MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six month periods ended 30 June 2016

12 August 2016

SERABI GOLD PLC
Management's Discussion and Analysis
for the three and six month periods ended 30 June 2016

Introduction

This Management's Discussion and Analysis ("MD&A") dated 12 August 2016 provides a review of the performance of Serabi Gold plc ("Serabi", the "Company" or the "Group"). It includes financial information from, and should be read in conjunction with, the interim unaudited condensed financial statements of the Group for the three and six month periods ended 30 June 2016 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 2015.

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

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

The Group reports its financial position, results of operations and cash flows in United States dollars (unless otherwise stated) and in accordance with International Financial Reporting Standards ("IFRS") in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") and adopted for use within the European Union and with IFRS and their interpretations issued by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS.

Overview

The Company is a United Kingdom registered and domiciled gold mining and development company based in London, England. The Group's principal assets are its gold operations 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" or the "Palito Mine") and the Sao Chico Gold Mine ("Sao Chico" or the "Sao Chico Mine") 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 45,000 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 the Palito Mine 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 the Palito Mine had achieved commercial production with effect from 1 July 2014. In 2014, the Group produced 18,000 ounces of gold from the Palito Mine, which increased in 2015 to approximately 29,800 ounces. The Palito Mine is fully permitted and has a mining licence covering 1,150 hectares which was issued in October 2007.

The Sao Chico Mine is a high-grade deposit located approximately 30 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 at 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 December 2015 the ramp development provided access to three development levels and the production of ore from the first stopes was underway. Commercial production at the Sao Chico Mine was declared as of 1 January 2016. Ore from the Sao Chico Mine is transported by truck to the Palito gold process plant.

The gold at the Palito Mine 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 producing a copper/gold concentrate which accounts for approximately 75% of the gold recovered from the Palito Mine ore. The residual tailings from the flotation process, which has also removed over 90% of the copper content of the ore, are then passed to a conventional Carbon in Pulp ("CIP") plant which can recover approximately 65% to 70% of the residual gold.

The gold at the Sao Chico Mine 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. For much of 2015, the Sao Chico Mine ore was passed directly through to cyanidation, where it was blended with the flotation tailings from the Palito Mine in the CIP recovery plant. However, following the successful commissioning in the fourth quarter of 2015 of an In-Line Leach Reactor ("ILR"), the processing flowsheet of the Sao Chico Mine ore was 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 is leached, and then recovered through conventional electro winning and smelting processes to produce bars of gold doré. 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. The tailings from this ILR process continue to pass to the CIP recovery plant where they are blended with the flotation tailings generated from the processing of the Palito ore.

The Group holds further exploration licences within the Tapajos region covering approximately 18,000 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 were 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. At 30 June 2016 an amount of US$2.67 million was outstanding under this credit facility. On 30 December 2015, the Group agreed an unsecured short term working capital convertible loan facility of US$5 million with its major shareholder, Fratelli Investments Limited, to provide additional working capital facilities. On 6 January 2016, the Group announced that it had made an initial draw down of US$2 million against this convertible loan facility. The group has made no further drawdowns.

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

SUMMARY FINANCIAL STATISTICS FOR THE THREE AND SIX MONTHS ENDING 30 JUNE 2016				
	3 months to 30 June 2016 US$	**6 months to 30 June 2016 US$**	**3 months to 30 June 2015[(1)] US$**	**6 months to 30 June 2015[(1)] US$**
Revenue	**14,232,086**	**25,911,175**	11,194,178	**18,678,393**
Cost of Sales	**(8,923,316)**	**(15,612,822)**	(8,188,141)	**(13,048,050)**
Depreciation and amortisation charges	**(2,428,213)**	**(3,644,940)**	(1,614,514)	**(2,732,234)**
Gross profit	**2,880,557**	**6,653,413**	1,391,523	**2,898,109**
Profit / (loss) before tax	**60,924**	**1,562,228**	**(114,501)**	**76,897**
Profit after tax	**(341,483)**	**1,006,182**	**(114,501)**	**76,897**
Earnings per ordinary share (basic)	**(0.05c)**	**0.15c**	**(0.02c)**	**0.01c**
Average gold price received		**US$1,216**		US$1,182

	As at 30 June 2016	**As at 31 Dec 2015**
Cash and cash equivalents	**4,774,537**	**2,191,759**
Net assets	**57,568,151**	**46,783,645**

Cash Cost and All-In Sustaining Cost ("AISC")

	6 months to 30 June 2016	**6 months to 30 June 2015**
Gold production for cash cost and AISC purposes	**19,667**	**14,843[(2)]**
Total Cash Cost of production (per ounce)	**US$763**	**US$767**
Total AISC of production (per ounce)	**US$945**	**US$967**

(1) The Sao Chico Mine was only declared to be in Commercial Production with effect from 1 January 2016 and all costs and revenues relating to this mine were capitalised prior to this date. The Income Statements for 2015 therefore only reflect the revenues and costs arising from the gold produced from the Palito Mine and the Cash Cost and AISC for the 2015 comparative period therefore also only reflect the activities from the Palito Mine.

(2) Excludes gold production of 783 ounces from the Sao Chico Mine which was not in commercial production during 2015.

Key Operational Information

SUMMARY PRODUCTION STATISTICS FOR THE TWO QUARTERS ENDING 30 JUNE 2016 (PALITO AND SAO CHICO)					
		Quarter 1 2016	**Quarter 2 2016**	**H1 2016**	H1 2015
Horizontal development	Metres	**2,925**	**2,941**	**5,866**	4,462
Mined ore	Tonnes	**37,546**	**33,606**	**71,152**	63,992
	Gold grade (g/t)	**11.02**	**9.56**	**10.33**	9.85
Milled ore	Tonnes	**36,615**	**39,402**	**76,017**	63,662
	Gold grade (g/t)	**8.58**	**8.17**	**8.37**	8.36
Gold production [(1) (2)]	Ounces	**9,771**	**9,896**	**19,667**	15,626

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

(2) Gold production totals for 2016 include treatment of 11,053 tonnes of flotation tails

Financial Highlights

- Cash Cost for the year to date of US$763.
- All-In Sustaining Cost for the year to date of US$945.
- Gross profit from operations for the first six months of 2016 has increased by 130% from US$2.90 million to US$6.65 million compared to the same period in 2015.
- Post tax profit of US$1.00 million compared with US$0.01 million for the same six month period in 2015.
- Earnings per share of 0.15 cents for the first six months of 2016.
- Cash holdings of US$4.8 million at 30 June 2016.
- Average gold price of US$1,216 received on gold sales in the first six months of 2016.

2016 Guidance

- Forecast gold production for 2016 expected to exceed 37,000 ounces.
- Reflecting the strengthening of the Brazilian Real against the US Dollar, the Group has revised its cost guidance and anticipates that All-In Sustaining Cost for 2016 will be between US$950 to US$985 per ounce.
- The Brazilian Real has strengthened by 21.7% since the start of March 2016.

Operational Highlights

- 9,896 ounces of gold produced for the second quarter of 2016 (Q1 2016 - 9,771 ounces) for total gold production of 19,667 in the first half of 2016 (H1 2015 : 15,626 ounces)
- Mine production totalled 33,606 tonnes.
  - 25,198 tonnes at a grade of 10.48 grammes per tonne (g/t) of gold from Palito.
  - 8,408 tonnes at 6.81 g/t of gold from Sao Chico.
- 39,402 tonnes of ore processed through the plant for the combined mining operations.
- 2,941 metres of horizontal mine development completed in the quarter with 1,910 metres completed at Palito and 1,031 metres at Sao Chico.
- Installation of the third ball mill was completed during the quarter, with a second flotation line and enhancements in the CIP completed subsequent to the quarter end. The carbon regeneration kiln acquired earlier in the year is now being installed and will be commissioned during the current quarter. The kiln will regenerate 'fouled' carbon and enhance gold recoveries.
- Daily plant throughput can now be increased from 380-400 tonnes per day (tpd) to over 500 tpd, which is in excess of mined production allowing surface stocks to be depleted in the second half of the year.
- Sao Chico is now being developed on the 156mRL, 140mRL, 128mRL and 116mRL levels, with production ore being mined from the 156mRL level. The ramp continues to be deepened from levels 116mRL to 100mRL, the next planned development level.
- During the second quarter, underground exploration drilling has commenced at Sao Chico. A programme of approximately 6,000 metres is planned to test the down dip continuity of the central ore zone. The first hole, completed within the last seven days, reported an intersection of 46.2 g/t of gold over a drilled width of 2.32 metre, approximately 240 metres from surface and 100 metres down-dip from the current lowest developed level.
- At the end of the second quarter, the combined surface stockpiles at Palito and Sao Chico totalled 12,000 tonnes at an average grade of 5.0 g/t of gold.

Outlook and Strategy

Palito Mine and Plant
The Palito Mine has now reached a relatively steady operational state with mining activities in a balanced cycle of development and production that generated approximately 112,000 tonnes of ore at a grade of 10.05 g/t of gold during 2015 and a further 51,950 tonnes at a grade of 11.18g/t during the first six months of 2016. Management anticipate that mine output for 2016 will be between 105,000 and 110,000 tonnes at an average grade of between 8.50 g/t and 8.90 g/t of gold. The gold production for 2016 will be supplemented by the processing of the surface stockpiles of ROM ore and the flotation tailings that were generated in 2014. The flotation tailings resulted from operating the process plant for the first 9 months with recovery of gold from flotation only, whilst awaiting completion of the CIP circuit which became operational in October 2014. The Group had planned to run down these existing stockpiles during 2015, but limited plant capacity meant only small proportion of these surface stocks have been treated to date. With this in mind, the Company introduced a third ball mill into the flowsheet at the end of June 2016 which has established an important level of contingency within the plant's milling capacity and in the short term this increased capacity can be used to run down the surface stockpiles of run of mine ("ROM")ore.

During 2016, the Company has focussed on opening up new sectors in the mine as well as continuing to develop the existing sectors. Up until 2016, mining operations at Palito has focussed on the G1, G2 and G3 vein complex as well as the Palito West sector. This year, the Company has continued to developing these two sectors but has also given increased priority to developing and accessing previously drilled, but undeveloped sectors in the upper levels, namely Senna and Chico da Santa. Chico da Santa lies to the east of the G1, G2 and G3 vein complex and the Senna zone is located to the west. With four sectors now being developed underground at Palito, during the first six months of 2016 the Group has completed approximately 3,800 metres of horizontal development.

In the G1, G2 and G3 vein complex, the main ramp was further deepened and is now close to reaching the -50 metre relative level ("mRL") which will be the next production level. Currently the -20mRL is the lowest development level in the mine where the G3 vein is being developed and approximately 400 metres of ore development has been completed in this current calendar year.

In the Palito West sector, an internal ramp from the 61mRL to the 31mRL has been completed and approximately 100 metres of ore development on the 31mRL has been completed during 2016.

The Senna zone is not entirely new. It was mined during 2008 and 2009 as a small open pit where approximately 25,000 tonnes of oxide ore with a grade of 3 g/t gold was extracted. Based on the ore grades recovered from the open pit operation and deeper exploration drill-holes, management is hopeful of the potential within the Senna zone. The exploration drill-hole PDD289 reported an intersection approximately 300 metres below surface of 0.55 metres at a grade of 50.99 g/t. In December 2015, the Senna vein was exposed for the first time underground, since which time 570 metres of ore development and 410 metres of waste development have been completed on the 225mRL and 237mRL during 2016. Internal ramps are currently being advanced to access the next development levels of 210mRL and 250mRL during early August 2016. The Senna zone, whilst part of the main Palito Mine complex, has an independent access from surface.

In the Chico da Santa sector, the 114mRL has been developed on the Ipe and Mogno veins with 400 metres of ore development completed so far during 2016. Development is underway to allow access to the next planned level at the 178mRL.

During 2015, the Group continued mine development on G3 towards the Palito South area primarily on the 114mRL, which has been driven approximately 700 metres further south than any other underground working at Palito. This development has not been advanced significantly in 2016 as it is awaiting underground diamond drilling to test the down-dip continuity of G3 vein at depth. This area will be drilled in the latter part of this year.

As previously noted, the Group took the decision before the end of 2015 to acquire a third ball mill and modify the plant to increase nominal daily plant throughput capacity from an average of 400 tonnes per day ("tpd") to at least 500 tpd. This has now been completed and was done for two principal reasons. Since operations began the Group's operations have been limited by the capacity of its process plant and the Group has not been able to run down the surface stocks as quickly as it would have wished. However, and perhaps more importantly, a third mill provides essential contingency in the processing operations that has never previously existed. Further improvements undertaken within the process plant during 2016 have included the installation of additional flotation capacity and automation, along with new carbon screens within the CIP tanks to improve inter-tank flow rates. These improvements have been funded from the cash flow of the current operations.

It should however be noted that once the surface stocks have been consumed, and with the Group's current understanding of the mining resources at both Palito and Sao Chico, management currently consider it unlikely that in the near term future mine plans can support the increased plant capacity. As a result the operation will then become limited by the tonnages that can be mined and the third ball mill will revert to its primary purpose of providing much needed contingency in the plant. Since the plant commenced operating, the time available for essential routine planned maintenance has been scarce. The third mill means the operation can now comfortably accommodate much needed maintenance time, as well as absorbing any unexpected interruptions to operations.

Sao Chico Mine

At the Sao Chico Mine, underground development commenced in the fourth quarter of 2014. During 2015 approximately 2,800 metres of development was completed allowing mining on three levels. During January 2015, the ramp development intersected the principal vein, the Main Vein, approximately 30 vertical metres below the portal entrance. The initial sampling confirmed a payable intersection with a true width of 3.6 metres and a gold grade of 42 g/t.

Since this time, the Main Vein has continued to be developed and evaluated with a combination of 'on-lode' development and underground drilling. The main ramp has now reached the 100mRL, with each of the levels at 170mRL, 156mRL, 140mRL, 128mRL, 116mRL and 100mRL being in development.

During 2016, the decision to implement sublevel open stoping as the principal mining method was taken, and this resulted in the development of sublevels with 12 metre vertical spacings. Each sublevel is advanced 3 metres at a time and channel sampled. This closer sample spacing that this allows has greatly increased the understanding of the orebody and this increased mine development has enabled the Company to now define a clear 24 month mine plan.

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 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 allows the Group's mining personnel to readily identify stoping blocks and optimise mining of 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, the Group submitted, in September 2015, the Plano Approvimiento Economico, a form of economic assessment prepared in accordance with Brazilian legislation. However, with the Guia de Utilização (a trial mining license) already in place, all mining operations can continue in parallel. 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 been submitted and all the submissions are currently being reviewed by the DNPM and other relevant government bodies.

The Sao Chico Mine, whilst contributing to the Group's gold production, was primarily in development during 2015. Commercial production was declared effective as of 1 January 2016 and the mine is expected to achieve full production during 2016. A 7,000 metre diamond drilling programme completed during 2015, together with on-lode development, significantly enhanced the Group's understanding of the ore body and facilitated the mine planning for 2016. The programme was extended beyond its original planned 5,000 metres level to allow the Group to undertake closer spaced in-fill drilling. The surface programme was complemented by evaluation 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 continued to report numerous high grade intersections with some 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 and has been filed on SEDAR.

2016 Production Guidance

The Group is currently forecasting gold production for 2016 to be approximately 37,000 ounces with All-In Sustaining Cost expected to be between US$950 to US$985 per ounce. Cost guidance has been updated to reflect the strengthening of the Brazilian Real against the US Dollar.

Longer Term Growth Opportunities

As well as the potential that exists to grow resources at Sao Chico, the Palito South, Currutela and Piaui prospects close to the Palito Mine still provide excellent opportunities for identifying additional resources which could both enhance current production levels as well as extend the mine life. The Group is undertaking geophysical programmes within the vicinity of each of the Palito and the Sao Chico Mines in the second half of 2016. The objective of these programmes is to secure additional geological data to better plan the next stage of exploration drilling that is anticipated to be undertaken during 2017.

At this time no surface drilling or other surface exploration activities are currently planned on any other properties of the Group.

In the longer term and dependent on levels of cash-flow, 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 the current Palito operation which would be a centralised processing facility. In this way the Group expects to be able to grow its production base at low capital cost, avoid the need for major infrastructure improvements to be in place for new operations to be commercially viable and have low environmental impact.

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

Palito Gold Project – Para State, Brazil

History

The Palito 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.

The Palito Mine is a high-grade, narrow vein, underground mine which was operated by the Group from late 2003 until the end of 2008. Between the beginning of 2005 until the end of 2008 the Group processed a total of 480,000 tonnes of ore through the plant at an average gold head grade of 6.76 g/t. Average gold recovery during the period was 90%, with copper recovery around 93%, providing total production over this period of approximately 100,000 ounces of gold.

In December 2010 the Group released a technical report (the NI 43-101 Technical Report for the Jardim do Ouro Project, Para State, Brazil) prepared by its consultants, NCL Brasil Ltda ("NCL"). The report estimated an NI 43-101 compliant Measured and Indicated mineral resource of 206,466 ounces of gold and Inferred mineral resources of 392,817 ounces of gold.

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

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

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

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 CIP gold recovery circuits which had historically been treating up to 600 t/day (200,000 t/year) of ore and a camp that had housed over 200 employees and maintenance and workshop facilities. The site is supplied with mains power sourced from a 25 mW hydroelectric generating station located approximately 100 km north east of the town of Novo Progresso on the Curuá (Iriri) River.

In January 2012, the 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. During 2015 the operation processed approximately 114,000 tonnes of Palito ore with an average mill feed grade of 8.65 g/t. Management anticipate that mine output for 2016 will be between 105,000 and 110,000 tonnes at an average grade of between 8.50 g/t and 8.90 g/t of gold.

Sao Chico Gold Project – Para State, Brazil

History

The Sao Chico property, 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). The Sao Chico Mine is a small but very high grade gold deposit some 25km to the south west, along the Transgarimpeira Highway, from the Palito Mine. 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 but automatically extended until a new licence is received or a formal notice of revocation is issued. 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 approximately 6,400 hectares, which the

Group considers have excellent prospects for hosting extensions of the gold mineralisation identified at the Sao Chico Mine.

The Sao Chico Mine is located within an area of a historic garimpo mining operations 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.

Mineral Resources	**Tonnage**	**Gold (g/t Au)**	**Contained Gold (Ounces)**
Measured	5,064	32.46	5,269
Indicated	21,423	29.14	20,006
Measured and Indicated	26,487	29.77	25,275
Inferred	85,577	26.03	71,385

- The effective date of the Mineral Resource is 30 May 2012.
- No cut-off grades have been applied to the block model in deriving the Mineral Resource reported above given insufficient drilling data.
- The Mineral Resource Estimate for the Sao Chico Gold Project was constrained within lithological and grade based solids. No optimisation studies have been applied to this high-grade, steeply dipping mineralisation.

<u>Operational review for the first six months of 2016</u>
Total gold production for the second quarter of 2016 was 9,896 ounces making total gold production for the year to date of 19,667 ounces representing a 26% improvement on the gold production level for the first half of 2015 which totaled 15,626 ounces (second quarter of 2015 : 8,237 ounces).

The Palito Mine has now been in full production for over two years and has achieved a steady state of mine output. The Sao Chico Mine was in development for much of 2015 with no ore production in the first quarter of 2015. Mining rates at the Sao Chico Mine in the last quarter of 2015 reached levels which allowed the Group to declare that commercial production had been achieved from 1 January 2016. The ore generated from the Sao Chico Mine in the first half of 2016 has continued to be derived from development operations rather than from stoping, a situation that is expected to start to reverse in the second half of the year.

Mining operations

Performance of the combined mining operations of both the Palito and Sao Chico Mines has resulted in approximately 71,152 tonnes of ore being extracted during the first half of 2016 which compares with a total of 63,992 tonnes produced in the same six month period of 2015 an improvement of 11%. The significant majority of the 2015 production was from the Palito Mine and ore output in the first six months of 2016 from the Palito Mine was approximately 2,900 tonnes (5.5%) less than the same period in 2015. This lower production level was expected however, reflecting the limitations of the level of ore than can be processed and the availability of ore from the Sao Chico Mine to supplement the mine production from the Palito Mine. The mine production for the second quarter of 2016 from the Palito Mine was higher that the corresponding period of 2015 by about 2,900 tonnes representing an improvement of 13%.

Approximately 3,810 metres (six months to 30 June 2015: 3,404 metres) of horizontal development has been completed during the six month period at the Palito Mine, of which 2,007 metres was ore development, with the balance being on the development of ramps, cross cuts and stope preparation. This rate of development is consistent with the levels required to maintain a consistent and adequate level of production stoping blocks and reflects the rate at which these blocks are depleted.

At the end of 2015 the Group had begun to open up new sectors of the Palito Mine and this always creates options and flexibility, an essential part of any underground mining operation. This lateral expansion of the Palito Mine has opened up the Senna and Chico da Santa sectors. Senna especially is returning some very encouraging mineable grades to date. Underground diamond drilling is being used to evaluate numerous known, but underexplored veins and together with these two new sectors, the Group hopes to open up numerous new mining faces in the upper levels. These have the advantage of being in close proximity to existing mine infrastructure and will not require any new ramp development.

This lateral development also reduces the requirement to continue to deepen the mine at the rates that the Group undertook in 2015. This could be expected to extend the life of the operation with the identification of mining areas that are not currently part of the mining plans and will also increase the amount of ore than can be recovered in each vertical meter of mine development which can improve margins and reduce costs.

At Sao Chico, ore development and production is now ongoing over multiple levels. The ramp is currently being deepened to the next planned production level, at the 88mRL, and is currently just below the 100mRL.

The Main Vein or ore zone at Sao Chico is a 1.5 metre to 4.0 metre wide, alteration zone, which itself is structurally continuous. However, the gold grades within this alteration zone are quite erratic and are hosted in four steeply plunging pay-shoots. In these pay-shoots, the grades are often truly spectacular, very often being in excess of 100 g/t of gold. Outside the pay-shoots the vein is continuous but with low gold grades and as a result it is unavoidable that, as the mine development passes between the pay-shoots, lower grade ore has to be mined. The central pay-shoot is the most established of these four high grade shoots, and is some 100 metres long. The Group has, and will continue to focus in the near-term, on developing this part of the Main Vein, and some consistent higher grade development ore is being generated as a result. Access to the other pay-shoots along strike will not be lost and these will be available for development later in the year.

During the second quarter of 2016, the Company commenced underground exploration drilling of the central pay-shoot targeting its down dip extension. The results from the first hole that has been completed were very encouraging with an intersection approximately 100 metres below the current deepest workings and approximately 240 metres below surface over a drilled width of 2.3 metres being made with a grade of 46.2 g/t.

Average mined grades achieved for the quarter across both mines continued to be around 10 g/t of gold which has been the case for the past two years, and serves to illustrate the focus on quality that the Group employs through its selective mining approach.

At the end of the second quarter of 2016 combined coarse ore stocks from the Palito and Sao Chico Mines were approximately 12,000 tonnes with an average grade of 5.0 g/t of gold (30 June 2015: approximately 11,900 tonnes with an average grade of 4.00 g/t of gold).

Plant operations

Total gold production for the first six months of 2016 was 19,667 ounces of gold, generated from the processing of the run of mine ("ROM") ore from the Palito and Sao Chico Mines, combined with the Palito surface coarse ore and the stockpiled flotation tailings accumulated from the processing of Palito mine production in 2014.

Gold production for the six month period came from the processing of 76,017 tonnes of hard rock ROM ore from the Palito and Sao Chico Mines with an average grade of 8.37 g/t of gold (six months to 30 June 2015: 63,682 tonnes at 8.36 g/t of gold). The total mined ore for the same period was 71,152 tonnes with an average grade of 10.33 g/t of gold (six months to 30 June 2015: 63,992 tonnes at 9.85g/t of gold). The increase in mined and processed ore reflects the increased levels of ore being produced at Sao Chico compared with the same period in 2015 when ore production was only just beginning. In addition to the ROM ore, an additional 11,053 tonnes (six months to 30 June 2015: 12,205 tonnes) of flotation tailings with a grade of 2.85 g/t of gold was processed through the cyanidation plant.

Processing rates for ROM ore have increased by 18% from an average of 352 tpd for the six months to 30 June 2015 to an average rate of 417 tpd for the six month period to 30 June 2016. This increase reflects the improvements in the operational efficiency of the process plant which has been assisted by the introduction of the gravity circuit and ILR for treating Sao Chico reducing the levels of gold that would otherwise be being treated in the CIP circuit. This improved efficiency has also allowed the rate of processing of the flotation tails to be maintained at similar levels to the corresponding period in 2015. This has meant that the effective process rates for the CIP circuit have increased from an average of 419 tpd for the six month period to 30 June 2015 to an average rate of 478 tpd for the six month period to 30 June 2016.

At 30 June 2016, there were approximately 26,500 tonnes of flotation tails with an average grade of 2.5 g/t of gold (30 June 2015: approximately 43,700 tonnes at 2.5 g/t of gold) waiting to be processed.

An expansion of the gold processing plant has been completed establishing additional capacity that allows the processing of significant surface ore stockpiles. The stockpiles were accumulated as a result of the overall limitations in the capacity of the gold processing plant. Process throughputs rates have now been increased from an average of 400 tonnes per day ("tpd") to at least 500 tpd. The increased plant processing rates are in excess of mine production levels, allowing the stockpiles to be depleted and, importantly for the longer term, also creating surplus capacity to catch up any lost production caused by unplanned stoppages. This plant expansion is expected to provide sufficient incremental capacity to process most of the stockpiled material of both coarse ore and flotation tails during the remainder of 2016.

SUMMARY PRODUCTION STATISTICS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (Palito & Sao Chico)

		Quarter 1 2016	Quarter 2 2016	H1 2016	H1 2015
Horizontal development – Palito	Metres	**1,900**	**1,910**	**3,810**	3,404
Horizontal development – Sao Chico	Metres	**1,025**	**1,031**	**2,056**	1,058
Horizontal development - Total	Metres	**2,925**	**2,941**	**5,866**	4,462
Mined ore – Palito	Tonnes	**26,752**	**25,198**	**51,950**	54,864
	Gold grade (g/t)	**11.84**	**10.48**	**11.18**	10.17
Mined ore – Sao Chico	Tonnes	**10,794**	**8,408**	**19,202**	9,128
	Gold grade (g/t)	**9.00**	**6.81**	**8.04**	8.47
Mined ore – Total	Tonnes	**37,546**	**33,606**	**71,152**	63,992
	Gold grade (g/t)	**11.02**	**9.56**	**10.33**	9.85
Milled ore	Tonnes	**36,615**	**39,402**	**76,017**	63,662
	Gold grade (g/t)	**8.58**	**8.17**	**8.37**	8.36
Gold production(1) (2)	Ounces	**9,771**	**9,896**	**19,667**	15,626

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

(2) Gold production totals for 2016 include treatment of 11.053 tonnes of flotation tails

Exploration and Licensing matters

The Group undertook a surface diamond drill programme in March 2015 at the Sao Chico Mine and the completed programme consisted of 42 diamond drill holes totalling 7,204 metres. A further 30 underground diamond drill holes were completed during 2015 totalling a further 1,459 metres of drilling. The drill programme was a combination of in-fill and step-out drilling and the results from this, in conjunction with the on-lode development mining that took place during the remainder of 2015 has greatly enhanced the understanding of the ore body and facilitated mine planning for 2016. The understanding of the orebody has also been assisted by paragenetic studies on mine ore sample including detailed petrological descriptions, SEM and QemScan analysis.

In February 2014, the Final Exploration Report (“FER”) for the Sao Chico gold project 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 Approvimiento Economico, a form of economic assessment prepared in accordance with Brazilian legislation. However, with the Guia de Utilização (a trial mining license) already in place, all mining operations can continue in parallel. 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 will be submitted when requested, to the relevant government bodies.

Preparations for two geophysical exploration programmes are underway, one at each mine site. The first of these programmes involves using down-the-hole electromagnetics (“DHEM”) in the discovery holes drilled by the Group in 2011 at the Currutela, Piaui and Palito South prospect areas close to the

Palito Mine. DHEM provides data to model the likely geographical location and extent of the sulphide rich zones which have been intersected in the 2011 drill holes and the results are expected to generate better target for drilling in a follow up campaign planned for 2017.

The second programme will be undertaken at Sao Chico using surface induced polarisation ("IP") and whilst it will include areas immediately around the Sao Chico Mine will also be undertaken in some of the recently acquired tenements around Sao Chico. Management consider that these new tenements which are located to the south and the west of the original Sao Chico licence area offer excellent potential for hosting strike extensions of the current Sao Chico veins. Results from both programmes are expected to be available towards the end of 2016. Both geophysical programmes are using well established techniques to identify conductive bodies and sulphide mineralisation as pathfinders to locating gold occurrences which are associated with these features.

Jardim do Ouro Exploration

The Jardim do Ouro exploration area ("JDO Project") covers a total area of approximately 45,000 hectares, incorporating the Palito mining licence granted on 23 October 2007 covering an area of 1,150 hectares. The exploration licence covering the Sao Chico Mine is in the process of being converted to a full mining licence and there are a further nine exploration licences and four 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.

The Sao Chico Mine is located in the South West corner of the JDO Project area. 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 a 7,000 metre surface drilling programme are providing essential data for the further evaluation of the Main Vein and the immediate parallel structures.

It has always been the intention of the Group to use cash flow generated from its production operations to advance its exploration opportunities. As already noted the Group will conduct DHEM in close proximity to the Palito Mine and IP around the Sao Chico during the second half of 2016 with the intention of using the results from these programmes to plan drilling campaigns that can be undertaken during 2017.

Other Exploration Prospects

The Group has three other project areas, although activity on each of these projects has been limited in recent periods.

The Sucuba Project is located in the state of Para, and the Group holds two exploration permits covering an area of 10,449 hectares. The Pizon Project, located in the state of Amazonas, represents 4,733 hectares, in one exploration licence and the Modelo Project, also in Amazonas, represents 2,971 hectares in one exploration licence. The Group has not engaged in any exploration activity at any of these 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 June 2016 compared to the three month period ended 30 June 2015

The calendar year 2016 represents the financial period when both of the Group's operations at the Palito Mine and the Sao Chico Mine are reported as being in commercial production. During 2015 all operating revenues and operating costs related to the Sao Chico Mine operations were capitalised and therefore revenue, operating costs and mine amortisation charges related only to the costs associated with the Palito Mine. This change in treatment for reporting the costs of the Sao Chico Mine operations has resulted in significant variation when comparing the results reported for the three and six month periods ended 30 June 2016 compared with the reported results for the three and six month periods ended 30 June 2015.

The Group generated US$14,232,086 in revenue for the three month period ended 30 June 2016 which represents the Group's best three month period in terms of sales. During the same three month period in 2015 the Group generated US$11,194,178 in revenue. The increase reflects the higher volume of sales which have increased from 8,707 ounces of gold to 10,768 ounces and the improved gold price. Sales now include production from the Sao Chico Mine where commercial production was declared from 1 January 2016. The gold price for the 3 months to 30 June 2016 averaged approximately US$ 1,259 per ounce compared with price for the period to 30 June 2015 which averaged approximately US$1,193 per ounce.

The Group has recognised a gross profit for the quarter of US$2,880,557 (three months to 30 June 2015: US$1,391,523), an operating profit of US$1,467,198, (three months to 30 June 2015: US$42,492) and a profit before taxation for the three month period ended 30 June 2016 of US$60,924 in comparison to a loss of US$114,501 for the same period during 2015.

The gross profit of US$2,880,557 for the financial quarter ended 30 June 2016 can be analysed and compared against the gross profit of US$1,391,523 for the financial quarter ended 30 June 2015 as follows:

	Three months to 30 June 2016 US$	Three months to 30 June 2015 US$	Variance US$
Revenue from Ordinary Activity			
Copper/ Gold Concentrate	**7,610,204**	7,780,862	(170,658)
Gold Bullion – Palito and Sao Chico	**6,621,882**	3,413,316	3,208,566
Total Sales	**14,232,086**	11,194,178	3,037,908
Costs of sales			
Operational costs	**(7,513,006)**	(7,341,009)	(171,997)
Shipping costs	**(714,758)**	(487,469)	(227,289)
Treatment charges	**(358,490)**	(250,038)	(108,452)
Royalties	**(337,062)**	(109,625)	(227,437)
Amortisation of Mine Property	**(1,845,601)**	(1,322,374)	(523,227)
Depreciation of Plant & Equipment	**(582,612)**	(292,140)	(290,472)

	Three months to 30 June 2016 US$	Three months to 30 June 2015 US$	Variance US$
Total Operating costs	**(11,351,529)**	(9,802,655)	(1,548,874)
Gross profit	**2,880,557**	1,391,523	1,489,034

Sales are only recognised when the risks and rewards of ownership of the goods are transferred to the buyer. There is therefore always a delay between the date of gold production and in the case of sales of copper/gold concentrate this delay can be a few months. Under the current contracts that the Group has in place for its copper/gold concentrate, the sale date is considered to be the date on which the product arrives at the premises of the end purchaser.

Revenue from the sale of copper/gold concentrate of US$7,610,204 has been recognised from the sale of 660 tonnes, containing an estimated 5,515 ounces of gold, (quarter ended 30 June 2015: US$7,780,860 from sales of 540 tonnes containing an estimate of 5,908 ounces of gold) which had been delivered to the purchaser during the quarter ended 30 June 2016. The unsold material is held as inventory. During the three months to 30 June 2016 the Group produced 458 wet tonnes of copper/gold concentrate, containing an estimated 4,532 ounces, (quarter ended 30 June 2015: 540 wet tonnes produced containing 5,309 ounces of gold.)

The Group also recognised revenue from sales of 5,253 ounces of gold bullion earning total revenue of US$6,621,882 during the second quarter of 2016, (quarter ended 30 June 2015: 2,799 ounces earning US$3,413,316). During the second quarter of 2016 the Group sold 2,694 ounces of bullion from Sao Chico earning US$3,338,540 in revenue and 2,559 ounces of bullion from Palito earning US$3,233,342. During the second quarter of 2105, the US$3,413,316 that the company earned all came from Palito ore, however, this does not include revenue of US$927,090 earned from the sale of 783 ounces of bullion sold from ore produced from the Sao Chico mine. This income was 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 until 1 January 2016.

Operating costs of US$7,513,007 for the second quarter of 2016, (quarter ended 30 June 2015: US$7,341,009) relate to all mining and plant processing costs, as well as all general site costs incurred at Palito during the period.

	Three months to 30 June 2016 US$m	Three months to 30 June 2015 US$m	Variance US$m
Labour	3.96	3.60	0.36
Mining consumables and maintenance	1.73	1.70	0.03
Plant operations	1.07	1.34	(0.27)
General site costs	0.75	0.70	0.05
Total operating costs	7.51	7.34	0.17

Labour costs have increased by US$0.36 million for the three month period ended 30 June 2016 in comparison to the same period in the previous year due to an increased number of personnel employed to support the increase in activity. Additionally each Brazilian employee received an 8% increase in salary in May 2015 and 10% in May 2016 as a result of the national collective agreement in Brazil.

Mining consumables and maintenance for the three month period ended 30 June 2016 are broadly in line with the same three month period from 2015 notwithstanding an increase in tonnage mined during the second quarter of 2016 compared with the same quarter in 2015. Maintenance costs have increased as all equipment held during the second quarter of 2015 is now a year older as well as new equipment having been purchased since 30 June 2016. In particular maintenance costs have increased reflecting the increased use of generators to provide reliable power for the operations in particular in light of the increased tonnage of ore being mined and processed.

Plant costs have decreased for the six month period ended 30 June 2016 in comparison to the same period in the previous year however. Notwithstanding that the tonnage of material being processed has increased by 18% in the second quarter of 2016 compared with the same period in 2015, during the second quarter of 2015 plant costs were unusually high reflecting technical and processing issues that arose at that time.

General site costs for the three month period ended 30 June 2016 are roughly in line with the same three month period from 2015.

Shipping costs of US$714,758 (2015: US$487,469) includes all domestic road and river freight in Brazil from the Palito Mine to the international port at Belem and also international sea freight to the end purchaser as well as air transport and insurance for the bullion sold from the Palito Mine to its final destination in Sao Paulo. The Company tries to recognise shipping costs as at the date they are incurred but in the first six month period of 2015, delays in receipt of charges meant that provisions for unbilled costs relating to that period were not fully provided for.

Treatment Charges of US$358,490 (2015: US$250,038) include US$337,366 (2015: US$231,082) relating to the treatment of the copper concentrate and levied by the smelter and US$21,124 (2015: US$18,956) for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group.

Royalty payments of US$337,062, (2015: US$109,625) comprise statutory levies payable in Brazil. Rates are uniform across all mining operations and currently comprise a 1% royalty on gold production and a 2% royalty on copper production. The increase by comparison with the same quarter in 2015 reflects an overall increase in gold sold during the period. In addition the company during 2016 is now reporting as an operating expense an additional royalty on the production from the Sao Chico Mine to a former owner of that property.

Charges for the amortisation of mine property are calculated by reference to the depletion during the quarter of the total estimated mineable resource at each of the Palito and Sao Chico Mines. In each case the base carrying cost is adjusted to include a provision for future mine development costs for each of these operations. The total amortisation charge which is reducing the book value for the Palito Mine for the second quarter of 2016 is US$904,910 (three months to 30 June 2015: US$1,322,374) and for the Sao Chico Mine is US$275,675 (three months to 30 June 2015: US$nil). The charge reported in the income statement is however adjusted to reflect the level of sales rather than the level of production with the part of the depreciation being carried in inventory and released to the income statement when the goods are sold. Physical inventory levels, and in particular the Palito stockpiles, are lower at 30 June 2016 with 4,731 tons of surface stockpiled ore in comparison to 7,898 tons as at 30 June 2015 and inventory levels of copper/gold concentrate are lower at 30 June 2016 with stocks of copper gold concentrate being 340 wet tonnes compared with 418 wet tonnes. This results in a release of amortisation charge that was held inventory valuation being released to the Income Statement. In addition the Group is now also amortising the accumulated value associated with the development of the Sao Chico Mine and in general production levels are higher than for the same period in 2015.

Depreciation charges of US$582,612 (three months to 30 June 2015: US$292,140) are in respect of mining and processing plant and equipment and is an increase of US$290,471 or 99%. The increase is primarily due to an increased mobile fleet acquired for both the Palito and Sao Chico Mine operations partly offset by reduced depreciation charges for equipment that remains operational but is reaching the end of its useful life.

The profit from operations increased by US$1,424,628 from a profit of S$42,492 for the 3 month period ended 30 June 2015 to a profit of US$1,467,198 for the three month period ended 30 June 2016 reflecting the improvement in gross profit from mining operations of US$1,489,033. Administration expenses have increased during this period by US$139,706 from US$1,248,013 for the three months ended 30 June 2015 to US$1,387,719 for the same period in 2016. This increase of 11% in administrative costs is as a result of increased costs to provide support to the increased activity provided at both the Palito and Sao Chico mine sites.

The Company recorded a foreign exchange loss of US$31,609 in the three month period to 30 June 2016 which compares with a foreign exchange loss of US$35,032 recorded for the three months ended 30 June 2015. These foreign exchange gains and losses primarily occurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest and other finance related costs for the three month period to 30 June 2016 were US$1,374,665 compared with US$121,962 for the same period of 2015. An analysis of the composition of these charges is set out in the table below:

	Quarter Ended June 2016 US$	**Quarter Ended June 2015 US$**
Interest expense on Sprott loan	88,401	149,590
Interest on trade finance facility	105,645	87,325
Amortisation of fair value of derivatives	83,518	160,000
Fair value adjustment on revaluation of derivatives	903,687	–
Interest expense on convertible loan stock	59,672	–
Asset finance charges	2,169	11,463
Finance cost on gold trading	131,607	–
	1,374,699	408,378
Gain on revaluation of warrants	–	(133,614)
Hedging income	–	(67,564)
Gain on revaluation of derivative	–	(85,172)
Interest income	(34)	(66)
Net finance expense	1,374,665	121,962

The interest on the Sprott loan of US$88,401 is the cost of three months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership with the reduction in interest reflecting the lower levels of loan principal outstanding during the period.

The interest on trade finance loans of US$105,645 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 amortisation of fair value of derivatives of US$83,518 comprises two elements. US$37,500 represents the amortisation charge for the quarter of the fair value ascribed to the call option granted to Sprott over 2,500 ounces of gold at a price of US$1,125 per ounce which expires on 30 June 2017. The remaining US$46,018 relates to the amortisation charge for the quarter of the fair value of the equity portion of the convertible loan provided by Fratelli Investments Limited in January 2016. Neither of these derivatives were in place in 2015. The charge for 2015 relates to a gold call option held by Sprott over 4,812 ounces of gold at a price of US$1,285 per ounce which expired 31 December 2015 and was never exercised.

The expense on the revaluation of derivatives of US$903,687 (three months to 31 March 2015: income of US$85,172) represents the loss arising from a period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership LLP (US$156,750) and the fair value of the convertible loan stock (US$746,937) (as noted above). These revaluations reflect in the case of the call options the higher gold price prevailing at the period end and in the case of the convertible loan stock the higher share price at the period end. The gain realised in 2015 relates to the Sprott gold call options that were not exercised.

The unsecured convertible loan facility is for up to US$5 million and carries interest at a rate of 12% per annum. An initial US$2 million was drawn down on 5 January 2016. The amount of interest incurred during the second quarter of 2016 is US$59,672.

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 rates of between 6.70% and 6.85% per annum. Lease interest charges are reducing as the capital element of the financing is paid down in monthly instalments.

The finance cost on gold trading of US$131,607 (three months to 31 March 2015: income of US$67,564) is actual and estimated variation expected to be incurred from short term movements in the gold price between the contractual pricing arrangements with the end purchaser of the copper/gold concentrate and the price ruling when the Group draws down on the trade finance arrangement that it has in place.

During 2015 the Group had 100,000,000 warrants outstanding at an exercise price of 6 pence. The nature of these warrants meant that warrants had a derivative element. These warrants expired in January 2016 without being exercised. The income reported in the three months to 30 June 2015 represents the gain arising on the revaluation of the derivative element of these warrants.

Six month period ended 30 June 2016 compared to the six month period ended 30 June 2015

The calendar year 2016 represents the financial period when both of the Group's operations at the Palito Mine and the Sao Chico Mine are reported as being in commercial production. During 2015 all operating revenues and operating costs related to the Sao Chico Mine operations were capitalised and therefore revenue, operating costs and mine amortisation charges related only to the costs associated with the Palito Mine. This change in treatment for reporting the costs of the Sao Chico Mine operations has resulted in significant variation when comparing the results reported for the three and six month periods ended 30 June 2016 compared with the reported results for the three and six month periods ended 30 June 2015.

The Group has reported a gross profit for the six month period ended 30 June 2016 of US$6,653,413 (six months to 30 June 2015: US$2,898,109) and a profit before taxation for the six month period ended 30 June 2016 of US$1,562,228 in comparison to a profit of US$76,897 for the six months ended 30 June 2015. The Group has reported total revenue of US$25,911,175 during the six month period to 30 June 2016 (six months to 30 June 2015: US$18,678,393).

The gross profit of US$6,653,413 can be analysed as follows:

	Six months to 30 June 2016 US$	Six months to 30 June 2015 US$	Variance US$
Revenue from Ordinary Activity			
Copper/Gold Concentrate	**13,559,803**	13,271,339	288,464
Gold Bullion – Palito & Sao Chico	**12,351,372**	5,407,054	6,944,318
Total Sales	**25,911,175**	18,678,393	7,232,782
Costs of sales			
Operational costs	**(13,323,028)**	(11,444,149)	(1,878,879)
Shipping costs	**(1,230,318)**	(944,504)	(285,814)
Treatment charges	**(605,701)**	(464,640)	(141,061)
Royalties	**(453,775)**	(194,757)	(259,018)
Amortisation of Mine Property	**(2,823,174)**	(2,287,275)	(535,899)
Depreciation of Plant & Equipment	**(821,766)**	(444,959)	(376,807)
Total Operating costs	**(19,257,762)**	(15,780,284)	(3,477,478)
Gross profit	**6,653,413**	2,898,109	3,755,304

Sales are only recognised when the risks and rewards of ownership of the goods are transferred to the buyer. There is therefore always a delay between the date of gold production and in the case of sales of copper/gold concentrate this delay can be a few months. Under the current contracts that the Group has in place for its copper/gold concentrate, the sale date is considered to be the date on which the product arrives at the premises of the end purchaser.

During the six months to 30 June 2016 the Group produced 1,117 wet tonnes of copper/gold concentrate containing an estimated 9,772 ounces (six months to 30 June 2015: 1,011 wet tonnes [10,341 ounces]) whilst revenue has been recognised for 1,140 tonnes containing an estimated 9,577 ounces (six months to 30 June 2015: 960 wet tonnes [10,447 ounces]) which had been delivered to the end purchaser. The unsold material is held as inventory.

The amount of gold sold as concentrate has therefore reduced by approximately 9.3% notwithstanding that production of gold in concentrate has fallen by only 5.5%. This variation is entirely due to the timing of shipments and in particular the dates of arrival at the purchasers premises. The overall fall in gold production reflects lower tonnage of ore from the Palito Mine being treated following the increase in mine production at Sao Chico Mine. The sales revenue for the first half of 2016 includes an adjustment for shipments delivered prior to the period but for which final settlement details including pricing and gold content were not finalised. This adjustment was approximately US$620,000.

The Group also sold 10,089 ounces of gold bullion generating total revenue of US$12,351,372 during the first six months of 2016 (six months to 30 June 2015: 4,467 ounces (US$5,407,054)). Of these bullion sales 4,965 ounces is attributable to gold production derived for the Palito Mine (six months to 30 June 2015: 4,467 ounces) an increase of 11% and 5,124 ounces derived from the Sao Chico Mine (six months to 30 June 2015: 783 ounces). Gold bullion production for the first half of 2016 was approximately 10,138 ounces by comparison with the same period in 2015 when gold bullion production was approximately 5,235 ounces. Whilst there are timing variation between production and shipment, during the first six months of 2015, gold inventory was still being accumulated in the various elements of the process plant as the CIP plant had only become operational at the start of October 2014 and remained in a ramp up phase during that last quarter of 2014 and the early part of 2015.

Operating costs of US$13,323,028 (six months to 30 June 2015: US$11,444,149) relate to all mining and plant processing costs, as well as all general site costs incurred at both the Palito and Sao Chico Mines during the period.

	Six months to 30 June 2016 US$m	Six months to 30 June 2015 US$m	Variance US$m
Labour	6.34	5.61	0.73
Mining consumables and maintenance	3.60	2.65	0.95
Plant operations	1.95	2.07	(0.12)
General site costs	1.43	1.11	0.32
Total operating costs	13.32	11.44	1.88

Labour costs have increased by US$0.73 million for the six month period ended 30 June 2016 in comparison to the same period in the previous year due to an increased number of personnel employed to support the increase in activity. Additionally each Brazilian employee received an 8% increase in salary in May 2015 and 10% in May 2016 as a result of the national collective agreement in Brazil.

Mining consumables and maintenance for the six month period ended 30 June 2016 have increased by US$0.95 million in comparison to the same six month period from 2015. This is primarily because Sao Chico is now fully operational having reached commercial production. Maintenance costs have increased as all equipment held during the first six months of 2015 is now one year older as well as new equipment having been purchased since 30 June 2015. In particular maintenance costs have increased reflecting the increased use of generators to provide reliable power for the operations in particular in light of the increased tonnage of ore being mined and processed.

Plant costs have decreased for the six month period ended 30 June 2016 in comparison to the same period in the previous year however. Notwithstanding that the tonnage of material being processed has increased significantly in the first half of 2016 compared with the same period in 2015, during the second quarter of 2015 plant costs were unusually high reflecting technical and processing issues that arose at that time.

General site costs for the six month period ended 30 June 2016 have increased by US$0.32 million in comparison to the same period in the previous year primarily due to an increase in activity at the Sao Chico mine.

Shipping costs of US$1,230,318 (six months to 30 June 2015: US$944,504) includes all domestic road and river freight in Brazil from the Palito Mine to the international port at Belem and also international sea freight to the end purchaser. The increase of 30% by comparison with the same period for 2015 reflects the slightly higher volumes of material produced and in the process of being shipped. The Company tries to recognise shipping costs as at the date they are incurred but in the first six month period of 2015, delays in receipt of charges meant that provisions for unbilled costs relating to that period were not fully provided for.

Treatment Charges of US$605,701 (2015: US$464,640) include US$565,458 (2015: US$429,661) relating to the treatment of the copper concentrate and levied by the smelter, US$40,423, (2015: US$34,979) for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group and the balance being charges for the refining of gold bullion. The increase by comparison to the same quarter in 2015 reflects the increased level of concentrate shipped (an increase in tonnage of 22%) and the increase in bullion sold (an increase of 88%).

Royalty payments of US$453,775 (six months to 30 June 2015: US$194,757) comprise statutory levies payable in Brazil. Rates are uniform across all mining operations and currently comprise a 1% royalty on gold production and a 2% royalty on copper production. The increase by comparison with the same period in 2015 reflects an overall increase in gold sold during the period. In addition the company during 2016 is now reporting as an operating expense an additional royalty on the production from the Sao Chico Mine to a former owner of that property.

Charges for the amortisation of mine property are calculated by reference to the depletion during the six months of the total estimated mineable resource at each of the Palito and Sao Chico Mines. In each case the base carrying cost is adjusted to include a provision for future mine development costs for each of these operations. The total amortisation charge which is reducing the book value for the Palito Mine for the first six months of 2016 is US$1,868,502 (six months to 30 June 2015: US$2,141,029) and for the Sao Chico Mine is US$275,675 (six months to 30 June 2015: US$nil). The charge reported in the income statement is however adjusted to reflect the level of sales rather than the level of production with the part of the depreciation being carried in inventory and released to the income statement when the goods are sold. Physical inventory levels, and in particular the Palito stockpiles, are lower at 30 June 2016 with 4,731 tons of surface stockpiled ore in comparison to 7,898 tons as at 30 June 2015 and inventory levels of copper/gold concentrate are lower at 30 June 2016 with stocks of copper gold concentrate being 340 wet tonnes compared with 418 wet tonnes. This results in a release of amortisation charge that was held inventory valuation being released to the Income Statement. In addition the Group is now also amortising the accumulated value associated with the development of the Sao Chico Mine.

Depreciation charges of US$821,766 (six months to 30 June 2015: US$444,959) are in respect of mining and processing plant and equipment and is an increase of US$376,807 or 85%. The increase is primarily due to an increased mobile fleet acquired for both the Palito and Sao Chico Mine operations partly offset by reduced depreciation charges for equipment that remains operational but is reaching the end of its useful life.

The Group has recognised an operating profit before interest and other income of US$3,987,306, (2015: US$542,554) after incurring US$2,544,320 (2015: US$2,153,518) in administrative expenses as well as US$148,756 (2015: US$202,037) on share based payments. The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the six months to 30 June 2015 is in respect of options granted between January 2012 and 30 June 2015. The Group also reported a profit of US$26,969 from the disposal of assets (2015: US$nil).

This increase in administration expenses for the six month period ended 30 June 2016 in comparison to the same period in 2015 of US$390,802 is primarily reflects a one-off payment in Brazil of US$246,256 relating to the settlement of taxes relating to prior years. There was also a small general increase in administrative costs as a result of increased costs to provide support to the increased activity provided at both the Palito and Sao Chico mine sites.

The Company recorded a foreign exchange loss of US$72,408 in the six month period to 30 June 2016 which compares with a foreign exchange gain of US$193,631 recorded for the six months ended 30 June 2015. These foreign exchange losses are primarily incurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest and other finance related costs for the six month period to 30 June 2016 were US$2,352,670 compared with US$659,289 for the first six months of 2015. An analysis of the composition of these charges is set out in the table below:

	Six Months Ended June 2016 US$	Six Months Ended June 2015 US$
Interest expense on Sprott loan	189,465	334,521
Interest on trade finance facility	190,487	175,667
Expenses of revaluation of Derivatives	1,165,919	–
Finance Arrangement fee	37,500	–
Hedging Expensive	493,951	–
Amortisation of fair value of derivatives	154,537	266,500
Interest on Short term loan	116,721	–
Interest expense on convertible loan stock	–	22,796
Asset finance charges	4,159	18,719
Charge on revaluation of warrants	–	153,976
	2,352,739	972,179
Finance income	–	(173,945)
Gain on revaluation of derivative	–	(138,104)
Interest income	(69)	(841)
Net finance expense	2,352,670	659,289

The interest on the Sprott loan of US$189,465 (2015: US$334,521) is the cost of six months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership. with the reduction reflecting the lower levels of loan principal outstanding during the period.

The interest on trade finance loans of US$190,487 (2015: US$175,667) 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 expense on the revaluation of derivatives of US$1,165,919 represents the loss arising from a period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership LLP (US$352,250) and the equity element of the convertible loan stock (US$813,669). These revaluations reflect in the case of the call options the higher gold price prevailing at the period end and in the case of the convertible loan stock the higher share price at the period end. The gain realised in 2015 relates to the gold call options held by Sprott that were not exercised prior to their expiry at the end of December 2015.

The finance cost on gold trading of US$493,951 (six months to 30 June 2015: income of US$173,945) is actual and estimated variation expected to be incurred from short term movements in the gold price between the contractual pricing arrangements with the end purchaser of the copper/gold concentrate and the price ruling when the Group draws down on the trade finance arrangement that it has in place.

The amortisation of fair value of derivatives of US$154,537 comprises two elements. US$62,500 represents the amortisation charge for the six month period of the fair value ascribed to the call option granted to Sprott over 2,500 ounces of gold at a price of US$1,125 per ounce which expires on 30 June 2017. The remaining US$92,037 relates to the amortisation charge for the six month period of the fair value of the equity portion of the convertible loan provided by Fratelli Investments Limited in January 2016. Neither of these derivatives were in place in 2015. The charge for 2015 relates to a gold call option held by Sprott over 4,812 ounces of gold at a price of US$1,285 per ounce which expired 31 December 2015 and was never exercised.

The unsecured convertible loan facility was entered into on 30 December 2015 was for up to US$5 million and carries interest at a rate of 12% per annum. An initial US$2 million was drawn down on 5 January 2016. The amount of interest incurred during the six months to 30 June 2016 was US$116,721.

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 rates of between 6.70% and 6.85% per annum. Lease interest charges are reducing as the capital element of the financing is paid down in monthly instalments.

During 2015 the Group had 100,000,000 warrants outstanding at an exercise price of 6 pence. The nature of these warrants meant that warrants had a derivative element. These warrants expired in January 2016 without being exercised. The income reported in the six months to 30 June 2015 represents the gain arising on the revaluation of the derivative element of these warrants.

Summary of quarterly results	Quarter ended 30 June 2016 US$	Quarter ended 31 March 2016 US$	Quarter ended 31 December 2015 US$	Quarter ended 30 September 2015 US$
Revenues	14,232,086	11,679,089	8,042,431	8,365,289
Operating expenses	(8,923,316)	(6,689,506)	(4,235,007)	(6,302,006)
Amortisation of mine property	(1,845,601)	(977,573)	(1,689,113)	(564,045)
Depreciation of plant and equipment	(582,612)	(239,154)	(547,846)	(307,531)
Gross profit	2,880,557	3,772,856	1,570,465	1,191,707
Administration expenses	(1,387,719)	(1,129,632)	(1,355,099)	(871,153)
Option costs	(25,640)	(123,116)	(101,019)	(101,019)
Operating profit	1,467,198	2,520,108	114,347	219,535
Exchange	(31,609)	(40,799)	99,958	(364,869)
Net finance (expense) / income	(1,374,665)	(978,005)	70,916	259,510
Profit / (loss) before taxation	60,924	1,501,304	285,221	114,176
Income tax expense	(402,407)	(153,639)	(525,032)	–
Profit / (loss) after taxation	(341,483)	1,347,665	(239,811)	114,176
Profit / (loss) per ordinary share (basic)	(0.052) cents	0.205 cents	(0.036) cents	0.017 cents
Deferred exploration costs	9,550,074	9,324,314	8,679,246	9,018,777
Property, plant and equipment	46,927,210	42,123,789	40,150,484	39,181,535
Total current assets	26,427,165	23,092,061	17,663,339	20,423,920
Total assets	82,904,449	74,540,164	66,493,069	68,624,232
Total liabilities	25,336,298	22,015,609	19,709,424	22,394,854
Shareholders' equity	57,568,151	52,524,555	46,783,645	46,229,378

Summary of quarterly results	Quarter ended 30 June 2015 US$	Quarter ended 31 March 2015 US$	Quarter ended 31 December 2014 US$	Quarter ended 30 September 2014 US$
Revenues	11,194,178	7,484,215	7,374,461	5,253,323
Operating expenses	(8,188,141)	(4,859,909)	(6,319,134)	(3,378,532)
Amortisation of mine property	(1,322,374)	(964,901)	(1,657,307)	(677,555)
Depreciation of plant and equipment	(292,140)	(152,819)	207,438	(239,849)
Gross (loss) / profit	1,391,523	1,506,586	(394,542)	957,387
Administration expenses	(1,248,013)	(905,505)	(619,941)	(1,243,580)
Option costs	(101,018)	(101,019)	(109,165)	(76,006)
Write-back of provision for contingencies	–	–	298,088	–
Write-back of provision for impairment	–	–	2,590,532	–
Depreciation of plant and equipment	–	–	–	–
Operating profit / (loss)	42,492	500,062	1,764,972	(362,199)
Exchange	(35,032)	228,663	25,419	(68,037)
Net finance (expense) / income	(121,961)	(537,327)	1,366,995	24,806
Profit / (loss) before taxation	(114,501)	191,398	3,157,386	(405,430)
Profit / (loss) per ordinary share (basic)	(0.017) cents	0.03 cents	0.48 cents	(0.06) cents
Deferred exploration costs	10,857,942	9,769,327	11,799,271	24,888,399
Property, plant and equipment	48,840,812	47,508,148	54,103,898	39,381,145
Total current assets	23,414,155	22,792,315	27,159,740	21,878,828
Total assets	83,112,909	80,069,790	93,062,909	86,148,372
Total liabilities	25,102,757	23,872,348	26,144,358	16,259,911
Shareholders' equity	58,010,152	56,197,442	66,918,551	69,888,461

Liquidity and Capital Resources

Non-current assets

On 30 June 2016, the Group's net assets amounted to US$57.57 million which compares to US$46.78 million as reported at 31 December 2015. This increase primarily reflects the effect of a strengthening of the Brazilian Real between 31 December 2015 when the rate was BrR$3.9042 to US$1.00, and 30 June 2016, when the rate was BrR$3.2092 to US$1.00. The Group has reported a profit after taxation of US$1.01 million and it has incurred a gain of US$9.63 million on the re-translation of the results of its Brazilian operations in the six month period since 31 December 2015.

Non-current assets totalling US$56.48 million at 30 June 2016 (31 December 2015: US$48.83 million), are primarily comprised of property, plant and equipment, which as at 30 June 2016 totalled US$46.93 million (31 December 2015: US$40.15 million) of which US$33.69 million (31 December 2015 : US$21.47 million) is attributable to the mining properties in production and US$3.54 million is attributable to other assets in construction. Following the declaration of commercial production of the Sao Chico Mine with effect from 1 January 2016, the amount of U$8.81 million was re-categorised from the category of other assets in construction to Mining Property and this value is now being amortised over the estimated mineable resources of the Sao Chico Mine.

The Group owns land, buildings, plant and equipment with a net book value of US$9.69 million (31 December 2015: US$7.45 million). During the first six months of 2016 the Group has acquired additional plant and machinery and other assets to the value of US$2.13 million in the period and capitalised expenditure of US$1.25 million for on-going capital development costs of the Palito and Sao Chico Mines. During 2015 all revenue and operating costs incurred in Sao Chico as well as long term mine development costs, principally for ramp and ventilation activities were capitalised resulting in a significantly higher level of capital development costs for the Sao Chico Mine during the first half of 2015 compared with the first six months of 2016.

The gross value ascribed to the both the Palito and Sao Chico Mining Properties is being amortised over the expected recoverable ounces of each operation. An amortisation charge totalling US$2.54 million has been recorded for the six month period to 30 June 2016. The net book value of Property, Plant and Equipment has been increased by US$6.89 million as a result of the retranslation of the underlying values from Brazilian Reais to US dollars.

Deferred exploration costs as at 30 June 2016 totalled US$9.55 million (31 December 2015: US$8.68 million) which relates to capitalised exploration expenditures around the Palito Mine, Sao Chico Mine and the wider Jardim do Ouro project area. The carrying value has been increased by US$1.42 million as a result of the variation in the exchange rates since the start of the year.

Finance and debt

On 26 September 2014, the Group entered into a US$8 million credit facility (the "Sprott Facility") with the Sprott Resource Lending Partnership ("Sprott") which provided additional funding for the continued development of the Palito and the Sao Chico Mines, to finance an additional drilling programme at the Sao Chico Mine and for general corporate purposes. The Sprott Facility is for a term expiring on 31 December 2016 and carries interest at a rate of 10% per annum. During 2015 the Group repaid US$4.0 million of the US$8.0 million loan to Sprott leaving a liability at 31 December 2015 of US$4.0 million which the Group will repay during 2016. The first of nine equal monthly repayment instalments was paid on 29 April 2016 and during the second quarter of 2016 the Group repaid US$1.33 million, leaving US$2.67 million outstanding.

On 30 December 2015, the Group's major shareholder, Fratelli Investments Limited ("Fratelli") agreed to provide an interim unsecured short term working capital convertible loan facility of US$5 million (the "2015 Convertible Loan") to the Group to provide additional working capital facilities. The 2015 Convertible Loan is for a period expiring on 31 January 2017 and for a maximum of US$5 million. The facility could be drawn-down in up to three separate instalments of an initial US$2 million and two further instalments of US$1.5 million each. The Group announced on 6 January 2016 that it had made an initial draw down of US$2 million in respect of the 2015 Convertible Loan. The 2015 Convertible Loan was available to be used at any time up to 30 June 2016 but the Group decided not to draw down any additional amounts during the first six months of 2016. Interest is chargeable at the rate of 12% per annum. There is no prepayment penalty or arrangement fee. The 2015 Convertible Loan is unsecured and subordinated to the Group's existing loan facilities, including the secured loan facility arrangement provided by the Sprott.

The first US$2 million of the 2015 Convertible Loan which was drawn down on 6 January 2016 is convertible at the election of Fratelli Investments into new Serabi Ordinary Shares at an exercise price of 3.6 pence per new Serabi Ordinary Share at any time.

Working Capital

The Group had a working capital position of US$5.90 million at 30 June 2016 compared to US$1.84 million at 31 December 2015, with the variation of US$4.06 million detailed in the table below:

	June 2016 US$	**December 2015 US$**	**Variance US$**
Current assets			
Inventories	9,520,851	6,908,790	2,612,061
Trade and other receivables	7,783,763	6,133,284	1,650,479
Prepayments	4,348,014	2,429,506	1,918,508
Cash and cash equivalents	4,774,537	2,191,759	2,582,778
Total current assets	**26,427,165**	17,663,339	8,763,826
Current liabilities			
Trade and other payables	**6,480,142**	4,212,803	2,267,339
Trade finance facility	**7,044,153**	6,652,930	391,223
Sprott credit facility	**2,516,667**	4,000,000	(1,483,333)
Shareholder loan	**1,892,624**	-	1,892,624
Lease finance liabilities	**564,373**	732,225	(167,852)
Derivative financial liabilities	**1,577,832**	-	1,577,832
Accruals	**443,601**	226,197	217,404
Total current liabilities	**20,519,392**	15,824,155	4,695,237
Working capital	**5,907,773**	1,839,184	4,068,589
Non-current liabilities			
Trade and other payables	**2,298,786**	1,857,914	440,872
Provisions	**2,309,908**	1,898,714	411,194
Lease finance liabilities	**208,212**	128,641	79,571
Total non-current liabilities	**4,816,906**	3,885,269	931,637

Inventories

In accordance with IFRS, revenues are only recognised at such time as the risks and rewards of ownership are transferred 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 contractually passes to the purchaser. In accordance with normal industry practice, initial payments from the smelter only occur after specified contractual periods following the arrival of the material at the smelter. Unsold production is held as inventory at the lower of attributable production costs and net realisable value.

The levels of inventory held by the Group have increased by US$2.61 million compared with 31 December 2015. The inventory is calculated in Brazilian Reais and converted into US Dollars using the exchange rate at the balance sheet date. The 18% strengthening of the Brazilian Real during the six months ended 30 June 2016 would alone have contributed US$1.5 million to the increase in inventory values. Stocks of consumable items have been increased by BrR$2.0 million (US$650,000) reflecting the increase in the level of activity and additional plant and equipment brought into use at the end of 2015 and during 2016. Levels of goods in process and finished goods awaiting sale have increased by BrR$1.5 million (US$460,000) in part reflecting higher unit production costs as a result of increased power costs resulting from higher levels of diesel power generation and maintenance costs but also the inclusion from 1 January 2016 of an element of amortisation charged in the carrying value of the stockpiles of Sao Chico ore.

At 31 December 2015 the surface stockpile of coarse ore from the Palito Mine had been valued at US$0.99 million. At the 30 June 2016 this coarse ore stockpile was valued at approximately US$0.49 million. Average costs per tonne in Brazilian Reais are BrR$337 per tonne compared with BrR$382 per tonne at 31 December 2015. The strengthening of the Brazilian Real compared with the US Dollar however means that in US Dollar terms the cost per unit has increased from US$98 per tonne to US$105 per tonne.

During 2014 the Group 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 during 2015 commenced the processing of these flotation tailings through the CIP plant and will continue to process this stockpiled material as capacity is available during 2016. The value ascribed to this stockpile as at 30 June 2016 is US$0.91 million which compares to the valuation at 31 December 2015 of US$1.07 million. The reduction reflects the volume of material that has been processed during the six months to 30 June 2016 as well as exchange rate movements.

At 30 June 2016, the Group had on hand an inventory of approximately 340 wet metric tonnes (31 December 2015: 363 wet metric tonnes) of copper/gold concentrate of which 20 tonnes was located at the Palito Mine (31 December 2015: 63 tonnes), 160 tonnes was on-route to the port of Belem (31 December 2015: 160 tonnes) and the remaining 160 tonnes was on-route to the refinery (31 December 2015: 120 tonnes). The value of this inventory of copper/gold concentrate awaiting sale was approximately US$3.25 million (31 December 2015: US$1.95 million).

The valuation attributable to gold locked up within the processing plant, waiting to be smelted or in the process of being sold has decreased to US$1.15 million as at 30 June 2016, (31 December 2015: US$1.09 million).

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 June 2016 of US$2.30 million have increased by approximately US$0.94 million or 69% in comparison with the same inventory of consumables at 31 December 2015 (US$1.36 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 have increased reflecting a requirement to keep on hand higher levels of items related to equipment and plant maintenance. The increase also reflects the continued increase in activity at the Sao Chico Mine which entered into commercial production with effect from 1 January 2016. As all consumable stock is valued in Brazilian Reais, the valuation is also subject to exchange rate fluctuations. As such, the level of inventory in Brazilian Reais increased by BrR$1.99 million, or 37%, from BrR$5.31 million to BrR$7.39 million.

Debtors

Trade and other receivables at 30 June 2016 of US$7.78 million has increased by US$1.65 million from US$6.13 million at 31 December 2015. As at 30 June 2016, the Group was owed US$7.46 million (31 December 2015: US$5.99 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 varying tonnages and grades of material being produced and shipped. The variation in volumes shipped during 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. As at 30 June 2016 the Group was awaiting settlement for approximately 5,515 ounces of gold compared with a settlement outstanding at the end of December 2015 of approximately 5,065 ounces. The prevailing gold price at the end of June 2016 was approximately US$1,276 per ounce compared to US$1,060 per ounce at the end of December 2015 which in conjunction with the slight increase in ounces awaiting payment accounts for the increase in the receivable due to the Group.

Also included within trade and other receivables are some trade advances for freight and insurance which have increased by US$184,194 from US$136,693 at 31 December 2015 to US$320,887 at 30 June 2016.

Cash

Between 31 December 2015 to 30 June 2016 cash balances have increased by approximately US$2.58 million reflecting in part the advance of US$2.0 million received from Fratelli Investments Limited in January 2016 but also the cash flow generated from operations during the six month period of approximately US$5.38 million and capital and development expenditure in the period of a further US$3.35 million. The Group has repaid US$1.34 million of the Sprott loan during the second quarter of 2016, but increased its liability due under the short term trade finance facility by US$0.39 million and settled finance lease arrangements of US$0.38 million.

Liabilities

Current liabilities have increased by US$4.69 million from US$15.82 million at 31 December 2015 to US$20.52 million at 30 June 2016.

Trade and other payables amounting to US$6.48 million at 30 June 2016 compare with an amount owed by the Group of US$4.21 million at 31 December 2015. Most of these liabilities are denominated in Brazilian Reais and it is estimated that approximately US$750,000 of this increase in the liabilities is attributable to the exchange rate movement. Of the total increase of US$2.27 million, trade creditors accounts for US$1.39 million (including exchange rate variations) as a result of increased activity at both the Palito and Sao Chico Mines, social and security taxes payable increased by US$0.29 million and there was a total increase of S$0.56 million in the provision for the "thirteenth" salary, which is a provision for the additional months' salary that Brazilian employees are allowed to receive at the end of the year.

The Group operates a short term trade finance facility 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 end purchaser. This facility is 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 end purchaser. During the six months ended 30 June 2016 the total funds received by the Group under this facility were US$11.9 million with US$11.5 million having been repaid out of the receipts from the sale of copper and gold following refining. As at 30 June 2016 an amount of US$7.04 million is owed by the Group (31 December 2015: US$6.65 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 amount due under the loan facility to Sprott shows a reduction of US$1.48 million. The Group repaid US$1.33 million in capital repayments during the second quarter of 2016. The additional reduction of US$0.15 million is merely a reflection of the accounting for the fair value of the gold call options granted to Sprott as part of the renegotiation of the payment period of the facility. The cash element outstanding at 30 June 2016 was US$2.67 million.

The Group drew down, in January 2016, US$2 million under a total US$5 million convertible loan facility with its major shareholder Fratelli Investments Limited. The Group has accounted for the fair value of the equity element of this facility which at the date of the drawdown was estimated at US$0.18 million. The value of the derivative at the date of grant is being amortised over the term of the facility.

The Group acquires some mobile equipment under finance leases. At 30 June 2016 the Group had liabilities under these financial leases totalling US$0.72 million of which US$0.56 million is due for repayment within one year (31 December 2015: US$0.73 million). The remaining lease terms range from a twelve month period to a eighteen month period and bear interest at a rate between 6.7% and 6.85% per annum. (See below for further details on the amounts owed in more than one year).

The liability for derivatives relates to

(i) a call option for 2,500 ounces of gold exercisable at a price of US$1,125 which expires on 30 June 2017. The initial liability calculated at the date that the option was granted was US$212,500. With the increase in the gold price between the date of grant and the period end, this call option had increased in value by US$352,250 to US$564,750 as at 30 June 2016.

(ii) The fair value attributable to the convertible loan facility that has been drawn down. The initial liability of this derivative calculated at the date of the draw down was US$199,413. With the increase in the price of the Group ordinary shares the value of this derivative had increased by approximately US$813,669 to US$1,103,082 at the period end.

Long-term trade and other payables have increased by approximately US$0.44 from US$1.86 million at 31 December 2015 to US$2.23 million. The increase in this liability which is due for settlement in Brazilian Real reflects the 19% strengthening of the Real from 31 December 2015 to 30 June 2016.

The Group makes provision for the future estimated rehabilitation costs for its mine sites at Palito and Sao Chico. The value of the rehabilitation provision carried by the Group at 31 December 2015 was US$1.87 million. The value at 30 June 2016 is US$2.30 million the increase reflecting the exchange rate movements from 31 December 2015 to 30 June 2016. The Group carried out a review of the underlying cost assumptions as at 31 December 2015.

Liabilities under lease finance arrangements have increased by US$0.08 million reflecting the new leases taken out during 2016.

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 confirmed 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 IRFS.

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.

	6 Months Ended 30 June 2016 (US$)	6 Months Ended 30 June 2015 (US$)	12 Months to 31 Dec 2015 (US$)
Cost of sales	15,612,822	13,048,050	23,585,063
Add/(subtract)			
Finished goods and WIP inventory stock adjustment	159,120	(779,262)	(1,780,142)
Grossing up of revenue for metal deductions	496,450	369,319	880,331
By-product credits	(1,267,620)	(1,239,723)	(2,482,958)
Total Cash Cost of production	15,000,772	11,385,342	20,202,294
Corporate G&A (excl. exceptional items)	2,184,478	2,153,518	4,379,770
Share-based remuneration	148,756	202,037	404,075
Capitalised cost for mine development	1,249,151	621,799	1,637,135
All-In Sustaining Cost ("AISC") of production	18,583,157	14,362,896	26,623,274

	6 Months Ended 30 June 2016 (ounces)	6 Months to 30 June 2015 (ounces)	12 month to 31 Dec 2015 (ounces)
Gold production for Cash Cost and AISC purposes (1)	19,667	14,843	29,841

	6 Months Ended 30 June 2016 (US$)	6 Months to 30 June 2015 (US$)	12 Months to 31 Dec 2015 (US$)
Total Cash Cost of production (per ounce) (1)	US$763	US$767	US$677
Total All-In Sustaining Cost of production (per ounce) (1)	US$945	US$967	US$892

(1) The Sao Chico Mine was only declared to be in Commercial Production with effect from 1 January 2016 and all costs and revenues relating to this mine were capitalised prior to this date. The Income Statements for 2015 therefore only reflect the revenues and costs arising from the gold produced from the Palito Mine and the Cash Cost sand AISC for the 2015 comparative period therefore also only reflect the activities from the Palito Mine.

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 approximately US$60,000 (31 December 2015: US$90,000).

	Payments due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	$	**$**	**$**	**$**	**$**
Short term debt	4,868,270	4,868,270	—	—	—
Capital lease obligations	639,201	430,989	208,212	—	—
Operating leases	106,539	94,326	12,213	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	5,614,010	5,393,585	220,425	—	—

Transactions with related parties of the Group

The following transactions have been undertaken with related parties in the 24 months prior to 30 June 2016.

On 30 December 2015, the Group's major shareholder, Fratelli Investments Limited ("Fratelli") agreed to provide an interim unsecured short term working capital convertible loan facility of US$5 million (the "2015 Convertible Loan") to the Group to provide additional working capital facilities. The 2015 Convertible Loan is for a period expiring on 31 January 2017 and for a maximum of US$5 million. The facility could be drawn-down in up to three separate instalments of an initial US$2 million and two further instalments of US$1.5 million each. The 2015 Convertible Loan was available to be used at any time up to 30 June 2016. Interest is chargeable at the rate of 12% per annum. There is no prepayment penalty or arrangement fee. The 2015 Convertible Loan is unsecured and subordinated to the Group's existing loan facilities, including the secured loan facility arrangement provided by the Sprott Resource Lending Partnership.

The first US$2 million of the 2015 Convertible Loan is convertible at the election of Fratelli Investments into new Serabi Ordinary Shares at an exercise price of 3.6 pence per new Serabi Ordinary Share at any time. The remaining amount of the 2015 Convertible Loan, if drawn down, could be repaid by the Group at its option at any time on or before 30 June 2016. Thereafter, Fratelli Investments would have the right to convert all or part of the remaining amount of the 2015 Convertible Loan into new Serabi Ordinary Shares at an exercise price of 3.6 pence per new Serabi Ordinary Share at any time. The Group announced on 6 January 2016 that it had made an initial draw down of US$2 million in respect of the 2015 Convertible Loan. No further draw-down against the facility has been made.

Fratelli Investments Ltd owns 343,613,166 ordinary shares representing 52.35% of the voting shares in issue and is considered to be the controlling party.

Financial and other instruments

The Group's financial assets at 30 June 2016 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 Sprott Resource Lending and because of the nature of the Convertible Loan with Fratelli Investment Limited ("Fratelli") has 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 the sales of gold contained in copper/gold concentrate 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 the period end to reflect prevailing prices. Any notional income or expense arising from this revaluation is taken to the income statement.

In January 2016, the Group granted a call option to Sprott over 2,500 ounces of gold at a price of US$1,125 for a period expiring on 30 June 2017. 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 convertible loan arrangement with Fratelli, being a loan denominated in US Dollars but convertible in shares based on a price denominated in UK Pounds Sterling, has a derivative element arising because the number of shares to be issued in settlement of the loan is not fixed reflecting the specific terms of the conversion rights. This fair value is revalued at the end of each period taking into account the changes in exchange rate, the prevailing share price and the remaining conversion period. 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 and the Company are exposed to fluctuations in commodity prices and in particular the price of gold and copper as these could affect its ability to raise further finance in the future, its future revenue levels and the viability of its projects. It is not currently the Group's intention to enter into any 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 June 2016, the Group carried inventory of finished goods and work-in-progress valued at US$7.22 million (31 December 2015: US$5.55 million) including US$3.30 million of copper/gold concentrate representing 340 tonnes of material awaiting sale (31 December 2015: US$1.95 million) and US$3.92 million of other material in process (31 December 2015: US$3.60 million). Of the copper/gold concentrate, the Group had, at the end of the quarter ended 30 June 2016, entered into arrangements fixing prices for approximately 95% of the gold content within 160 tonnes of this material. However all other inventory as at 30 June 2016, 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

During 2016, 2015 and 2014 the Group has taken out fixed rate finance leases for the acquisition of some equipment and have utilised floating rate short term trade finance in respect of sales of copper/gold concentrate production.

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

Serabi Gold plc has also entered into a US$8 million credit facility (the "Sprott Facility") with the Sprott Resource Lending Partnership ("Sprott") to be used to provide additional funding for the continued development of the Palito Mine and the Sao Chico gold project, to finance an additional drilling programme at Sao Chico and for general corporate purposes. On 20 January 2016 the Sprott Facility was extended for a term expiring on 31 December 2016. It carries interest at a rate of 10% per annum. As at 30 June 2016, the amount of US$2.67 million (excluding future interest) was outstanding in respect of the Sprott Facility.

On 30 December 2015, Fratelli Investments Limited ("Fratelli"), the Company's major shareholder, agreed to provide an interim unsecured short term working capital convertible loan facility of US$5 million (the "2015 Convertible Loan") to the Group to provide additional working capital facilities. The 2015 Convertible Loan is for a period expiring on 31 January 2017 and for a maximum of US$5 million. Interest is chargeable at the rate of 12% per annum. The Group announced on 6 January 2016 that it had made an initial draw down of US$2 million in respect of the 2015 Convertible Loan.

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 entered into the Sprott Facility details of which are set out above. Serabi may prepay in whole the Sprott Facility prior to 31 December 2016. If such repayment is made after 1 July 2016 the penalty shall be equal to 60% of the remaining interest charges that would otherwise have been due under the Sprott Facility up until the expiry of the Sprott Facility.

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.

On 30 December 2015, the Group entered into the 2015 Convertible Loan with its major shareholder, Fratelli. The facility may be drawn-down in up to three separate instalments of an initial US$2 million and two further instalments of US$1.5 million each. The 2015 Convertible Loan was available to be used at any time up to 30 June 2016. Interest is chargeable at the rate of 12% per annum. There is no prepayment penalty or arrangement fee. The 2015 Convertible Loan is unsecured and subordinated to the Group's existing loan facilities, including the secured loan facility arrangement provided by the Sprott Resource Lending Partnership.

The first US$2 million of the 2015 Convertible Loan is convertible at the election of Fratelli Investments into new Serabi Ordinary Shares at an exercise price of 3.6 pence per new Serabi Ordinary Share at any time. The remaining amount of the 2015 Convertible Loan, if drawn down, may be repaid by the Group at its option at any time on or before 30 June 2016. Thereafter, Fratelli Investments will have the right to convert all or part of the remaining amount of the 2015 Convertible Loan into new Serabi Ordinary Shares at an exercise price of 3.6 pence per new Serabi Ordinary Share at any time. The Group announced on 6 January 2016 that it had made an initial draw down of US$2 million in respect of the 2015 Convertible Loan.

As at 30 June 2016, in addition to the Sprott Facility, the 2015 Convertible Loan and the Auramet facility, the Group had obligations under fixed rate finance leases amounting to US$0.78 million (31 December 2015: US$0.86 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. The Group commenced gold production operations at the Palito Mine at the start of 2014 having completed the first phase construction of the gold recovery plant in December 2013, with the Carbon in Pulp ("CIP") leaching circuit completed in September 2014. On 23 July 2014 the Group announced that with effect from 1 July 2014 the Palito Mine had achieved Commercial Production. Having commenced initial development activities for the Sao Chico Mine at the end of 2014, this mine has been in development during 2015. On 1 February 2016, the Group announced that with effect from 1 January 2016 the Sao Chico Mine had achieved Commercial Production. There are risks associated with the commencement of any new mining operation whereby unforeseen technical and logistical events result in additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required. 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 June 2016:

	30 June 2016 Group US$	**31 December 2015** Group US$
Due in less than one month	3,356,250	3,598,089
Due between one month and three months	7,401,500	9,001,404
Due between three months and one year	8,053,565	3,081,343
Total due within one year	18,811,315	15,680,836
Due more than one year	2,506,998	2,689,985
Total	21,318,313	18,370,821

Currency risk

Although the parent company of the Group is incorporated in the United Kingdom, its financial statements and those of the Group are presented in US Dollars 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 from the subsidiaries are expected to be received in US Dollars.

Share issues have historically been priced solely in Sterling but the issue of Special Warrants undertaken in December 2010 and the issue of new Ordinary Shares and Warrants on 30 March 2011 were priced in Canadian Dollars. The Group expects that future issues of Ordinary Shares may be priced in Sterling or Canadian Dollars. Expenditure is primarily in Brazilian Real and also in US Dollars, Sterling, Euros and Australian Dollars.

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

	Group	
	30 June 2016	**31 December 2015**
	US$	**US$**
US Dollar	3,690,195	1,449,663
Canadian Dollar	36,927	11,762
Sterling	274,252	278,136
Australian Dollar	53,386	12,630
Euro	34,815	32,611
Brazilian Real	684,962	406,957
Total	4,774,537	2,191,759

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 Group seeks to manage its exposure to this risk by ensuring that the majority of expenditure and cash holdings of individual subsidiaries within the Group are denominated in the same currency as the functional currency of that subsidiary. 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$14,375,001 (31 December 2015: US$8,325,045). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings.

The Group currently sells most 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 most 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.

The Group has not entered into any sales to other parties during the quarter.

Subsequent events

At 30 June 2016 Sprott Resource Lending Partnership ("Sprott") held a call option exercisable over 2,500 ounces of gold exercisable at a price of US$1,125 per ounce. On 6 July 2016 Sprott exercised call options over 1,250 ounces of gold establishing a liability on the Group of US$298,475 of which US$150,000 has been settled with the remaining amount due for repayment on 31 December 2016.

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 2016.

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 2015 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 2015 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 or mineral resources between Ore Reserves, Measured and Indicated Resources and Inferred Resources. This would in turn affect certain amounts in the financial statements such as depreciation and closure provisions, which are calculated on projected life of mine figures, and carrying values of mining property and plant which are tested for impairment by reference to future cash flows based on projected life of mine figures.

Development and deferred exploration expenditure

The recoverability of exploration expenditure capitalised within intangible assets is assessed based on a judgement about the feasibility of the project and estimates of its future cash flows. Future gold prices, operating costs, capital expenditure and production are sources of estimation uncertainty. The Group periodically makes judgements as to whether its deferred exploration expenditure may have been impaired, based on internal and external indicators. Any impairment is based on a variety of estimates and opinions and may include estimates of future cash flows. In particular, the Group recognises that, if it decides, or is compelled due to insufficient funding, to withdraw from exploration activity at a project, then the 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 ad foreign exchange rates used in calculating the current value of future expenditures and the projected scale of disturbance that is anticipated at the end of the project life.

Disclosure controls and procedures

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the 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 2015, 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 2015.

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 2015, 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 2015, 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 2015 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 12 August 2016:

Ordinary Shares	656,389,204
Stock Options	49,910,000
Other Warrants	-
Fully diluted ordinary shares outstanding	706,299,204

Fratelli Investments Limited holds 344,063,166 Ordinary Shares in the Group representing 52.42% of the voting shares in issue and is considered to be the controlling party.

Qualified persons statement

The technical information contained within this Management Discussion and Analysis has been reviewed and approved by Michael Hodgson, CEO of the Group. Mr Hodgson is an Economic Geologist by training with over 25 years' experience in the mining industry. He holds a BSc (Hons) Geology, University of London, a MSc Mining Geology, University of Leicester and is a Fellow of the Institute of Materials, Minerals and Mining and a Chartered Engineer of the Engineering Council of UK, recognising him as both a Qualified Person for the purposes of Canadian National Instrument 43-101 and by the AIM Guidance Note on Mining and Oil & Gas Companies dated June 2009.

Cautionary statement on forward-looking information

This management's discussion and analysis contains "forward-looking information" (also referred to as "forward-looking statements") which may include, but is not limited to, statements with respect to the future financial or operating performance of the Group and its projects, the future price of gold or other metal prices, the estimation of mineral resources, the realisation of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration and/or exploitation, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters, and that reflects management's expectations regarding the Group's future growth, results of operations, performance and business prospects and opportunities. Often, but not necessarily always, the use of words such as "anticipate", "believe", "plan", "estimates", "expect", "intend", "budget", "scheduled", "forecasts" and similar expressions have been used to identify these forward-looking statements or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect management's current beliefs and are based on information currently available to management. Except for statements of historical fact relating to the Group, information contained herein constitutes forward-looking statements, including any information as to the Group's strategy, plans or financial or operating performance. Forward-looking statements involve significant risks, uncertainties and assumptions and other factors that may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements include risks related to failure to define mineral resources, to convert estimated mineral resources to reserves, the grade and recovery of ore which is mined varying from estimates, future prices of gold and other commodities, capital and operating costs varying significantly from estimates, political risks arising from operating in Brazil, uncertainties relating to the availability and costs of financing needed in the future, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, uninsured risks and other risks involved in the mineral exploration and development industry. A description of risk factors applicable to the Group can be found in the section "Risks and uncertainties" in this management's discussion and analysis. Although the forward-looking statements contained in this management's discussion and analysis are based upon what management believes to be reasonable assumptions, the Group cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this management's discussion and analysis, and the Group assumes no obligation to update or revise them to reflect new events or circumstances, except in accordance with applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Risks and uncertainties

In addition to the other information set forth in this report, the reader should carefully consider the risk factors below which could materially affect the Group's business, financial condition and/or future results. These risks are not the only risks facing the Group and readers should also refer to the Group's Annual Information Form filed on SEDAR at www.sedar.com and the Group's website at www.serabigold.com which contains additional discussion of risks and in particular risks for investors in the Group's securities. Additionally risks and uncertainties not currently known to the Group or that management currently deems to be immaterial, may also materially affect the Group's business, financial condition and/or future results.

ECONOMIC RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
Changes in gold prices	The profitability of the Group's operations is dependent upon the market price of gold. Gold prices fluctuate widely and are affected by numerous factors beyond the control of the Group. Reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Group's investment in mining properties and increased amortisation, reclamation and closure charges.	***High***	Management closely monitors commodity prices and economic and other events that may influence commodity prices. The Board will use hedging instruments if and when it considers it appropriate.
Currency fluctuations may affect the costs of doing business and the results of operations.	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, UK Pounds and other currencies. 2015 has been a period of significant weakening of the Brazilian Real against the US Dollar.	***High***	Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
Future exploration may not result in increased mineral resources	Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Group discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals.	***Medium***	Management undertakes exploration only following careful evaluation of opportunities and designs programmes that seek to ensure that expenditure is carefully controlled and can be ceased at any time that management considers that the exploration prospect is unlikely to be commercially viable and does not warrant further evaluation.
No guarantee that the Group's Applications for exploration licences and mining licences will be granted. ***Existing exploration licences may not be renewed***	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	***High***	Management maintains on-going dialogue with the DNPM and other relevant government bodies regarding its operations to ensure that such bodies are well informed and also to help ensure that the Group is informed at an early stage of any issues of concern that such bodies may have. The Group employs staff and consultants

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
or approved or converted into mining licences. ***Title to any of the Group's mineral properties may be challenged or disputed***	property expired March 2014. The Group has begun the process of applying for a full mining licence and has received no indication that, provided that the content and form of the application is made in accordance with prescribed regulations, a mining licence would not be granted. At the current time mining operations at the Sao Chico Mine are carried out under a trial mining licence which is renewable annually. 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.		who are experienced in Brazilian mining legislation to ensure that the Group is in compliance with legislation at all times.
The Group has declared commercial production effective as of 1 January 2016 at the Sao Chico gold mine located close to the Group's Palito Mine. There is however no certainty that the Group will be able to establish a commercially viable long term operation at Sao Chico.	The Sao Chico Mine has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource and the Group has declared that commercial production has been attained effective as of 1 January 2016. There is however no NI 43-101 compliant technical report commissioned to date to demonstrate whether or not this resource can be mined on a commercial scale or that any mining activities that might be undertaken will be profitable in the future.	***High***	Management has made its own assessment of the Sao Chico Mine and during 2015 the mine has been in a development phase. Whilst management have noted, during the course of the development mining undertaken in 2015, that the mineralisation is more complex that was initially envisaged, it has now put in place changes to the mine plans and mining methodology to address the issues that were encountered. Management is now confident, based on its experience and knowledge, that the Sao Chico Mine will be a commercially viable mining operation.
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.	Whilst the Group anticipates that it will use cash flow generated from operations at the Palito and Sao Chico Mines to finance further exploration and development activities at the Group's other properties, any cash flow that the Group generates may not be sufficient to meet these future exploration and development activities. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any of the Group's other properties or even a loss of a property interest.	***Low***	Management of capital resources is a high priority for the Group and prior to taking any development decision the Group will seek to ensure, to the greatest extent possible, that the development is fully funded and will manage the development budgets and programmes to minimise and anticipate any potential budget over-runs.
The Group may experience higher costs and lower revenues than	Mining operations often experience unexpected problems during the life of the mine which may result from events of nature, unexpected geological features or mechanical	***Medium***	Management is experienced with similar mining operations and has gained valuable operational experience at both Palito and Sao Chico. Management have

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
estimated due to unexpected problems.	issues that can result in substantial disruption to operations. Such disruption could increase operating costs, delay revenue growth and have implications for the working capital requirements of the business.		during 2015 increased the number of mining areas that can be active at any time at Palito and established increased process capacity levels which it does not intend to be fully utilised at all times. In this way it anticipates that short term operational issues should not be unduly disruptive and that any shortfall can be caught up quickly once the issue is resolved.
Environmental legislation	All phases of the Group's operations are subject to environmental regulation in Brazil. There is no assurance that existing or future environmental regulation will not materially adversely affect the Group's business, financial condition and results of operations.	***Low***	Environmental regulations are constantly changing and governed by both local and global concerns and initiatives. Management seeks to ensure that it adopts sound and compliant environmental principles. The operations of the Group are relatively small and management does not consider the scale of the operations to have a material environmental impact on its surroundings.
Exposure to mining hazards.	The Group is exposed to a number of risks and hazards typically associated with mining operations including environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel. These risks may result in: damage to, or destruction of, the Group's properties or production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability.	***Medium***	The Group's operational teams regularly monitor mining risks, and report to the CEO who in consultation with the Board is responsible, on behalf of the Board, for ensuring appropriate measures are in place for anticipating, and responding to, such matters.
If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Group's financial condition and the results of operations.	Mineral resource estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, and assumptions about operating costs and metal prices, all of which may prove unreliable. The Group cannot be certain that the resource estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals. Future production could differ dramatically from such estimates if mineralisation or formations at the properties were different from those predicted by drilling, sampling and similar examinations.	***Medium***	The Groups mineral resource estimates are prepared by either in-house staff or third party consultants who have considerable experience and as appropriate are certified in accordance with recognised international standards.
The Group is required to obtain	In the ordinary course of business, the Group will be required to obtain and renew	***Low***	The Group maintains good relationships with the appropriate licencing authorities

OPERATIONAL RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
and renew governmental permits and licences in order to conduct mining operations, which can be a costly and time-consuming process.	governmental permits and licences for the operations and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time consuming process. The duration and success of the Group's efforts to obtain and renew permits and licences are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licencing authority. The Group may not be able to obtain or renew permits and licences that are necessary to its operations or the cost to obtain or renew permits and licences may exceed what the Group expects.		and management are responsible for ensuring that conditions are adhered to and that renewals are submitted in a timely and complete manner.
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.	Competition in the precious metals mining industry is primarily for mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Such competition may result in the 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.	***Low***	The Group anticipates that it will be in a position to generate positive cash flow and have re-paid debt by the end of 2016 increasing its relative strength to attract and retain employees and to acquire and develop new properties and projects.

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

OTHER RISKS			
Risk	***Comment***	***Business Impact***	***Mitigation***
Finance risk	Many of the Group's assets at the Palito and Sao Chico mines have been pledged as security to the Sprott Resource Lending Partnership, with whom the Group signed a US$8 million credit arrangement during 2014. The Group is therefore reliant on meeting its loan obligations with Sprott in order to avoid the potential loss of these assets which could arise from the enforcement of this security.	***Low***	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.
Portfolio risk of having two relatively small interdependent operating assets	The Group is reliant on two relatively small revenue-generating assets (the Palito Mine and the satellite operation at the Sao Chico Mine). Whilst any mining issues that affect production at one site should not impact production at the other site, the two mining operations share a single process plant and consequently certain issues affecting the operation of this process plant could have a significant impact on the Group's results.	***Low***	Whilst the Group is reliant on a single process plant the design is such that it is not generally reliant on a single element of the process plant to maintain a level of throughput and therefore gold production. Additionally the two ore sources, Sao Chico and Palito, do not share exactly the same process requirements and therefore management considers that a level of gold processing and gold production could be maintained other than in what it considers to be the most exceptional situations.