 2015 have increased by 124% in comparison to the same period of the previous year due to an increase in productivity. During the nine month ended 30 September 2015 the plant produced 24,704 ounces of ore in comparison to 10,544 ounces during the same period in the previous year, an increase of 134%. The plant production costs per ounce produced have decreased by 5% from US\$113 per ounce during the first nine month of 2014 to US\$108 per ounce for the first nine months of 2015. Plant operating costs for the nine months to 30 September 2015 also include nine months of operation of the CIP plant, elution and gold room facilities. These elements of the production process only became operational for 1 October 2014 and therefore there was no equivalent cost incurred during the nine months to 30 September 2014.

Site costs have increased from US\$1.52 million during the nine month period ended 30 September 2014 to US\$2.80 million during the same period in 2015. This is as a result of the increased mining, production and administration staff working on the Palito site as detailed above as well as the increased support costs such as electrical distribution and fuel to power generators to support the increased activity.

Shipping costs of US\$1,544,012 (nine months to 30 September 2014: US\$ 647,143 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014) 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. The shipping charges are incurred as soon as the goods they relate to depart from the port of Belem. During the nine month period ended 30 September 2015 1,580 tonnes departed from the port of Belem, in comparison to the 460 tonnes which departed from Belem in the previous year. The cost per tonne shipped during 2015 in Brazilian Reais is roughly in line with the cost per tonne for the 3 month period ended 30 September, however in US Dollars the costs have decreased by 33% due to the movement in the exchange rate between the two periods as detailed above.

Treatment Charges of US\$728,783 (nine months to 30 September 2014: US\$196,098 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014) predominantly relate to the charges for the processing of copper/gold concentrate and include US\$676,748 of charges levied by the refinery in Hamburg,

Germany (nine months to 30 September 2014: US\$179,483 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014), and US\$52,035 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group, three months to 30 September 2014: US\$16,615). The treatment charges of copper concentrate levied by the refinery in Hamburg are a best estimate based on volume and values of sales achieved during the period. The final invoiced treatment charges are usually agreed approximately three months after the goods have arrived in Hamburg. Therefore for the nine month period ended 30 September 2015 the treatment charges for sales up until 30 June 2015 have been finalised whilst the charges for the latest quarter represent a best estimate. The actual treatment charge incurred for the 340 tonnes of concentrate sold during the third quarter of 2014 was finalised at US\$142,740 or approximately US\$420 per tonne sold, compared with the provision recorded of US\$179,483 or US\$528 per tonne sold. With more history the Group is now better able to estimate charges which for the first nine months of 2015 have averaged US\$390 per tonne of concentrate.

Royalty payments of US\$305,186 comprise statutory levies payable in Brazil, (nine months to 30 September 2014: US\$75,612). Rates are uniform across all mining operations and currently comprise a 1% royalty on gold production and a 2% royalty on copper production. Royalty charges on shipments of copper/gold concentrate are incurred as soon as the goods they relate to depart from the port of Belem, (whereas sales are recognised when goods arrive in the port of Hamburg). During the nine month period ended 30 September 2015 1,580 tonnes departed from the port of Belem resulting in royalty charges of US\$207,000. This compares to the charge for the nine months to 30 September 2014 based on 460 tonnes which departed from Belem during the same period in the previous year, the variance reflecting prevailing gold and copper prices and gold and copper content of the concentrate. The charge for the 2014 period reflects only the period after 1 July 2014 this being the date that commercial production was declared. Royalties on bullion sales totalled US\$98,000 for the nine month period to 30 September 2015. There was no bullion production in the nine month period ended 30 September 2014 as the CIP plant was not in operation.

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\$33.4 million at 30 September 2015, (30 September 2014: US\$37.05 million), including a provision for future mine development of US\$4.75m (30 September 2014: US\$Nil), which has given rise to an amortisation charge for the nine month period of US\$2,851,319 (nine months to 30 September 2014: US\$677,555 as 2014 only had three months of commercial production from 1<sup>st</sup> July 2014 to 30 September 2014). 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\$752,491 charged during the first nine months of 2015 on mining plant and equipment (nine months to 30 September 2014: US\$506,154 as 2014). The Company purchased new mine and production equipment totalling US\$1.71 million as well as purchasing US\$1.09 million of new mobile equipment during the first nine months of 2015. It is the company's policy to charge depreciation to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment beginning in the month subsequent to the month that the item of plant and equipment is purchased.

The Group has recognised an operating profit before interest and other income of US\$762,089, (nine months to 30 September 2014: loss of US\$3,095,949) after incurring US\$3,024,671 in administrative expenses, (nine months to 30 September 2014: US\$3,637,598) as well as a charge of US\$303,056 on share based payments, (nine months to 30 September 2014: US\$149,433). The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the nine months to 30 September 2015 is in respect of options granted between January 2012 and 30 September 2015.

Administration expenses have decreased by US\$612,927 from US\$3,637,598 for the nine months ended 30 September 2014 to US\$3,024,671 for the same period in 2015, while the cost of share based payments have increased by US\$153,623, from US\$149,433 to US\$303,056.

This decrease in administration expenses for the nine month period of US\$612,927 can be accounted for as follows:

- (i) A decrease of US\$326,493 in corporate administration costs in Brazil reflecting the benefit of a weaker exchange rate between the Brazilian Real and the US Dollar. Administration costs in Brazil have increased by 13% between the nine month period ending 30 September 2014 and the nine month period ending 30 September 2015, however, when converted into US Dollars the Brazilian administrative costs show a reduction of 26%..
- (ii) A decrease in London based Corporate costs between the two periods of US\$189,931 is primarily due to a decrease of US\$143,481 in professional fees reflecting, in the large part, costs incurred in connection with the share placement which took place during the first quarter of 2014 to raise gross proceeds of UK£10 million. Broker fees decreased by US\$13,064, registrar fees by US\$46,778, NOMAD fees by US\$66,754 as well as PR fees by US\$16,885 due to this issue of new share capital which occurred during March 2014.
- (iii) Costs incurred for the legal and arrangement fees relating to the negotiation and documentation for the Sprott loan facility were US\$268,496 for the nine month period ended 30 September 2015, a reduction of US\$96,504 in comparison to the costs of approximately US\$365,000 which were charged to the Income Statement during the third quarter of 2014. relating to the negotiation of the US\$8 million loan facility with Sprott. This charge was reversed in the fourth quarter of 2014 and this cost in accordance with accounting convention is now being amortised over the life of the loan (March 2016).

The Company recorded a foreign exchange loss of US\$171,238 in the nine month period to 30 September 2015 which compares with a foreign exchange loss of US\$59,161 recorded for the nine months ended 30 September 2014. These foreign exchange gains and losses primarily relate to the settlement of foreign currency liabilities from Brazil reflecting the devaluation of the Brazilian Real and the cash holdings of the Company in currencies other than US Dollars as at the period end. The exchange movements on cash holdings do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest charges for the nine month period to 30 September 2015 were US\$399,778 compared with US\$176,677 for the first nine months of 2014. An analysis of the composition of these charges is set out in the table below:

	Nine Months Ended September 2015	Nine Months Ended September 2014
	US\$	US\$
Interest expense on Sprott loan	474,612	–
Interest on trade finance facility	281,064	126,648
Arrangement fees on finance facilities	398,500	–
Interest in Short term loan	–	101,782
Interest expense on convertible loan stock	22,796	59,200
Asset finance charges	29,304	–
Other interest charges	–	73,308
	<hr/>	<hr/>
	1,206,276	360,938
Finance income	(347,191)	(162,995)
Gain on Revaluation of warrants	(270,797)	–
Gain on revaluation of derivative	(187,668)	–
Interest income	(842)	(21,266)
Net finance expense	<hr/>	<hr/>
	399,778	176,677

The interest on the Sprott loan of US\$474,612 is the cost of nine months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership.

The interest on trade finance loans of US\$281,064 is the interest charged 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 charge for arrangement fees comprises US\$184,000 relating 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



and the amortisation charge for the nine months to 30 September 2015 of the arrangement fees relating to the US\$8 million Sprott loan facility.

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.

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 30 September 2015, the Group has revalued the warrants in accordance with fair value accounting principles to US\$61,376 and the gain on this revaluation of the warrants amounting to US\$270,797 has been recorded as a finance expense and the derivative provision liability increased by the same value.

The finance income receivable of US\$347,191 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 gain on the revaluation of the derivative of US\$187,668 relates to the gain on the period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership (as noted above).

Summary of quarterly results	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	30 September	30 June	31 March	31 December
	2015	2015	2015	2014
	US\$	US\$	US\$	US\$
Revenues	8,365,289	11,194,178	7,484,215	7,374,461
Operating expenses	(6,302,006)	(8,188,141)	(4,859,909)	(6,319,134)
Amortisation of mine property	(564,045)	(1,322,374)	(964,901)	(1,657,307)
Depreciation of plant and equipment	(307,531)	(292,140)	(152,819)	207,438
Gross profit	1,191,707	1,391,523	1,506,586	(394,542)
Administration expenses	(871,153)	(1,248,013)	(905,505)	(619,941)
Option costs	(101,019)	(101,018)	(101,019)	(109,165)
Write-back of provision for contingencies	–	–	–	298,088
Write-back of provision for impairment	–	–	–	2,590,532
Operating profit	219,535	42,492	500,062	1,764,972
Exchange	(364,869)	(35,032)	228,663	25,419
Net finance income / (expense)	259,510	(121,961)	(537,327)	1,366,995
Profit / (loss) before taxation	114,176	(114,501)	191,398	3,157,386
Profit / (loss) per ordinary share (basic)	0.017 cents	(0.017) cents	0.029 cents	0.48 cents
Deferred exploration costs	9,018,777	10,857,942	9,769,327	11,799,271
Property, plant and equipment	39,181,535	48,480,812	47,508,148	54,103,898
Total current assets	20,423,920	23,414,155	22,792,315	27,159,740
Total assets	68,624,232	83,112,909	80,069,790	93,062,909
Total liabilities	22,394,854	25,102,757	23,872,348	26,144,358
Shareholders' equity	46,229,378	58,010,152	56,197,442	66,918,551

Summary of quarterly results	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	30 September	30 June	31 March	31 December
	2014	2014	2014	2013
	US\$	US\$	US\$	US\$
Revenues	5,253,323	–	–	–
Operating expenses	(3,378,532)	–	–	–
Amortisation of mine property	(677,555)	–	–	–
Depreciation of plant and equipment	(239,849)	–	–	–
Gross profit	957,387	–	–	–
Administration expenses	(1,243,580)	(1,482,040)	(911,979)	(872,677)
Provision for indirect taxes	–	–	–	(213,220)
Option costs	(76,006)	(43,840)	(29,587)	(161,226)
Write-off of past exploration expenditures	–	–	–	(1,007,233)
Depreciation of plant and equipment	–	(140,322)	(125,983)	(186,000)
Operating loss	(362,199)	(1,666,202)	(1,067,549)	(2,440,356)
Exchange	(68,037)	18,794	(9,918)	(36,618)
Net finance income / (expense)	24,806	(21,329)	(180,154)	(268,589)
Loss before taxation	(405,430)	(1,668,737)	(1,257,621)	(2,745,563)
Loss per ordinary share (basic)	(0.06) cents	(0.25) cents	(0.24) cents	(0.60) cents
Deferred exploration costs	24,888,399	26,508,924	25,607,411	24,659,003
Property, plant and equipment	39,381,145	43,412,368	38,549,235	36,008,318
Total current assets	21,878,828	18,040,230	19,954,894	9,020,774
Total assets	86,148,372	87,961,522	84,111,540	69,688,095
Total liabilities	16,259,911	10,614,015	6,936,353	9,653,388
Shareholders' equity	69,888,461	77,347,507	77,175,187	60,034,707

## Liquidity and Capital Resources

On 30 September 2015, the Group's net assets amounted to US\$46.23 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 30 September 2015, when the rate was BrR\$3.9722 to US\$1.00. Whilst the Group has reported a small profit after taxation, it has incurred a loss of US\$21.18 million on the re-translation of the results of its Brazilian operations in the nine month period since 31 December 2014.

Non-current assets totalling US\$48.20 million at 30 September 2015 (31 December 2014: US\$65.90 million), are primarily comprised of property, plant and equipment, which as at 30 September 2015 totalled US\$39.18 million (31 December 2014: US\$54.10 million) of which US\$29.30 million (31 December 2014 : US\$41.07 million) is attributable to the Palito Mine property and US\$9.89 million (31 December 2014 : US\$13.03 million) is attributable to the Sao Chico Mine property. The Group has acquired additional plant and machinery to the value of US\$2.85 million in the period and capitalised expenditure of US\$0.95 million for on-going capital development of the Palito Mine.

Capitalised costs in relation to development operations at the Sao Chico Mine during 2015 are US\$2.4 million against which has been offset revenue of US\$2.3 million generated from the sale of 1,983 ounces of gold production derived from Sao Chico during the nine month period to 30 September 2015.

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 September 2012. An amortisation charge totalling US\$2.85 million has been recorded for the nine month period to 30 September 2015. The net book value of Property, Plant and Equipment has been reduced by US\$16.55 million as a result of the retranslation of the underlying values from Brazilian Reais to US dollars.

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 30 September 2015 totalled US\$9.02 million (31 December 2014: US\$11.80 million) which relates to capitalised exploration expenditures around the Palito Mine, Sao Chico Mine and the wider Jardim Do Ouro project area. During the period the Group incurred US\$0.57 million in exploration drilling costs at the Sao Chico mine which have been capitalised as deferred exploration costs. The carrying value has been reduced by US\$3.35 million as a result of the variation in the exchange rates since the start of the year.

On 26 September 2014, the Group 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\$2.58 million at 30 September 2015 compared to US\$5.63 million at 31 December 2014, the movements being detailed in the table below:

	September 2015 US\$	December 2014 US\$	Variance US\$
<b><u>Current assets</u></b>			
Inventories	7,677,056	8,070,215	(393,159)
Trade and other receivables	6,683,465	6,772,046	(88,581)
Prepayments	2,248,960	2,503,877	(254,917)
Cash and cash equivalents	3,814,439	9,813,602	(5,999,163)
<b>Total current assets</b>	<b>20,423,920</b>	<b>27,159,740</b>	<b>(6,735,820)</b>
<b><u>Current liabilities</u></b>			
Trade and other payables	3,989,936	4,601,337	(611,401)
Interest bearing liabilities	13,619,743	16,228,220	(2,608,477)
Derivative financial liabilities	70,038	528,503	(458,465)
Accruals	167,237	167,377	(140)
<b>Total current liabilities</b>	<b>17,846,954</b>	<b>21,525,437</b>	<b>(3,678,483)</b>
<b>Working capital</b>	<b>2,576,966</b>	<b>5,634,303</b>	<b>(3,057,337)</b>
<b><u>Non-current liabilities</u></b>			
Trade and other payables	2,226,238	1,424,798	801,440
Provisions	2,075,105	2,829,468	(754,363)
Interest bearing liabilities	246,557	364,655	(118,098)
<b>Total non-current liabilities</b>	<b>4,547,900</b>	<b>4,618,921</b>	<b>(71,021)</b>

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 decreased by US\$0.39 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 38% between 31 December 2014 and 30 September 2015, this increase has been offset by the effect of the weakening of the Brazilian Real, so that in US dollar terms there has been an 8% decrease in value. The increase in product inventories results from increased levels of production and also the establishment of a stockpile of coarse ore from the Sao Chico Mine which at 30 September 2015 was valued at US\$1.63 million, (30 December 2014: US\$Nil).

At 31 December 2014 the surface stockpile of coarse ore from the Palito Mine of approximately 10,150 tonnes had been valued at US\$1.05 million. At the 30 September 2015 this coarse ore stockpile was approximately 12,214 tonnes with a value of US\$1.13 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 unit costs of stockpile inventory should remain relatively constant going forward. The inventory valuation in Brazilian Reals has increased from BrR\$2,801,914 to BrR\$4,506,166 a 61% increase reflecting the increased operational costs that are being experienced during 2015 compared to those incurred at the outset of the mine life and reflects in particular higher levels of labour costs and increased costs of maintenance. Costs per unit in Brazilian Reals are BrR\$ 369 per tonne compared with BrR\$275 per tonne at 31 December 2014. The devaluation of the Brazilian Real

compared with the US Dollar however means that in US Dollar terms the cost per unit has reduced from US\$103 per tonne to US\$92.52 per tonne.

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 nine months of 2015 commenced the processing of these flotation tailings through the CIP plant and expects that it will continue to process this stockpiled material as capacity is available, during the remainder of 2015 and throughout 2016. The value ascribed to this stockpile as at 30 September 2015 is US\$1.15 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 nine months to 30 September 2015 as well as exchange rate movements.

At the 30 September 2015, the Group had on hand an inventory of approximately 407 wet metric tonnes (31 December 2014: 327 tonnes) of copper/gold concentrate of which 27 tonnes was located at Palito (31 December 2014: 87 tonnes), 220 tonnes was en route to the port of Belem (31 December 2014: 120 tonnes) and the remaining 160 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\$2.28 million (31 December 2014: US\$3.59 million), representing a unit cost of US\$5,600 per tonnes compared with a unit cost of US\$10,978 per tonne at 31 December 2014. During the second quarter of 2015, the Group revised the basis on which it calculates the value of inventories of work in progress and finished products in particular the allocation of site overhead costs to each stage of production. The overall effect was to reduce the value ascribed to each unit of inventory of copper/concentrate which comprises 46% of the Palito inventory valuations at 30 September 2015. Had the same basis of valuation been adopted at 31 March 2015 the Group estimates that inventories of work in progress and finished goods would have reduced by approximately US\$1.08 million. The Group has not restated its previously published results for the first quarter of 2015 and the additional expense was therefore recognised in the 3 month period to 30 June 2015.

The valuation attributable to gold locked up within the processing plant, waiting to be smelted or in the process of being sold has increased to US\$0.42 million as at 30 September 2015, whilst the Company has also ascribed a valuation to the stockpile of coarse ore extracted at Sao Chico of US\$1.63 million.

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 September 2015 of US\$1.06 million have increased by approximately US\$0.15 million in comparison with 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 three to four 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.

Trade and other receivables at 30 September 2015 are roughly in line with 31 December 2014. As at 30 September 2015, the Group was owed US\$6.38 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 to 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 September 2015 the company was awaiting settlement for approximately 5,464 ounces of gold compared with a settlement outstanding at the end of December 2014 of almost 5,000 ounces resulting in an increased level of debt owed of approximately US\$187,125.

Also included within trade and other receivables are other some trade advances for freight and insurance which have been reduced by US\$275,706 from US\$575,643 at 31 December 2014 to US\$299,937 at 30 September 2015.

During the first nine months of 2015 cash balances have reduced by approximately US\$5.99 million reflecting the repayment of financing arrangements of approximately US\$3.1 million and capital and development expenditure in the period of a further US\$5.93 million. Of the financing arrangements that have been settled the company has repaid US\$3.0 million of the loan received from Sprott during the nine months ended 30 September 2015, experienced a reduction in the liability due under the short term trade finance facility of US\$128,785 and settled finance lease arrangements of US\$570,445. Capital expenditure on plant and equipment for both Palito and Sao Chico was US\$4.3 million.

Capitalised development costs of the Palito Mine were US\$0.95 million during the first nine months of 2015. Development and pre-operating expenses of the Sao Chico Mine for the same period were US\$2.4 million against which has been offset revenue of US\$2.3 million generated from the sale of 1,983 ounces of gold production derived from Sao Chico during the nine month period to 30 September 2015

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

- (i) The level of prepayments has decreased by US\$254,917 million from US\$2.50 million at 31 December 2014 to US\$2.25 million at 30 September 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 30 September 2015 the amount remaining to be amortised during the remainder of the loan term was US\$252,000 (31 December 2014: US\$526,000).
  - b. Prepaid taxes in Brazil amounting to US\$1.48 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 which 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\$0.51 million (31 December 2014: US\$0.54 million).

Current liabilities have decreased from US\$21.52 million at 31 December 2014 to US\$17.85 million at 30 September 2015.

A significant element behind the decrease in current liabilities of US\$3.7 million relates to the fair value provision for a property acquisition payment that is due to a past owner of the Sao Chico property. This is currently valued at US\$2.1 million (31 December 2014: US\$2.26 million) and the Group expects that under the contractual terms the first instalment will become payable in in the fourth quarter of 2016, (originally forecast as June 2015). With further instalment payments due thereafter. As the payment terms have been deferred all of the provision is included in non-current liabilities whereas at 31 December 2014 the valuation of the initial instalment was included as a current liability. At 31 December 2014: US\$1.09 million was due within one year and the remainder of the payment valued at US\$1.17 million due to be paid in instalments commencing in 2016.

Trade and other payables amounting to US\$3.99 million at 30 September 2015 compare with an amount owed by the Group of US\$4.60 million at 31 December 2014; a decrease of US\$611,401 of which US\$1.09 million is attributable to the reclassification of the fair value of liability described above.

Trade Creditors have decreased by approximately US\$104,034 from US\$1.40 million at 31 December 2014 to US\$1.29 million although in Brazilian Reais the amount due has increased due to increased activity at both the Sao Chico and Palito Mines. However this has been offset by the devaluation of the Brazilian Real against the dollar from BrR\$2.6556 to US\$1.00 at 31 December 2014 to BrR\$3.9722 to US\$1.00 at 30 September 2015.

The primary reason for the increase of US\$0.587 million in other payables results from an increase in the provision for taxes which may be payable on sales of bullion which were made during the last nine months. The

Company is being prudent in providing this provision as it is currently reviewing tax credits which it should be able to offset against these sales taxes.

Interest-bearing liabilities due within one year have decreased by US\$2.6 million from US\$16.23 million at 31 December 2014 to US\$13.62 million at 30 September 2015. The primary component of this decrease is the repayment of US\$3.0 million to Sprott during the year. The Group has continued to pay down liabilities under finance lease obligations during the year. Also, the amount due under the financing facility for copper/gold concentrate sales has increased slightly by US\$0.13 million, reflecting the timing of sales and fluctuations in the prevailing prices of gold and copper.

The liability for derivatives of US\$70,038 (31 December 2014: US\$0.53 million) represents US\$8,662 (31 December 2014: US\$0.20 million) in respect of the fair value of a call option expiring 31 December 2015, 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 option life. The remaining US\$61,376 (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 30 September 2015, the Group has revalued the warrants in accordance with fair value accounting principles and the value of the warrants at 30 September 2015 has decreased to US\$61,376 (31 December 2014: US\$332,173). The gain on this revaluation amounting to US\$270,797 has been recorded as a finance gain and the liability reduced by the same value.

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 nine months ended 30 September 2015 the total funds received by the Group under this facility were US\$17.12 million with US\$16.995 million having been repaid out of the receipts from the sale of copper and gold following refining. As at 30 September 2015 an amount of US\$7.89 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 since 2013 under finance leases, the most recent being during the second quarter of 2015. At 30 September 2015 the Group had liabilities under these financial leases of US\$0.79 million due within one year (31 December 2014: US\$0.72 million). 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\$71,020 from US\$4.62 million at 31 December 2014 to US\$4.55 million at 30 September 2015. In Brazilian Real terms, non-current liabilities have increased reflecting the reclassification of the current liability portion of the property acquisition payment 31 December 2014: US\$1.09 million) from current liabilities to long term. However the devaluation of the Brazilian Real versus the dollar from BrR\$2.6556 to US\$1.00 at 31 December 2014 to BrR\$3.9722 to US\$1.00 at 30 September 2015 has offset the impact in US Dollar terms. .

Liabilities under lease finance arrangements have reduced by US\$0.18 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 30 September 2015 is US\$1.89 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 utilises 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 a 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.

	9 Months Ended 30 September 2015 (US\$)	6 month period July to December 2014 (US\$)
Total operating costs (calculated on a sales basis)	19,350,056	9,697,665
<b>Add/(subtract)</b>		
Finished goods and WIP inventory stock adjustment	(2,203,229)	1,738,765
Grossing up of revenue for metal deductions	648,858	424,654
Adjustment for refining, treatment, shipping and royalties on a production basis	–	178,324
By-product credits	(1,835,436)	(1,465,252)
Total cash cost of production	15,960,250	10,574,156
Corporate G&A	3,024,671	2,391,759
Share-based remuneration	303,056	185,172
Capitalised cost for mine development	1,028,461	632,587
All-In Sustaining cost of production	20,316,438	13,783,674

	Total to September 2015 (ounces)	Total to December 2014 (ounces)
Gold ounces produced	24,704	13,334
Gold production from Sao Chico	(1,984)	–
Gold production for cash costs and AISC purposes	22,720	13,334

	9 Months Ended 30 September 2015 (US\$)	6 month period July to December 2014 (US\$)
Total Cash Cost of production (per ounce)	US\$702	US\$793
Total All-In Sustaining Cost of production (per ounce)	US\$894	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	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Short term debt	5,569,407	5,569,407	—	—	—
Capital lease obligations	1,044,936	809,623	235,313	—	—
Operating leases	220,518	124,087	96,431	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
<b>Total contractual obligations</b>	<b>6,834,861</b>	<b>6,503,117</b>	<b>331,744</b>	<b>—</b>	<b>—</b>

## Transactions with related parties of the Group

The following transactions have been undertaken with related parties in the 24 months prior to 30 September 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 30 September 2015 which comprise other receivables and cash 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 Group against price variations between the date that it secures loan advances from Auramet for a specific shipment and the pricing that it will receive in respect of that shipment 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 30 September 2015, the Group carried inventory of finished goods and work-in-progress valued at US\$6.62 million (31 December 2014: US\$7.16 million) including US\$2.28 million of copper/gold concentrate representing 407 tonnes of material awaiting sale (31 December 2014: US\$3.59 million) and US\$4.33 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 30 September 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 30 September 2015 which is unsold is subject to future variation in commodity prices and accordingly the results for the period and the equity position of the Group may be affected by any change in commodity prices subsequent to the end of the period.

#### *Interest rate risk*

Since 2013 the Group has taken out fixed rate finance leases for the acquisition of some equipment and has utilised floating rate short term trade finance in respect of sales of 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 30 September 2015 was US\$5.0 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 30 September 2015, in addition to the Sprott Facility and the Auramet facility, the Group had obligations under fixed rate finance leases amounting to US\$1.04 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. There are risks associated with the commencement of any new mining operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. The Group is also subject to pricing risks and significant short term variations in sale prices of commodities to which the Group is exposed may place significant additional pressure on the Group's working capital position. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale. 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 30 September 2015:

	<b>30 September 2015 Group US\$</b>	<b>31 December 2014 Group US\$</b>
Due in less than one month	3,423,613	4,934,049
Due between one month and three months	5,218,535	5,376,028
Due between three months and one year	9,037,569	11,047,983
Total due within one year	17,679,717	21,358,060
Due more than one year	2,472,795	1,789,453
<b>Total</b>	<b>20,152,512</b>	<b>23,147,513</b>

### *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:

	<b>Group</b>	
	<b>30 September 2015 US\$</b>	<b>31 December 2014 US\$</b>
US Dollar	3,026,054	8,586,208
Canadian Dollar	7,742	106,031
Sterling	212,879	361,406
Australian Dollar	23,074	29,479
Euro	22,337	250,737
Brazilian Real	522,353	479,741
Total	3,814,439	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\$10,453,866 (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 that these unaudited interim financial statements were approved by the Board, the Brazilian Real, the national currency of Brazil, following a 12 month period where its value declined by approximately 60% against the US dollar has shown some stability and slight strengthening. On 31 December 2014 the exchange rate for US\$1.00 was BrR\$2.6556. As at 30 September 2015 the exchange rate for US\$1.00 was BrR\$3.9722. As at 11 November 2015 the exchange rate for US\$1.00 was BrR\$3.7722. 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 has been significantly impacted by the devaluation of the Brazilian Real during the first nine months of 2015. The Group sources a majority proportion of its operational consumables in Brazilian Reais and the salaries of all its Brazilian employees are denominated and paid in Brazilian Reais. 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.

Other than as set out above, between the end of the financial period and the date that the financial statements were approved by the board of directors there has been no item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the company, to affect significantly the continuing operations of the company, the results of these operations, or the state of affairs of the company 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 11 November 2015:

Ordinary Shares	656,389,204
Stock Options	51,146,285
Other Warrants	100,000,000
Fully diluted ordinary shares outstanding	<u>807,535,489</u>

Fratelli Investments Limited holds 343,613,166 Ordinary Shares in the Group and 76,250,000 Warrants.

## 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](http://www.sedar.com) and the Group's website at [www.serabigold.com](http://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.

<b>ECONOMIC RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<b>Changes in gold prices</b>	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.	<b>High</b>	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.
<b>Currency fluctuations may affect the costs of doing business and results of operations.</b>	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.	<b>Medium</b>	Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<b>Future exploration may not result in increased mineral resources</b>	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.	<b>Medium</b>	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.
<b>No guarantee that the Group's Applications for exploration licences and mining licences will be granted.</b>  <b>Existing exploration licences may not be renewed or approved or converted into mining licences.</b>	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,	<b>High</b>	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.

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>Title to any of the Group's mineral properties may be challenged or disputed.</i>	provided the content and form of the application is made in accordance with prescribed regulations, 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.	<b>High</b>	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.	<b>Low</b>	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.	<b>Medium</b>	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.
<b>Environmental</b>	All phases of the Group's operations are	<b>Low</b>	Environmental regulations are constantly

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>legislation</i>	subject to environmental regulation in Brazil. 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.		changing and governed by both local and global concerns and initiatives. Management seeks to ensure that it adopts sound and compliant environmental principles. The operations of the Group are relatively small and management does not consider the scale of the operations to have a material environmental impact on its surroundings.
<i>Exposure to mining hazards.</i>	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.	<i>Medium</i>	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.
<i>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.</i>	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.	<i>Medium</i>	The Group's 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.
<i>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.</i>	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	<i>Low</i>	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.

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
	or licencing authority. The Group may not be able to obtain or renew permits and licences that are necessary to its operations or the cost to obtain or renew permits and licences may exceed what the 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 will seek to manage its financial position in a manner that will increase its relative strength to attract and retain employees and to acquire and develop new properties and projects.

<b>COUNTRY RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<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.

<b>OTHER RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<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	<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.

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