



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

**For the three and twelve month periods  
ended 31 December 2016**

**30 March 2017**

**SERABI GOLD PLC**  
**Management's Discussion and Analysis**  
**for the three and twelve month periods ended 31 December 2016**

**Introduction**

This Management's Discussion and Analysis ("MD&A") dated 30 March 2017 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 Company's annual report and audited consolidated financial statements for the twelve month period ended 31 December 2016.

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

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

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

**Overview**

The Company is a United Kingdom registered and domiciled gold mining and development company based in London, England. The Group's principal assets are its gold 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 covering an area of over 50,000 hectares, and lies on the 50 kilometres 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.

The Palito Mine is fully permitted and has a mining licence covering 1,150 hectares which was issued in October 2007. Remediation work commenced in October 2012, to develop the existing underground mine and renovate the process plant. 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 Palito 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 Palito Mine produced 18,000 ounces of gold, which increased in 2015 to approximately 29,800 ounces.

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 70 per cent to 75 per cent of the gold recovered from the Palito Mine ore. The residual tailings from the flotation process, which also recovers over 90 per cent of the copper content of the ore, are then passed to a conventional

Carbon in Pulp (“CIP”) plant which can recover approximately 65 per cent to 70 per cent of the residual gold. Overall gold recovery from the Palito Mine ore is approximately 92 per cent.

The Sao Chico Mine is a high-grade deposit located approximately 30 kilometres, by 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 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 gravity circuit currently recovers up to 60% of the gold. 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. Overall gold recovery from the Sao Chico Mine ore is approximately 93 per cent.

The Group holds other 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 (“Sprott”) to provide development and working capital for Palito and Sao Chico. At 31 December 2017 an amount of US\$1.37 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 (“Fratelli”). The facility was available to be drawn down at any time up to 30 June 2016 and was to provide additional working capital facilities. On 6 January 2016, the Group announced that it had made an initial drawdown of US\$2 million against this convertible loan facility. The Group made no further drawdowns during 2016 and in August 2016, Fratelli exercised its right to convert the outstanding loan of US\$2 million into shares of the Company at a subscription price of UK£0.036. On 15 August 2016, the Company issued 42,312,568 shares of the Company to Fratelli.

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 TWELVE MONTHS ENDING 31 DECEMBER 2016				
	3 months to 31 Dec 2016	12 months to 31 Dec 2016	3 months to 31 Dec 2015 <sup>(1)</sup>	12 months to 31 Dec 2015 <sup>(1)</sup>
	US\$	US\$	US\$	US\$
Revenue	10,472,823	52,593,751	8,042,431	35,086,113
Cost of Sales	7,077,485	32,906,426	4,235,007	23,585,063
Depreciation and amortisation charges	1,832,637	8,384,738	2,236,959	5,840,769
Gross profit	1,562,701	11,302,587	1,570,465	5,660,281
(Loss) / profit before tax	(435,552)	1,870,179	285,221	476,294
Profit / (loss) after tax	2,958,630	4,430,292	(239,811)	(48,738)
Earnings / (loss) per ordinary share (basic)	0.423 cents	0.659 cents	(0.036 cents)	(0.01 cents)
Average gold price received	US\$1,207	US\$1,245	US\$1,105	US\$1,151
			As at 31 Dec 2016	As at 31 Dec 2015
Cash and cash equivalents			4,160,923	2,191,759
Net assets			63,378,973	46,783,645
<b>Cash Cost and All-In Sustaining Cost ("AISC")</b>				
			12 months to 31 Dec 2016	12 months to 31 Dec 2015 <sup>(1)</sup>
Gold production for cash cost and AISC purposes <sup>(3)</sup>			39,390	29,841 <sup>(2)</sup>
Total Cash Cost of production (per ounce)			US\$770	US\$677
Total AISC of production (per ounce)			US\$965	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 and AISC for the 2015 comparative period therefore also only reflect the activities from the Palito Mine.
- (2) Excludes gold production of 2,788 ounces from the Sao Chico Mine which was not in commercial production during 2015.
- (3) 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.

## Key Operational Information

SUMMARY PRODUCTION STATISTICS FOR THE FOUR QUARTERS ENDING 31 DECEMBER 2016 (PALITO AND SAO CHICO)							
		Quarter 1 2016	Quarter 2 2016	Quarter 3 2016	Quarter 4 2016	12 months 2016	12 months 2015
Horizontal development	Metres	2,925	2,941	2,649	2,694	11,209	9,598
Mined ore	Tonnes	37,546	33,606	43,133	44,579	158,864	135,827
	Gold grade (g/t)	11.02	9.56	9.61	8.94	9.74	9.80
Milled ore	Tonnes	36,615	39,402	42,464	40,485	158,966	130,299
	Gold grade (g/t)	8.58	8.17	8.08	7.60	8.11	8.43
Gold production <sup>(1) (2)</sup>	Ounces	9,771	9,896	10,310	9,413	39,390	32,629

- (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 16,716 tonnes of flotation tails

## 2016 Financial Highlights

- Cash Cost for the year of US\$770 per ounce.
- All-In Sustaining Cost for the year of US\$965 per ounce.
- Gross profit from operations of US\$11.30 million for 2016 which represents an improvement of over 99 per cent compared to the same 12 month period of 2015.
- Post tax profit of US\$4.43 million compared with a loss of US\$0.048 million for the same 12 month period of 2015.
- Earnings per share of 0.66 cents for 2016.
- Cash holdings of US\$4.16 million at 31 December 2016 (31 December 2015 : US\$2.2 million)
- Average gold price of US\$1,245 received on gold sales in 2016.
- Negligible borrowings with secured debt facilities outstanding at 31 December of only US\$1.37 million.
- Borrowings of approximately US\$8.50 million settled during the year.
- Unit production costs per tonne reduced by 12.7 per cent in local currency terms year on year.

## 2017 Guidance

- Forecast gold production for 2017 expected to be approximately 40,000 ounces.
- Cost guidance for 2017 of an All-In Sustaining Cost of US\$950 to US\$975 per ounce.

## Post Year End Highlights

- Approximately 6,600 ounces of gold produced during the first two months of 2017.

## 2016 Operational Highlights

- Record annual production of 39,390 ounces of gold, exceeding guidance and representing a 21 per cent improvement compared with the 2015 calendar year.
- Plant capacity increased with installation of third ball mill. Average milled tonnage now approximately 500 tonnes per day (“tpd”).
- Total tonnage mined of approximately 159,000 tonnes, a 17 per cent increase compared with the preceding year.
- Total tonnage processed of approximately 159,000 tonnes, representing a 22 per cent improvement compared with 2015.
- Milled ore grades of 8.11 grammes per tonne (“g/t”) of gold.
- New exploration licences at Sao Chico have been acquired immediately to the east and west of the Sao Chico Mine deposit, offering excellent opportunity to expand the deposit, with exploration already underway.
- Ground induced polarisation (“IP”) survey undertaken at Sao Chico has identified some excellent targets within 500 metres of the current operation.

- The Company has three additional gold discoveries within three kilometres of the Palito deposit providing further potential for near term resource and production growth.
- At Sao Chico the main ramp has now been deepened to the 71mRL, some 170 vertical metres below surface.
- Two new sectors brought into development at Palito, being Senna to the west and Chico da Santa to the east.
- In the Palito Main Zone, the main ramp has now reached the -50mRL, where the G3 vein has been intersected and is ready to be developed.
- Ground induced polarisation (“IP”) survey undertaken at Sao Chico has resulted in some excellent targets within 500 metres of the current operation.

#### **Fourth quarter 2016 Operational Highlights**

- Gold production of 9,413 ounces for the fourth quarter of 2016 (Q3 2016 – 10,233 ounces).
- Mine ore production totalled 44,579 tonnes for the fourth quarter (Q3 2016 – 43,133 tonnes):
  - 34,611 tonnes at a grade of 7.38 g/t of gold from Palito.
  - 9,968 tonnes at a grade of 14.38 g/t of gold from Sao Chico.
- 40,485 tonnes of ore processed through the plant during the quarter for the combined mining operations, at a combined grade of 7.60 g/t of gold.
- 2,624 metres of horizontal mine development completed in the quarter with 1,928 metres completed at Palito and 696 metres at Sao Chico.
- During the quarter, the installation of a new carbon regeneration kiln was completed, this is now effectively regenerating ‘fouled’ carbon and early results suggest significant improvement in gold recoveries.
- At Palito the development of the Senna vein is continuing, with sublevels being developed on 250mRL, 237mRL, 225mRL, 210mRL and ramping down to the 180mRL.
- During the fourth quarter, a total of 2,814 metres of underground diamond drilling was completed across both sites. At Sao Chico, a combination of exploration and evaluation drilling totalling 1,267 metres was completed, mostly drilling the inferred resource blocks below the 86mRL. At Palito, a total of 1,547 metres of mostly exploration drilling was completed, principally drilling the inferred resource blocks on the Senna vein below the 200mRL.
- At the year end, the combined surface stockpiles at Palito and Sao Chico totalled 21,000 tonnes of ore with an average grade of 4.0 g/t of gold.

#### **Outlook and Strategy**

##### **Mining**

The Palito Mine is currently operating across four key mining sectors and the current mining plans for the next two years take into account only eight of the 24 veins that comprise the measured indicated and inferred resources of the Palito Mine. Underground drilling at the Palito Mine is helping to identify mineralisation at depth, making the rate and location of future mine development more efficient and also identifying additional smaller parallel vein structures that could be accessed from existing mine development.

Within the Main Zone of the Palito Mine, the principal G3 vein has been developed to a depth of over 250 metres and over a strike length of approximately 1.5 kilometres. Management consider that there is strong potential for the Palito set of veins to continue southwards through to the Currutela discovery. If this were to be the case the overall strike length would extend to approximately four kilometres. The strike width from the Chico da Santa sector to the east to the Senna sector to the west is approximately 500 metres.

Management considers that the likelihood of being able to continuously replenish and increase the resource potential in and around the Palito Mine remains very high, with good potential to establish satellite mining opportunities close by. The Palito South, Currutela and Piaui discoveries are advanced prospects that provide excellent opportunities for identifying additional resources, which could both enhance current production levels as well as extend the mine life.

At Sao Chico the mine development has, to date, focused on the central ore shoot of the Main Vein. The Sao Chico Mine, whilst contributing to the Group's gold production, was primarily in development during 2015 and the early part of 2016, as the Group sought to ensure that it secured a rolling medium term production plan for up to two years into the future. It was only in the second half of 2016 that the level of stoping activity began to increase, and the long term balance between development mining and stope mining rates only started to be reached at the end of 2016. During 2017 management expects that monthly development and production rates will continue to stabilise. The Group is driving development galleries east and west towards additional ore shoots that have been identified by surface drilling. Management is confident that these ore shoots will provide additional mineable ore at Sao Chico. Underground drilling is being undertaken at Sao Chico for short term operational and mine planning purposes with a second parallel campaign being undertaken to test the deeper resource potential of the deposit.

#### Near-term production growth

Management continues to evaluate the Group's options for expanding its gold production. Mine-site geophysical studies undertaken during the third quarter of 2016 over the Currutela and Piaui discoveries and other areas close to the current Palito Mine have been designed to improve the drill targeting of a planned 2017 surface drilling campaign. Management feel that this drilling campaign could provide sufficient confidence to justify commencement of new mine portals and underground exploration development drives to access and fully evaluate any new discoveries that are considered to be potentially commercially viable. In time these discoveries could become established as new near-mine satellite deposits adding incremental production.

#### Exploration

The Group has also commenced mine-site surface geophysics programmes around the Sao Chico deposit. Management considers that the mineralisation at Sao Chico is hosted in a regional shear zone and is now using geophysics to try and identify additional deposits that may lie along a four kilometre strike zone around the current Sao Chico deposit. Again, in time, this exploration work may lead to the identification of additional near-mine satellite mining operations.

All exploration has been on-hold since the end of 2011 when the Group took the strategic decision to focus its immediate efforts on bringing the Palito Mine back into production. Whilst currently the immediate focus of management is to evaluate the near-mine potential within two to three kilometres of its existing operation, on a wider regional basis the Group is developing plans to progress the evaluation of its whole tenement package. The Group has flown 14,650 hectares of airborne VTEM surveys, but has had limited funds and therefore opportunity, to follow up on many of the areas of interest that were highlighted by this initial aerial survey. Conscious that the exploration tenements it holds are only granted for limited terms, the Group is keen to implement, as and when adequate funding is available, a regional exploration programme to highlight the tenement areas that should be prioritised as having the highest potential. With a number of historic garimpo operations lying within the Group's tenements, management is confident that, in the fullness of time, it will be able to make further discoveries all of which, in time, could have the potential to be additional satellite operations lying within 15 kilometres of its current Palito or Sao Chico operations and contributing further resource and production growth.

Through this combination of near-mine and regional exploration and evaluation, the Group expects to establish a strong pipeline of development opportunities that will allow the Group 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.

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

Management has and will continue to evaluate other value adding, cost effective 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. These opportunities will always be assessed and only considered, if they outrank existing organic growth options.

### **2017 Production Guidance**

The Group is currently forecasting gold production for 2017 to be approximately 40,000 ounces with All-In Sustaining Cost expected to be between US\$950 to US\$975 per ounce. The Group's cost profile is subject to change as a result of exchange rate variations and in particular the exchange rate between the Brazilian Real and the US Dollar.

### **Palito Gold Project – Para State, Brazil**

#### History

The Palito Mine is wholly owned by the Group, through its 100 per cent owned subsidiary Serabi Mineração S.A. The Palito Mine and infrastructure lies some 4.5 kilometres south of the village of Jardim do Ouro and approximately 15 kilometres via road. Jardim do Ouro lies on the Transgarimpeira Road some 30 kilometres 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 300 kilometres 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 per cent, with copper recovery around 93 per cent, providing total production over this period of approximately 100,000 ounces of gold.

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 tonnes per day (200,000 tonnes per 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 25mW hydroelectric generating station located approximately 100 kilometres north-east of the town of Novo Progresso on the Curuá (Iriri) River.

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.

Since restarting its operations the Group has declared total gold production recovered from the Palito Mine operations of approximately 74,500 ounces and has mined a total of approximately 330,000 tonnes at an average grade of 9.72 g/t.



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

- (1) Mineral resources are reported at a cut-off grade of 1.0 g/t.
- (2) Equivalent gold is calculated using an average long-term gold price of US\$700 per ounce, a long-term copper price of US\$2.75 per pound, average metallurgical recovery of 90.3 per cent for gold and 93.9 per cent for copper.
- (3) Addition errors arise through rounding differences.

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.

### **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 25 kilometres 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 it is 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, covering approximately 6,400 hectares, which the Group considers to 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 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 metres of 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 NI 43-101 compliant 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.

Since restarting its operations the Group has declared total gold production recovered from the Sao Chico Mine operations of approximately 15,700 ounces and has mined a total of approximately 64,500 tonnes at an average grade of 9.57 g/t.

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

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

Total gold production for the fourth quarter of 2016 was 9,413 ounces making total gold production for the year of 39,390 ounces representing a 21 per cent improvement on the gold production level for the 2015 calendar year which totaled 32,629 ounces (fourth quarter of 2015 : 7,925 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 throughout 2015 with no ore production in the first quarter of 2015. Mining rates at the Sao Chico Mine in the fourth quarter of 2015 reached levels that allowed the Group to declare commercial production had been achieved from 1 January 2016. The ore generated from the Sao Chico Mine in the 12 months of 2016 has continued to be derived principally from development operations rather than from stoping, although with a number of development headings now established during the third and fourth quarters of 2016, the Company is increasing the level of stoping activity and increasing the tonnage of ore that is being recovered from stope mining.

### **Mining operations**

Performance of the combined mining operations of both the Palito and Sao Chico Mines has resulted in approximately 158,900 tonnes of ore being extracted during 2016 which compares with a total of approximately 135,800 tonnes produced in the same 12 month period of 2015, an improvement of 17 per cent. The majority of the 2015 production was from the Palito Mine, but nonetheless, ore output in 2016 from the Palito Mine was approximately 6,700 tonnes (six per cent) greater than for the same period in 2015. The introduction, at the end of the second quarter of 2016, of increased processing capacity eliminated limitations in the amount of ore that can be processed and allowed the increased levels of ore from the Sao Chico Mine, which supplement the mine production from the Palito Mine, to be accommodated. The mine production for the fourth quarter of 2016 from the Palito Mine of 34,611 tonnes was higher than the corresponding period of 2015 by approximately 7,650 tonnes, representing an improvement of 28 per cent.

Average mined grades achieved for the fourth quarter of 2016 at the Palito Mine were lower than preceding quarters and the corresponding quarter in 2015 as a result of ore being cemented in two stopes. The production shortfall was partially compensated by increased production of development ore albeit at a lower gold grade. Overall the mined grade at Palito averaged 9.62 g/t for the 2016

calendar year, a reduction of four per cent compared with the average grade of 10.05g/t reported for the 2015 calendar year.

At Sao Chico mined grade for the fourth quarter of 2016 is reported as having been at a gold grade of 14.38 g/t which is 48 per cent higher than the mined grade for the same quarter of 2015. This ore grade is however considered to be a one-off event reflecting particularly high-grade areas that were being mined in the quarter and management consider that normal mined grade of the Sao Chico ore will be between approximately 9.0 to 10.0 g/t over the life of the mine. The average grade of ore mined for the 2016 calendar year was 10.12 g/t an improvement of 17 per cent over the reported average grade of 8.66g/t achieved for the 2015 calendar year. This improvement reflects the fact that during 2015 the Sao Chico Mine was primarily in development and higher grade ore from stoping operations only started to be produced in the second half of 2016.

At the end of the fourth quarter of 2016 combined coarse ore stocks from the Palito and Sao Chico Mines were approximately 21,000 tonnes with an average grade of 4.0 g/t of gold (31 December 2015: approximately 16,000 tonnes with an average grade of 4.7 g/t of gold).

#### Palito Mine

Mining activities at the Palito Mine are now very much in regime with approximately 112,000 tonnes of ore mined at a grade of 10.05 g/t of gold during 2015 and a further 118,477 tonnes mined at a grade of 9.62 g/t during 2016.

During 2016, the Company focused on opening up new sectors in the mine as well as continuing to develop the existing sectors. Up until 2016, mining operations at Palito had focused on the G1, G2 and G3 vein complex ("the Main Zone") as well as the Palito West sector. During 2016, the Company continued development of these two sectors but also gave 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 Main Zone, with the Senna zone located to the west. With four sectors now being developed underground at Palito, during the 2016 calendar year the Group has completed approximately 7,350 metres of horizontal development of which approximately 1,900 metres was completed in the fourth quarter of 2016. This represents an increase of eight per cent by comparison with 2015, reflecting the opening of the new sectors, with a total of 6,800 metres of development completed during 2015, of which 1,960 metres was completed in the final quarter of the year.

In the G1, G2 and G3 vein complex, the main ramp has been deepened further and has now reached the -50 metre relative level ("mRL") where the G3 vein has been intersected and is ready to be developed and is the lowest production level in the Palito Mine.

The Senna zone was mined during 2008 and 2009 as a small open pit where approximately 25,000 tonnes of oxide ore with a grade of 3.0 g/t gold was extracted. It is now in underground development and to date has been very successful. Mine development on the 250mRL, 237mRL, 225mRL and 210mRL is on-going with the ramp now being taken down to the 180mRL. All ore being mined from the Senna sector is currently from development activity with stoping yet to start. Based on the ore grades recovered from the open pit operation and deeper exploration drill-holes, management is hopeful of the long term potential within the Senna zone which, whilst part of the main Palito Mine complex, has the benefit of an independent access from surface.

In the Chico da Santa sector, the 114mRL has been developed on the Ipe, Jatoba and Mogno veins. Good grades have been encountered in all three veins, though the veins in the sector tend to be slightly narrower than the veins being mined elsewhere in the Palito Mine.

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 the G3 vein at depth.

Management hopes that subject to available cash resources, a drilling programme can be undertaken during 2017 to evaluate this area further.

Opening up new sectors of the Palito Mine has created options and flexibility, an essential part of any underground mining operation. 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 metre of mine development, which can improve margins and reduce costs.

### 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 were 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 42.0 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 71mRL, approximately 170 metres below surface and will continue to be deepened during 2017. Development has now been undertaken on seven levels and is active on the 100mRL, 86mRL and the new 71mRL, whilst stoping activity is currently focused on the 186mRL, 170mRL 156mRL and 140mRL.

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

The Main Vein or ore zone at Sao Chico can vary from one metre to eight metres wide, but most commonly is a 2.5 metre alteration zone, which itself is structurally continuous. However, the gold grades within this alteration zone are quite erratic and are hosted in three 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. Whilst the alteration zone itself is readily identifiable, the high grade gold zones within this alteration zone are much less so and, as a 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.

The central pay-shoot is the most established of these three 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 the 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 drilling has intersected the Main Vein in all holes and is confirming the belief that the Sao Chico Main Vein, is a regional shear structure. This bodes well for the continuation and strike extension outside the immediate and current mine limits.

## Plant operations

Total gold production for the 2016 calendar year was 39,390 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 12 month period came from the processing of 158,966 tonnes of hard rock ROM ore from the Palito and Sao Chico Mines with an average grade of 8.11g/t of gold (12 months to 31 December 2015: 130,299 tonnes at 8.43 g/t of gold). The total mined ore for the same period was 158,864 tonnes with an average grade of 9.74 g/t of gold (12 months to 31 December 2015: 135,847 tonnes at 9.8g/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 16,716 tonnes of flotation tailings with a grade of 3.23 g/t of gold (12 months to 31 December 2015: approximately 18,000 tonnes) was processed through the cyanidation plant.

The flotation tailings were generated in 2014 as a result of operating the process plant for the first nine months with recovery of gold from flotation only, prior to completion of the CIP circuit which became operational in October 2014.

The Group made 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 tpd to at least 500 tpd. 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. A carbon regeneration kiln was installed, commissioned and became operational during the fourth quarter of 2016. This kiln will regenerate fouled carbon reducing the need to purchase fresh carbon and is also anticipated to enhance gold recoveries.

Since the Group’s operations began, they have been limited by the capacity of its process plant and the Group has not yet been able to run down the surface ore stocks, initially established in 2013 and 2014 when the mine was being re-opened. However, and perhaps more importantly, a third mill provides essential contingency in the processing operations that has never previously existed. 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 match the increased plant capacity. As a result the operation will have milling capacity in excess of the mining rates 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 comfortably accommodate much needed maintenance time, as well as absorbing any unexpected interruptions to operations.

Milling rates for ROM ore have increased by 22 per cent from an average of 357 tpd for the 12 months to 31 December 2015 to an average rate of 435 tpd for the 12 month period to 31 December 2016. The introduction of the third ball mill at the end of June 2016 has had a significant effect on throughput rates. The average daily milling rate was 460 tpd for the second six month period of 2016 compared with an average rate of 417 tpd for the first six months of 2016. The increase in processing rates also reflects the improvements in the operational efficiency of the process plant which have been assisted by the introduction of the gravity circuit and ILR for treating Sao Chico ore, reducing the levels of gold that would otherwise have been 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 406 tpd for the 12 month period to 31 December 2015 to an average rate of 481 tpd for the 12 month period to 31 December 2016.

At 31 December 2016, there were approximately 20,800 tonnes of flotation tails with an average grade of 2.5 g/t of gold (31 December 2015: approximately 37,500 tonnes at 2.5 g/t of gold) waiting to be processed.

		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total	Total
		2016	2016	2016	2016	2016	2015
Horizontal development – Palito	Metres	1,900	1,910	1,607	1,928	7,345	6,800
Horizontal development – Sao Chico	Metres	1,025	1,031	1,042	696	3,794	2,800
Horizontal development – Total	Metres	2,925	2,941	2,649	2,694	11,209	9,600
Mined ore – Palito	Tonnes	26,752	25,198	31,916	34,611	118,477	111,751
	Gold grade (g/t)	11.84	10.48	9.52	7.38	9.62	10.05
Mined ore – Sao Chico	Tonnes	10,794	8,408	11,217	9,968	40,387	24,096
	Gold grade (g/t)	9.00	6.81	9.88	14.38	10.12	8.66
Mined ore – Total	Tonnes	37,546	33,606	43,133	44,579	158,864	135,847
	Gold grade (g/t)	11.02	9.56	9.61	8.94	9.74	9.8
Milled ore	Tonnes	36,615	39,402	42,464	40,485	158,966	130,299
	Gold grade (g/t)	8.58	8.17	8.08	7.60	8.11	8.43

(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 16,716 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 an additional 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, greatly enhanced the understanding of the ore body and facilitated mine planning for 2016 and 2017. It built on the results and understanding gained from the 2011 and 2013 drilling campaigns and reported 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](http://www.serabigold.com) and has been filed on SEDAR. The understanding of the orebody has also been assisted by paragenetic studies on mine ore samples 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 Approvimento 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 all of which have been submitted to the relevant government bodies.

Two geophysical exploration programmes commenced during the second half of 2016, one at each mine site. The first of these programmes involved 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 and other areas of interest close to the Palito Mine. DHEM provides data to model the likely geographical location and extent of the sulphide rich zones intersected in the 2011 drill holes. The results are expected to generate better targets for drilling in a follow-up campaign planned for 2017. The on-site

programme has been completed and the data readings interpreted and collated and correlated with existing geological data.

The second programme is being undertaken at Sao Chico using surface induced polarisation (“IP”) and, whilst it includes areas immediately around the Sao Chico Mine, it is also being undertaken in some of the recently acquired tenements around Sao Chico. The programme had to be suspended during the fourth quarter due to poor weather and is expected to re-commence in the second quarter of 2017. 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.

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**

With the addition of the new tenement to the west and south at Sao Chico, the Jardim do Ouro exploration area (“JDO Project”) covers a total area of approximately 42,000 hectares, incorporating the Palito and Sao Chico mining licence areas. The Palito mining licence was granted on 23 October 2007 covering an area of 1,150 hectares, whilst the Sao Chico licence is in the process of being converted into a full mining licence. The remainder of the tenement area comprises exploration licences either granted or in application. 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 14,650 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 undertaken during 2015 and 2016, in conjunction with the 7,000 metre surface drilling programme, has provided 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 conducted DHEM in close proximity to the Palito Mine and commenced 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 activities on each of these projects have 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 31 December 2016 compared to the three month period ended 31 December 2015

The calendar year 2016 represents the first 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 12 month periods ended 31 December 2016 with the reported results for the three and 12 month periods ended 31 December 2015.

The gross profit of US\$1,102,429 for the financial quarter ended 31 December 2016 can be analysed as follows:

	Three months ended December 2016	Three months ended December 2015	Variance
Concentrate sold (Ounces)	3,695	4,815	(1,120)
Bullion Sold (Ounces)	5,364	1,855	3,509
<b>Total Ounces</b>	<b>9,059</b>	<b>6,780</b>	<b>2,279</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Revenue from Ordinary Activity</b>			
Gold (in Concentrate)	3,299,439	5,395,967	(2,096,528)
Copper (in Concentrate)	600,070	609,641	(9,571)
Silver (in Concentrate)	26,428	37,881	(11,453)
<b>Total Concentrate Revenue</b>	<b>3,925,937</b>	<b>6,043,489</b>	<b>(2,117,552)</b>
Gold Bullion	6,546,886	1,998,942	4,547,944
<b>Total Sales</b>	<b>10,472,823</b>	<b>8,042,431</b>	<b>2,430,392</b>
<b>Costs of sales</b>			
Operational costs	(6,580,040)	(3,281,243)	(3,298,797)
Shipping costs	(535,237)	(510,884)	(24,353)
Treatment charges	(152,959)	(345,645)	192,686
Royalties	(269,521)	(97,235)	(172,286)
Amortisation of Mine Property	(1,193,660)	(1,689,113)	495,453
Depreciation of Plant & Equipment	(638,977)	(547,846)	(91,131)
<b>Total Operating costs</b>	<b>(9,370,394)</b>	<b>(6,471,966)</b>	<b>(2,898,428)</b>
<b>Gross Profit</b>	<b>1,102,429</b>	<b>1,570,465</b>	<b>(468,036)</b>

#### Revenue

Sales are only recognised when the risks and rewards of ownership of the goods are transferred to the buyer. During the month of September 2016, the Group entered into a new contract for the sale of its copper/gold concentrate. Under this new contract the sale is recognised when the goods depart from



Brazil, whilst under the Group's previous contract the sale was only recognised when the goods arrived at the purchasers premises. For the sales of gold bullion the sale occurs when the Group enters into a binding sales agreement and completes the delivery of the gold doré or gold bullion in accordance with that agreement.

For the three month period ended 31 December 2016 the Group generated US\$10,472,823 (2015: US\$8,042,431) in revenue by selling an estimated 3,695 ounces of gold from the sale of 460 tonnes of copper concentrate (2015: 4,815 ounces from 640 tonnes) as well as 5,364 ounces of gold in the form of gold bullion, (2015: 1,855 ounces). The Sao Chico Mine announced commercial production on 1 January 2016 therefore all revenue earned from the sale of bullion produced in the Sao Chico during the fourth quarter of 2015 was capitalised. During this fourth quarter of 2015 the Group capitalised US\$1,066,269 in revenue representing the sale of 971 ounces of gold.

During the three months to 31 December 2016 the Group produced 471 wet tonnes of copper/gold concentrate, containing an estimated 3,397 ounces; (during the three months to 31 December 2015: the Group produced 580 wet tonnes of copper/gold concentrate, containing 4,688 ounces of gold). The unsold material is held as inventory.

The Group also recognised revenue for 1,855 ounces of gold bullion generating total revenue of US\$1,998,942 during the fourth quarter of 2016, (fourth quarter of 2015: sale of 1,855 ounces for revenue of US\$1,998,942). However, the revenue recognised in 2015 does not include US\$1,066,268 earned from the sale of 971 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

Operating costs of US\$6.58 million, (three months period to 31 December 2015: US\$3.28 million), comprise all mining costs at both of the Palito and Sao Chico Mines, plant processing costs, as well as all general site costs incurred on both mine sites during the period to produce the final product sold as per the table below. During the same period in the previous year all mining and processing costs associated with the Sao Chico Mine were capitalised as the mine had not reached commercial production which partially explains the reason for operating costs increasing by 102 per cent for the three month period ended 31 December 2016 in comparison to the same period in the previous year. The average exchange rate for the three month period ended 31 December 2016 was approximately US\$1.00 to BrR\$3.31 in comparison to an average exchange rate of US\$1.00 to BrR\$3.89 during the same three month period in 2015, a decrease of fifteen percent. The table below shows a breakdown of operating activities and operating costs.

	<b>Three months ended December 2016</b>	<b>Three months ended December 2015</b>	<b>Variance</b>	<b>Variance %</b>
Tonnes Mined	46,021	26,953	19,068	71%
Tonnes Milled	40,485	28,986	11,499	40%
Ounces Produced	9,490	7,141	2,349	33%
	<b>Three months ended December 2016</b>	<b>Three months ended December 2015</b>	<b>Variance</b>	<b>Variance %</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>%</b>
<b><u>Operating Costs</u></b>				
Labour	2,829	1,564	1,265	81%
Mining consumables & Maintenance	2,237	828	1,409	170%
Plant Consumables	921	554	367	66%
General Site Costs	592	334	258	77%
	<b>6,580</b>	<b>3,281</b>	<b>3,299</b>	<b>101%</b>

The production variances reflect the Sao Chico Mine not being in commercial production during the fourth quarter of 2015 and therefore its results not being reported for that quarter.

This is also the primary reason for the increase in labour costs, mining consumables and maintenance costs, plant consumables and general site costs between the fourth quarter of 2015 and the corresponding period in 2016. The fifteen per cent strengthening of the Brazilian Real to the US Dollar (Q4 2015 average exchange rate: BR\$3.89 per US\$ compared to Q4 2016: BR\$3.31 per US\$) has also negatively impacted operating costs between the two periods. During the fourth quarter of 2016 the Group also incurred increased maintenance costs as a result of repairs to underground equipment and an increase in general preventative maintenance costs as all the machinery is an extra year older. A detailed analysis of operational costs is included in the 12 month analysis below.

#### Other costs of Sales

Shipping costs have increased by five per cent for the fourth quarter of 2016 in comparison to the same period during 2015 even though the Group shipped one hundred and eighty tonnes less of copper concentrate in the period. This variance arises from the timing of the recording of shipping costs during the third quarter of 2016.

Treatment Charges have decreased by 54 per cent between the fourth quarter of 2016 in comparison to the same period during 2015 as the Group sold one hundred and eighty tons less of copper concentrate during the fourth quarter of 2016 in comparison to the fourth quarter of 2015.

Royalty payments which increased from US\$97,325 in the fourth quarter of 2015 to US\$269,521 in the fourth quarter of 2016, comprise statutory levies payable in Brazil. Rates are uniform across all mining operations and currently comprise a 1 per cent royalty on gold production and a 2 per cent royalty on copper production. Royalty costs increased as a result of the Group selling 34 per cent more ounces of gold during the fourth quarter of 2016 in comparison to the fourth quarter of 2015. In addition, since Sao Chico announced commercial production on 1 January 2016, the Group is now reporting as an operating expense the additional three per cent 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 of the total estimated mineable resource at each of the Palito and Sao Chico Mines. The base carrying cost is adjusted to include a provision for future mine development costs for each of these operations. The total amortisation charge for the three months ended 31 December 2016 is US\$1,193,760 (three months to 31 December 2015: US\$1,689,113). 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.

There was also a depreciation charge of US\$638,977 charged during the fourth quarter of 2016 on mining plant and equipment, (fourth quarter of 2015: US\$547,846). The increase is primarily due to the acquisition of additional equipment including mobile fleet acquired for both the Palito and Sao Chico Mines during 2016.

The Group has recognised an operating profit before interest and other income of US\$317,027, (three months to 31 December 2015: profit of US\$114,347) after incurring US\$1,179,345 in administrative expenses, (three months to 31 December 2015: US\$1,355,099) as well as a charge of US\$101,071 on share based payments, (three months to 31 December 2015: US\$101,019). The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the three months to 31 December 2016 is in respect of options granted between January 2012 and 31 December 2016. During the three months ended 31 December 2016 the Group also recognised a gain on the disposal of fixed assets of US\$34,742; there was no disposal of assets during 2015.

The decrease in administration expenses of US\$175,754 for the fourth quarter of 2016 includes one-off costs of US\$125,610 relating to the arrangement of the Sprott loan incurred in the fourth quarter of 2015.

The Company recorded a foreign exchange loss of US\$135,351 in the three month period to 31 December 2016 which compares with a foreign exchange gain of US\$99,958 recorded for the three months ended 31 December 2015. These foreign exchange gains and losses primarily relate to the settlement of foreign currency liabilities from Brazil and therefore reflect the devaluation of the Brazilian Real and the revaluation of cash holdings of the Company in currencies other than US Dollars as at the period end. The exchange movements on cash holdings do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest expense for the three month period to 31 December 2016 was US\$617,228 compared with income of US\$70,916 for the same period in 2015. An analysis of the composition of these charges is set out in the table below:

	<b>Quarter Ended December 2016</b>	<b>Quarter Ended December 2015</b>
	<b>US\$</b>	<b>US\$</b>
Interest on secured loan	32,674	112,055
Expense on exercise of gold call options	131,106	–
Settlement of hedging arrangements	422,173	–
Interest on trade finance facility	–	83,592
Financing fees for secured loan	–	128,000
Asset finance charges	31,739	3,084
	<b>617,692</b>	<b>326,731</b>
Settlement of hedging arrangements	–	(327,329)
Gain on revaluation of warrants	–	(61,377)
Gain on revaluation of derivatives	–	(8,661)
Interest income	(464)	(280)
Net finance expense / (income)	<b>617,228</b>	<b>(70,916)</b>

The interest on the secured loan of US\$32,674 is the cost of three months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership. During the fourth quarter of 2015 the average principal outstanding during the quarter was higher.

The expense on the exercise of the gold call options of US\$131,106 relates to 1,250 ounces of gold exercised a premium over their strike price of US\$107.30.

The finance cost on gold trading of US\$422,173 (three months to 31 December 2015: income of US\$327,339) is actual and estimated variation expected 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.

Asset finance charges relate to mining equipment acquired under supplier credit terms. The lease terms range from a twelve month period to a twenty four month period and bear interest at a rate between 6.7% and 6.85% per annum. Lease interest charges are reducing as the capital element of the financing is paid down in monthly instalments.

**Twelve month period ended 31 December 2016 compared to the twelve month period ended 31 December 2015**

The Group has recognised a gross profit for the 12 month period ended 31 December 2016 of US\$11,302,587 (2015: US\$5,660,281) and an operating profit of US\$6,023,906 (2015: US\$876,436).

The gross profit of US\$11,302,587 for the period ended 31 December 2016 can be analysed as follows:

	Year ended December 2016	Year ended December 2015	Variance
Concentrate sold (Ounces)	17,569	20,702	(3,133)
Bullion Sold (Ounces)	20,992	8,284	12,708
<b>Total Ounces</b>	<b>38,561</b>	<b>28,986</b>	<b>9,575</b>
<b>Revenue from Ordinary Activity</b>	<b>US\$</b>	<b>US\$</b>	<b>Variance</b>
Gold (in Concentrate)	23,676,825	22,970,460	706,364
Copper (in Concentrate)	2,498,933	2,340,609	158,324
Silver (in Concentrate)	192,918	142,349	50,569
<b>Total Concentrate Revenue</b>	<b>26,268,676</b>	<b>25,453,418</b>	<b>915,257</b>
Gold Bullion	26,225,075	9,632,695	16,592,381
<b>Total Sales</b>	<b>52,593,751</b>	<b>35,086,113</b>	<b>17,507,638</b>
<b>Costs of sales</b>			
Operational costs	(28,962,200)	(20,053,318)	(8,098,882)
Shipping costs	(1,889,111)	(2,054,896)	165,785
Treatment charges	(1,085,039)	(1,074,428)	(10,611)
Royalties	(970,076)	(402,421)	(567,655)
Amortisation of Mine Property	(6,308,840)	(4,540,432)	(1,768,408)
Depreciation of Plant & Equipment	(2,075,898)	(1,300,337)	(775,561)
<b>Total Operating costs</b>	<b>(41,291,164)</b>	<b>(29,425,832)</b>	<b>(11,865,332)</b>
<b>Gross Profit</b>	<b>11,302,587</b>	<b>5,660,281</b>	<b>5,642,306</b>

Revenue

Sales are only recognised when the risks and rewards of ownership of the goods are transferred to the buyer. During the month of September 2016, the Group entered into a new contract for the sale of its copper/gold concentrate. Under this new contract the sale is recognised when the goods depart from Brazil, whilst under the Group's previous contract the sale was only recognised when the goods arrived at the purchasers premises.

During the 12 month period ending 31 December 2016 the Group recognised total sales of US\$52,593,751 (2015: US\$35,086,113). The sales can be separated between sales of copper/gold concentrate of US\$26,268,676 (2015: US\$25,453,418) and sales of gold bullion of US\$26,225,075 (2015: US\$9,632,695). Included within the Group's total concentrate revenue of US\$26,268,676 in 2016 is US\$636,558 relating to sales recognised and recorded during 2015, but which were not settled until during the first quarter of 2016. Revenue for sales made during the fourth quarter of 2015 were initially estimated using the year end gold price. However as the gold price increased during Q1 2016 the resulted in this increased revenue for the Group of US\$636,558 which was reported in the results of the first quarter of 2016.

During 2016 the Group produced 2,039 wet tonnes of copper/gold concentrate, (containing an estimated 17,571 ounces of gold). Revenue has been recognised for sales of 2,240 tonnes, (containing an estimated 19,445 ounces). During the 12 months ended 31 December 2015 the Group produced 2,188 wet tonnes of copper/gold concentrate, (containing an estimated 20,984 ounces of gold). However sales were recognised on 2,200 tonnes sold containing 20,702 ounces. All unsold material is held as inventory.

For the year ended 31 December 2016, the Group also recognised revenue for 20,992 ounces of gold bullion earning total revenue of US\$26,225,075 (2015: revenue of US\$9,632,695 from the sale of 8,284

ounces). However, the 2015 recognised revenue does not include revenue of US\$3,337,071 earned from the sale of 2,955 ounces of bullion from ore produced from the Sao Chico Mine. For the year ended 31 December 2015, this income had been treated as capitalised income and set off against capitalised costs of the Sao Chico Mine development as the Sao Chico operation had not attained commercial production until 1 January 2016.

#### Operating Costs

Operating costs for the 12 months ended 31 December 2016 of US\$28,962,200 (2015: US\$20,053,318) comprise all mining costs at both the Palito and Sao Chico Mines, plant processing costs, as well as all general site costs incurred on both mine sites during the 12 month period to produce the final product sold as shown in the table below. During the same period in the previous year all mining and processing costs associated with the Sao Chico Mine were capitalised as the mine had not reached commercial production. Production activity and operating costs for the full year are broken down in the table below:

	Year ended December 2016	Year ended December 2015	Variance	Variance %
Tonnes Mined	161,086	111,751	49,722	44%
Tonnes Milled	158,966	114,131	44,835	39%
Ounces Produced	39,390	29,841	9,549	32%
	Year ended December 2016	Year ended December 2015	Variance	Variance %
	US\$'000	US\$'000	US\$'000	%
<b><u>Operating Costs</u></b>				
Labour	13,843	10,020	3,823	38%
Mining consumables & Maintenance	7,902	5,010	2,892	58%
Plant Consumables	4,197	3,080	1,117	36%
General Site	3,020	1,943	1,077	55%
	28,962	20,053	8,909	44%

Note: All production numbers in the table above relate to operational activity included within the income statement and does not consider 2015 activity which was capitalised. The Sao Chico Mine achieved commercial production on 1 January 2016 therefore all activity and costs associated with the Sao Chico Mine during 2015 was not included in the numbers above including tonnes mined of 23,658 tonnes milled of 10,307 and production of 3,163 ounces of gold.

As shown in the table above, the Group has extracted 44 per cent more tonnes from the mine in 2016 in comparison to 2015 as well as milling 39 per cent more tonnes which has resulted in the Group producing 32 per cent more gold in the form of both copper concentrate and gold bullion. This increase in activity has resulted in an increase on operating costs year on year of 44 per cent.

#### Labour Costs

Labour costs show an increase of 38 per cent as a result of labour costs associated with the Sao Chico Mine being capitalised during 2015 and now being recognised in the income statement. In addition, Brazilian employees were awarded an average salary increase of 10 per cent in May 2016 as part of the national collective agreement.

#### Mining Costs

For the year ended 31 December 2016 operating costs include all mining costs relating to 161,473 tonnes extracted from the mine (2015: 111,751 tonnes) adjusted for movements in the value of the Group's various stockpiles of material in process or awaiting sale. For the year ended 31 December 2016 costs relate to 121,086 tonnes extracted from the Palito mine (2015: 111,751 tonnes extracted) and 40,387 tonnes extracted from the Sao Chico Mine. In 2015 23,658 tonnes of ore were extracted from the Sao Chico mine but, as the Sao Chico Mine did not achieve commercial production until 1 January 2016, all costs associated with the Sao Chico Mine during 2015 were capitalised. Mining costs have increased by 58 per cent year-on-year even though productivity only increased by 44 per cent. The primary reason for this increase in mining costs is that both reactive and preventative maintenance costs have increased

during 2016 compared to 2015 as all the Groups underground equipment is a year older and required more reactive maintenance. During 2016, the Group also rented some transport trucks and other underground mining equipment as a result of the increase in activity, for which there was no corresponding cost in the previous year. However, as a result of this increase in these rental and maintenance costs, during the second half of 2016 the Group replaced a lot of the older equipment by purchasing new underground equipment including two new drill rigs, two new loaders, an excavator and two new 20 tonne transport trucks.

#### Plant processing costs

For the year ended 31 December 2016, the plant processing costs relate to 158,966 tonnes of milled ore in comparison to 114,131 tonnes in 2015. During 2015 the plant also processed 10,307 tonnes of ore relating to the Sao Chico Mine the costs of which were capitalised and therefore not included on the income statement. Plant milling activity increased by 39 per cent, ounces produced increased by 32 per cent and the increased costs associated with the plant are roughly in line with this at 36 per cent. During 2016 the Group took the decision to power the process plant at the Palito site using electricity produced from its own diesel generators instead of taking electricity from the power grid which was felt to lack the reliability required for continuous processing of ore at an operationally efficient rate. These increased power costs cancelled out some of the other processing savings that the Group had generated during 2016.

#### Site Costs

Site costs relating to all general support costs at both the Palito and Sao Chico Mines have increased by 55 per cent reflecting costs associated with the Sao Chico Mine no longer being capitalised. The Group also incurred increased costs on rental equipment during 2016, primarily relating to the rental of three diesel generators and electrical distribution equipment, costs which the Group did not incur in 2015.

Shipping costs of US\$1,889,111 (2015: US\$ 2,054,896), show a decrease of 8 per cent for the year ended 31 December 2016 in comparison to the same period in the previous year. This covers domestic road and river freight in Brazil for the copper/gold concentrate and international sea freight from Belem to the final destination. For the first nine months of the year the Group sold its copper concentrate product to a refinery in Germany however from September 2016 the material was sent to refineries based in Japan. The shipping charges are recognised as soon as the goods depart from the port of Belem. During the 12 month period ended 31 December 2016 2,240 tonnes departed from the port of Belem, in comparison to the 2,220 tonnes which departed from Belem in the previous year. The small decrease in shipping costs of 8 per cent is principally the result of the movement in the average exchange rate, which for the 12 month period ended 31 December 2016 was approximately US\$1.00 to BrR\$3.48 in comparison to an average exchange rate of US\$1.00 to BrR\$3.33 during the same 12 month period in 2015, a strengthening of 4 per cent.

Treatment Charges of US\$1,085,039 (2015: US\$1,074,428) are the costs for the processing of copper/gold concentrate and include US\$991,363 of charges levied by the refinery, (2015: US\$991,363), and US\$78,515 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group (2015: US\$83,065). The treatment charges of copper concentrate levied by the refinery are a best estimate based on volume and values of sales achieved during the period and are subject to amendment with the final invoiced treatment charges usually agreed approximately three months after the arrival of the goods.

Royalty payments of US\$970,076, (12 months to 31 December 2015: US\$402,421) comprise statutory levies payable in Brazil on both copper/concentrate sales as well as bullion sales. Rates are uniform across all mining operations and currently comprise a 1 per cent royalty on gold production and a 2 per cent royalty on copper production. Royalty charges on shipments of copper/gold concentrate are incurred as soon as the goods they relate to depart from the port of Belem. During the 12 month period ended 31 December 2016 the royalty charge on copper/gold concentrate was US\$247,111 in comparison to US\$274,410 in 2015. Royalties on bullion sales totalled US\$282,830 for the 12 month period to 31 December 2016 in comparison to US\$115,009 in 2015. This increase in royalty costs in part reflects royalty payments now being expensed rather than capitalised on the sale of Sao Chico bullion in 2016.

In addition, Sao Chico gold production is also subject to an additional three per cent royalty on the production from the Sao Chico Mine to a former owner of that property, creating an additional expense of US\$440,134.

Charges for the amortisation of mine property are calculated by reference to the depletion during the period of the total estimated mineable resource at each of the Palito and Sao Chico Mines. The base carrying cost is adjusted to include a provision for future mine development costs for each of these operations.

The total amortisation charge for the Palito and Sao Chico Mines for the 12 month period ended 31 December 2016 is US\$6,107,837 (2015: US\$4,405,385).

The charge reported in the income statement is, however, adjusted to reflect the level of sales rather than the level of production with part of the depreciation being carried in inventory and released to the Income Statement when the goods are sold. The increase of US\$1,768,508 between the charge recorded in the Income Statement for 2016 in comparison to the previous year is primarily because Sao Chico had not achieved commercial production during 2015. As a result there was no amortisation charge in relation to Sao Chico recorded in the Income Statement. In addition, the change in the contract arrangement for the sale of copper/gold concentrate has accelerated the recognition of sales revenue and reduced inventory levels resulting, in turn, in a one-off release of an amortisation charge carried as part of the inventory valuation to the Income Statement.

There was also a depreciation charge of US\$2.07 million charged during 2016 on mining plant and equipment (2015: US\$1.30 million). The Group purchased new mine, production and mobile equipment totalling US\$3.92 million during 2016. It is the company's policy to charge depreciation to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment beginning in the month subsequent to the month that the item of plant and equipment is purchased.

The Group has recognised an operating profit before interest and other income of US\$6,023,906 (2015: profit of US\$876,436) after incurring US\$4,962,524 in administrative expenses, (2015: US\$4,379,770) as well as a charge of US\$350,899 on share based payments, (2015: US\$404,075). 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 2016 is in respect of options granted between January 2012 and 31 December 2016.

Administration expenses have increased by US\$582,754 from US\$4,379,770 in 2015 to US\$4,962,524, primarily because during 2016 the Group recorded an expense of US\$517,108 for old tax settlements dating back to the period between 2006 and 2011. During 2015 the Group recorded an expense of US\$106,804 in relation to similar agreements. There was also a small general increase in administrative costs as a result of increased personnel and related costs for providing support to the increased level of operational activities and the average 10 per cent salary increase from May 2016 as a result of the national collective agreement in Brazil.

The Group recorded a foreign exchange loss of US\$236,619 in the 12 month period to 31 December 2016 which compares with a foreign exchange loss of US\$71,280 recorded for the same period in 2015. These foreign exchange gains and losses primarily relate to the settlement of foreign currency liabilities from Brazil reflecting the devaluation of the Brazilian Real and the revaluation of the cash holdings of the Company in currencies other than US Dollars as at the period end. The exchange movements on cash holdings do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest charges for the 12 month period to 31 December 2016 were US\$3,917,108 compared with a net gain of US\$328,862 for 2015. An analysis of the composition of these charges is set out in the table below:

	Twelve months ended 31 December 2016 US\$	Twelve months ended 31 December 2015 US\$
Interest on secured loan	281,333	586,667
Charge on revaluation of derivatives	1,474,618	–
Amortisation of fair value of derivatives	355,663	–
Interest on trade finance facility	294,398	364,656
Financing fees for secured loan	–	526,500
Interest on convertible loan	137,049	22,797
Settlement of hedging arrangements	1,338,426	–
Asset finance charges	36,194	32,388
	<hr/> 3,917,681	1,533,008
Finance income	–	(674,520)
Gain on revaluation of warrants	–	(332,173)
Gain on revaluation of derivative	–	(196,330)
Interest income	(573)	(1,123)
Net finance expense	<hr/> 3,917,108	<hr/> 328,862

The interest on the secured loan of US\$281,333, (2015: US\$586,667) is the cost of 12 months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership LLP (“Sprott”)

The charge on the revaluation of derivatives of US\$1,474,618 includes the cost arising from the call options granted to Sprott (US\$432,600) which were exercised during the year and the equity element of the convertible loan stock (US\$966,018).

The interest on trade finance loans of US\$256,898 (2015: US\$364,656) 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 interest expense on convertible loan stock relates to the interest on the unsecured convertible loan facility provided by Fratelli. The initial loan facility was for up to US\$5 million and carried interest at a rate of 12 per cent per annum. An initial US\$2 million was drawn down on 5 January 2016. Fratelli had the right to convert the loan into new Ordinary Shares of Serabi at a price of 3.6 pence per new Ordinary Share. During August 2016, Fratelli exercised their right to convert the US\$2 million loan into Ordinary Shares of 0.5 pence each in the Company. The amount of interest incurred during the 2016, before Fratelli exercised the right to convert its US\$2 million convertible loan into Ordinary Shares, was US\$137,049.

The finance cost on gold hedging arrangements of US\$1,338,426 (12 months to 31 December 2015: income of US\$674,520) is actual and estimated variations arising from short term movements in the gold price between the contractual pricing arrangements with the end purchaser of the copper/gold concentrate and the prices fixed when the Group draws down on the trade finance arrangement that it had in place.

Asset finance charges relate to mining equipment acquired under supplier credit terms. The lease terms range from a 12 month period to a twenty four month period and bear interest at a rate between 6.7 per cent and 6.85 per cent per annum. Lease interest charges are reducing as the capital element of the financing is paid down in monthly instalments.



Summary of quarterly results	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	31 December	30 September	30 June	31 March
	2016	2016	2016	2016
	US\$	US\$	US\$	US\$
Revenues	10,472,823	16,209,753	14,232,086	11,679,089
Operating expenses	(7,077,485)	(10,216,119)	(8,923,316)	(6,689,506)
Amortisation of mine property	(1,193,660)	(2,292,006)	(1,845,601)	(977,573)
Depreciation of plant and equipment	(638,977)	(615,155)	(582,612)	(239,154)
Gross profit	1,562,701	3,086,473	2,880,557	3,772,856
Administration expenses	(1,179,345)	(1,265,828)	(1,387,719)	(1,129,632)
Option costs	(101,071)	(101,072)	(25,640)	(123,116)
Gain on disposal of asset	34,742	–	–	–
Operating profit	317,027	1,719,573	1,467,198	2,520,108
Exchange	(135,351)	(28,860)	(31,609)	(40,799)
Net finance (expense) / income	(617,228)	(947,210)	(1,374,665)	(978,005)
(Loss) / profit before taxation	(435,552)	743,503	60,924	1,501,304
Income tax benefit / (expense)	3,394,182	(278,023)	(402,407)	(153,639)
Profit / (loss) after taxation	2,958,630	465,480	(341,483)	1,347,665
Profit / (loss) per ordinary share (basic)	0.423 cents	0.071 cents	(0.052) cents	0.205 cents
Deferred exploration costs	9,990,789	9,731,144	9,550,074	9,324,314
Property, plant and equipment	45,396,140	44,860,837	46,927,210	42,123,789
Total current assets	20,454,525	22,798,838	26,427,165	23,092,061
Total assets	75,841,454	77,390,819	82,904,449	74,540,164
Total liabilities	12,462,481	16,648,980	25,336,298	22,015,609
Shareholders' equity	63,378,973	60,741,839	57,568,151	52,524,555

Summary of quarterly results	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	31 December	30 September	30 June	31 March
	2015	2015	2015	2015
	US\$	US\$	US\$	US\$
Revenues	8,042,431	8,365,289	11,194,178	7,484,215
Operating expenses	(4,235,007)	(6,302,006)	(8,188,141)	(4,859,909)
Amortisation of mine property	(1,689,113)	(564,045)	(1,322,374)	(964,901)
Depreciation of plant and equipment	(547,846)	(307,531)	(292,140)	(152,819)
Gross profit	1,570,465	1,191,707	1,391,523	1,506,586
Administration expenses	(1,355,099)	(871,153)	(1,248,013)	(905,505)
Option costs	(101,019)	(101,019)	(101,018)	(101,019)
Operating profit	114,347	219,535	42,492	500,062
Exchange	99,958	(364,869)	(35,032)	228,663
Net finance income / (expense)	70,916	259,510	(121,961)	(537,327)
Profit / (loss) before taxation	285,221	114,176	(114,501)	191,398
Income tax expense	(525,032)	–	–	–
Profit / (loss) after taxation	(239,811)	114,176	(114,501)	191,398
Profit / (loss) per ordinary share (basic)	(0.036) cents	0.017 cents	(0.017) cents	0.029 cents
Deferred exploration costs	8,679,246	9,018,777	10,857,942	9,769,327
Property, plant and equipment	40,150,484	39,181,535	48,480,812	47,508,148
Total current assets	17,663,339	20,423,920	23,414,155	22,792,315
Total assets	66,493,069	68,624,232	83,112,909	80,069,790
Total liabilities	19,709,424	22,394,854	25,102,757	23,872,348
Shareholders' equity	46,783,645	46,229,378	58,010,152	56,197,442

## Liquidity and Capital Resources

### Non-Current Assets

On 31 December 2016, the Group's net assets amounted to US\$63.38 million, which compares to US\$46.78 million as reported at 31 December 2015. This increase primarily reflects the effect of the strengthening of the Brazilian Real between 31 December 2015 when the rate was BrR\$3.9042 to US\$1.00, and 31 December 2016, when the rate was BrR\$3.2585 to US\$1.00. Whilst the Group has reported a profit after taxation of US\$4.43 million, it has also incurred a gain of US\$17.40 million on the re-translation of the assets of its Brazilian operations in the 12 month period since 31 December 2015.

Non-current assets totalling US\$58.64 million at 31 December 2016 (31 December 2015: US\$48.83 million), are primarily comprised of property, plant and equipment, which as at 31 December 2016 totalled US\$45.40 million (31 December 2015: US\$40.15 million as well as development and deferred exploration costs with a value of US\$10.00 million (31 December 2015: US\$8.68 million). The Group has also established a provision for a deferred tax asset of US\$3.25 million.

The Group's Brazilian subsidiary, Serabi Mineracao SA has historic tax losses which can be utilised in future years to reduce the income tax liability that will be assessed on future profits. In both 2015 and 2016, SMSA reported taxable profits and as the Board of Serabi considers that there is reasonable certainty that SMSA will continue to make profits in the future, the Group is recognising a deferred tax asset for the first time in the current year.

The Group's property, plant and equipment include the value of its mine assets at 31 December 2016 of US\$31.79 million (2015: US\$21.47 million). During the year, the Group transferred assets with a value of US\$9.37 million from assets in construction into mine assets, primarily reflecting the Sao Chico Mine having achieved commercial production from 1 January 2016. Assets in construction valued as at 31 December 2016 were valued at US\$23.83 million (2015: US\$11.23 million). During 2016 the Group also transferred US\$558,895 from deferred exploration costs to mine assets.

The Group owns land, buildings, plant and equipment with a cost of US\$10.78 million (31 December 2015: US\$7.44 million). During 2016 the Group has acquired additional plant and machinery to the value of US\$3.92 million and capitalised expenditure of US\$2.37 million for on-going capital development of the Palito and Sao Chico Mines.

The gross value ascribed to both the Palito and Sao Chico properties is now being amortised over the expected recoverable ounces of each mine. An amortisation charge totalling US\$6.1 million has been recorded for the 12 month period to 31 December 2016, (2015: US\$4.4 million). The increase of US\$1.7 million in the amortisation charge for 2016 arises because during the 12 month period ended 31 December 2015 there was no amortisation charge in relation to the Sao Chico Mine. However, following the announcement by the Group that commercial production had been achieved effective from 1 January 2016, an amortisation charge is now being made in respect of the value ascribed to this mine. The net book value of property, plant and equipment has been increased by US\$6.61 million as a result of the retranslation of the underlying values from Brazilian Reais to US Dollars.

Deferred exploration costs as at 31 December 2016 totalled US\$10.00 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. During 2016 the Group incurred costs of US\$525,444 on exploration and evaluation expenditure and also transferred US\$558,895 from deferred exploration costs to mining property.

The carrying value of deferred exploration costs also increased by US\$1.34 million as a result of the variation in the exchange rates since the start of the year.

## Working Capital

The Group had a working capital position of US\$8.88 million at 31 December 2016 compared to US\$1.84 million at 31 December 2015, the improvement of US\$7.04 million being detailed in the table below:

	December 2016 US\$	December 2015 US\$	Variance US\$
<b><u>Current assets</u></b>			
Inventories	8,110,373	6,908,790	1,201,583
Trade and other receivables	1,233,049	6,133,284	(4,900,235)
Prepayments	3,696,550	2,429,506	1,267,044
Cash and cash equivalents	4,160,923	2,191,759	1,969,164
<b>Total current assets</b>	<b>17,200,895</b>	<b>17,663,339</b>	<b>(462,444)</b>
<b><u>Current liabilities</u></b>			
Trade and other payables	4,941,775	4,212,803	728,972
Interest-bearing liabilities	2,964,057	11,385,155	(8,421,098)
Accruals	415,810	226,197	189,613
<b>Total current liabilities</b>	<b>8,321,642</b>	<b>15,824,155</b>	<b>(7,502,513)</b>
<b>Working capital</b>	<b>8,879,253</b>	<b>1,839,184</b>	<b>7,040,069</b>
<b><u>Non-current liabilities</u></b>			
Trade and other payables	2,211,078	1,857,914	353,164
Provisions	1,851,963	1,898,714	(46,751)
Interest-bearing liabilities	77,798	128,641	(50,843)
<b>Total non-current liabilities</b>	<b>4,140,839</b>	<b>3,885,269</b>	<b>255,570</b>

## Inventory

The levels of inventory held by the Group have increased by US\$1.2 million, or 17 per cent, compared with 31 December 2015. However, as all the inventory is calculated in Brazilian Reals and converted into US Dollars the valuation is also subject to exchange rate fluctuations. The total value of the inventory in local currency has decreased by two per cent or BR\$0.55 million between 31 December 2015 and 31 December 2016. A breakdown of the Group's total inventory balance at the end of 2015 and 2016 in both Brazilian Real and US Dollar are set out in the table below:

	<u>2016</u> <u>BrR\$</u>	<u>2016</u> <u>US\$</u>	<u>2015</u> <u>BrR\$</u>	<u>2015</u> <u>US\$</u>
Stockpile of mined ore	9,220,252	2,829,600	5,595,346	1,433,161
Finished goods awaiting sale	6,047,269	1,855,844	9,758,771	2,499,557
Stockpile of flotation tails	2,309,543	708,775	4,166,727	1,067,242
Other material in process	1,092,511	335,280	2,139,018	547,876
Finished goods awaiting sale	6,047,269	1,855,844	9,758,771	2,499,557
	<b>18,669,574</b>	<b>5,729,500</b>	<b>21,659,862</b>	<b>5,547,836</b>
Consumables	7,758,074	2,380,873	5,313,435	1,360,954
<b>Total Inventory</b>	<b>26,427,649</b>	<b>8,110,373</b>	<b>26,973,298</b>	<b>6,908,790</b>

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 31 December 2016 of US\$2.38 million have increased by approximately US\$1.01 million or 75 per cent in comparison with the same inventory of consumables at 31 December 2015 (US\$1.36 million). As all consumable stock is valued in Brazilian Reals, the valuation is also subject to exchange rate fluctuations. The level of inventory in Brazilian Reals increased by BrR\$2.44 million or 46 per cent, from BrR\$5.31 million to BrR\$7.76 million. The Group acquires stocks of certain materials including reagents, 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 of consumables have increased between 31 December 2015 and 31 December 2016 as a result of the increased activity with the Sao Chico Mine now fully operational and, with a third ball mill in place, increased production capacity.

Whilst in Brazilian Real terms the value of inventory of goods in progress and finished goods has decreased by 14 per cent from BR\$21,659,862 to BR\$18,669,574 between 31 December 2015 and 31 December 2016, this decrease has been offset by the effect of the strengthening of the Brazilian Real, so that in US Dollar terms there has been a three per cent increase in value.

At 31 December 2016, the Group had a total of 21,429 tonnes of surface stockpile from both the Palito and Sao Chico Mines with a value of US\$2.83 million or BR\$9.22 million in comparison to 18,482 tonnes at 31 December 2015 with a value of US\$1.43 million or BR\$5.60 million. The cost per tonne of stockpiled ore increased by 42 per cent in Brazilian Real terms and 71 per cent in US Dollar terms as a result of changes made during the year to the allocation of costs within the mining and plant process cost centres.

At 31 December 2016, the Group had, on hand, an inventory of approximately 162 wet metric tonnes (31 December 2015: 363 tonnes) of copper/gold concentrate, of which 22 tonnes was located at Palito (31 December 2015: 63 tonnes), and the remaining 140 tonnes were on route to the port of Belem (31 December 2015: 160 tonnes). During the month of September 2016, the Group entered into a new contract for the sale of its copper/gold concentrate and the sale is now recognised when the goods depart from Brazil, whilst previously the sale was only recognised when the goods arrived at the purchaser's premises. As a result, at 31 December 2015 the Group also included as inventory, 160 tonnes of copper/concentrate which had departed from the port of Belem and was being shipped to the refinery in Germany. This reduction in inventory levels is the major reason for the reduced inventory value.

Included in the finished goods awaiting sale is bullion on hand for smelting which, at 31 December 2016, was valued at US\$0.62 million or BR\$1.99 million in comparison to US\$0.55 million or BR\$2.14 million as at 31 December 2015.

During 2014 the Group had established a stockpile of approximately 54,000 tonnes of material that had passed through the flotation processing circuit but retained a gold grade of approximately 2.5g/t. At 31 December 2015, there were approximately 37,500 tonnes of flotation stockpile on site with a value of US\$1.07 million or BR\$4.17 million. During 2016 the Group processed approximately 16,700 tonnes of this stockpile leaving approximately 20,800 tonnes at 31 December 2016 with a value of US\$0.71 million or BR\$2.31 million.

The valuation attributable to gold locked up within the processing plant has decreased to US\$0.34 million as at 31 December 2016 (31 December 2015: US\$0.54 million).

#### Trade Receivables

Trade and other receivables at 31 December 2016 of US\$1.23 million have decreased by US\$4.90 million from US\$6.13 million at 31 December 2015. As at 31 December 2016, the Group was owed US\$1.05 million (2015: US\$6.00 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. During September 2016, the Group changed the customer to whom it sells its copper concentrate. The new customer now pays an advance to the Group of 85 per cent of the value of the copper concentrate a few days after the ship carrying the goods departs from the port of Belem. As part of the old agreement, the end customer did not provide any advance payment for the goods, but would settle all invoices in three instalments after the goods arrived at their location. Therefore, to help manage working capital requirements, the Group used a trade finance agreement whereby a separate third party would provide short term financing to the Group for a small fee. As a result of this change in the invoicing and settlement process the trade receivables balance has decreased by 82 per cent. In parallel this change has eliminated the need for a trade finance facility resulting in a reduction in interest bearing liabilities as detailed below.

Also included within trade and other receivables are other some trade advances for freight and insurance which has increased by US\$42,342 from US\$136,692 at 31 December 2015 to US\$179,035 at 31 December 2016.

### Cash at Bank

Between 31 December 2015 and 31 December 2016, cash balances have increased by approximately US\$1.97 million. During 2016 the Group converted the US\$2.00 million convertible loan received from Fratelli Investments Limited in January 2016 but also generated US\$16.15 million from cash flow from operations, as well as spending US\$5.90 million on capital and development expenditure.

The Group also repaid US\$3.11 million of the Sprott loan, decreased its liability under the short term finance facility by US\$6.24 million and settled finance lease arrangements of US\$0.76 million.

### Current Liabilities

Current liabilities have decreased by US\$7.5 million from US\$15.82 million at 31 December 2015 to US\$8.32 million at 31 December 2016.

### Trade Creditors

Trade and other payables amounting to US\$4.94 million at 31 December 2016 compare with an amount owed by the Group of US\$4.21 million at 31 December 2015, an increase of US\$0.73 million. This increase in trade creditors is as a result of increased activity at both the Palito and Sao Chico Mines, but also reflects the 20 per cent appreciation of the Brazilian Real during 2016.

### Interest-Bearing liabilities

The main reason for this decrease in liabilities arises from the Group changing customers for its copper/gold concentrate during 2016 and as a result no longer requiring a short term trade financing arrangement. At 31 December 2015, the Group owed US\$6.65 million in relation to this trade finance provision which was decreased by US\$6.24 million to US\$0.42 million by 31 December 2016.

The Group also repaid US\$3.1 million of the Sprott loan during 2016 reducing the US\$4 million balance which was outstanding at 31 December 2015. However, during 2016 Sprott exercised options relating to their loan with a cost of US\$0.43 million to the Group of which US\$0.15 million was paid by 31 December 2016. The Group also incurred, in January 2016, an extension fee of US\$0.2 million which is included in the total balance of US\$1.37 million outstanding as at 31 December 2016.

Obligations under finance leases have increased by US\$0.45 million from US\$0.73 million at 31 December 2015 to US\$1.17 million at 31 December 2016. The Group repaid US\$0.75 million in finance leases during 2016 but also bought four new items of underground equipment at a total cost of US\$1.2 million. The lease terms range from a 22 month period to a 30 month period and bear interest at a rate between 6.7 per cent and 6.85 per cent per annum.

### Non-Current Liabilities

The Group makes provision for the future estimated rehabilitation costs for its mine sites at Palito and Sao Chico. The value of the provision carried by the Group at 31 December 2015 was US\$1.89 million. The value at 31 December 2016 is US\$1.85million. There has been a small increase of US\$0.17 million in the estimations underlying the provision, but these have been offset by changes in the discount rate used to calculate the present value of the provision, as well as exchange rate movements between 31 December 2015 and 31 December 2016.

The property acquisition payment due by the Group has increased by U\$0.35 million as a result of strengthening of the Brazilian Reais compared to the US Dollar from 31 December 2015 to 31 December 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 conformed its calculation of these performance measurements with the guidance notes released by the World Gold Council. The measures seek to capture all the important components of the Group's production and related costs. In addition, management utilises these and similar metrics as a valuable management tool to monitor cost performance of the Group's operations. These measures and similar measures, have no standardised meaning under IFRS and may not be comparable to similar measures presented by other companies. This measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

### Total cash cost and all-in sustaining cost

The following table provides a reconciliation between non-IFRS cash cost and non-IFRS all-in sustaining cost to production costs included in cost of sales as disclosed in the consolidated statement of comprehensive income.

	12 Months Ended 31 December 2016 (US\$)	12 months Ended December 2015 (US\$) <sup>(4)</sup>
Total operating costs (calculated on a sales basis)	32,906,426	23,585,063
<b>Add/(subtract)</b>		
Finished goods and WIP inventory stock adjustment	(914,050)	(1,780,142)
Grossing up of revenue for metal deductions	1,022,048	880,331
By-product credits	(2,691,851)	(2,482,958)
Total cash cost of production	30,322,573	20,202,294
Corporate G&A	4,962,524	4,379,770
Share-based remuneration	350,899	404,075
Capitalised cost for mine development	2,366,486	1,637,135
All-In Sustaining Cost of production	38,002,482	26,623,274

	12 months ended 31 December 2016 (ounces)	12 months ended 31 December 2015 (ounces) <sup>(4)</sup>
Gold ounces produced <sup>(2)</sup>	39,390	32,629
Gold production from Sao Chico	–	(2,788)
Gold production for cash costs and AISC purposes	39,390	29,841

	12 months ended 31 December 2016 (US\$)	12 months ended 31 December 2015 (US\$)
Total Cash Cost of production (per ounce)	US\$770	US\$677
Total All-In Sustaining Cost of production	US\$965	US\$892

(4) 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.

(5) 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.

## 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 12 months of fulfilling the current contracted commitments on these exploration properties in which the Group has an interest is US\$50,355 (2015: US\$45,000).

Contractual obligations	Payments due by period				
	Total	Less than	1-3 years	4-5 years	After 5
	\$	\$	\$	\$	\$
Short term debt	1,371,489	1,371,489	—	—	—
Capital lease obligations	1,254,759	1,176,961	77,798	—	—
Operating leases	324,314	162,903	161,411	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
<b>Total contractual obligations</b>	<b>2,950,562</b>	<b>2,711,353</b>	<b>239,209</b>	<b>—</b>	<b>—</b>

## Transactions with related parties of the Group

During the period the Company has made no loans to subsidiaries (2015: US\$2,708,980). There were no loans converted into new shares issued by subsidiaries during 2016 (2015: US\$Nil).

The Company has loans receivable from subsidiaries totalling US\$16,188,272 (2014: US\$25,504,584) before any provision for the impairment of these loans. The Company received loan repayments from its subsidiary Serabi Mineração SA ("SMSA") during the year totalling US\$9,316,312.

The Company has purchased, during the year from its subsidiary SMSA, 2,080 tonnes of copper/gold concentrate for a consideration of US\$20,552,303 (2015: 2,220 tonnes; US\$24,569,649).

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 ("Fratelli"). The facility was available to be drawn down at any time up to 30 June 2016 and was to provide additional working capital facilities. On 6 January 2016, the Group announced that it had made an initial drawdown of US\$2 million against this convertible loan facility. The Group made no further drawdowns prior to 30 June 2016 and in August 2016 Fratelli exercised its right to convert the outstanding loan of US\$2 million into shares of the Company at a subscription price of UK£0.036. On 15 August 2016, the Company issued 42,312,568 shares of the Company to Fratelli.

## Financial and other instruments

The Group's and the Company's financial assets at 31 December 2016 which comprise other receivables and cash, and in the case of the Company include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's and Company's financial liabilities which comprise trade and other payables and interest bearing liabilities are classified as liabilities measured at amortised cost.

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 31 December 2016, the Group carried inventory of finished goods and work-in-progress valued at US\$5.73 million (31 December 2015: US\$5.55 million) including US\$1.24 million of copper/gold concentrate representing 162 tonnes of material awaiting sale (31 December 2015: US\$1.95 million; 363 tonnes) and US\$4.50 million of other material in process (31 December 2015: US\$3.60 million). All inventory as at 31 December 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 and 2015 the Group and the Company have taken out fixed rate finance leases for the acquisition of some equipment and have utilised floating rate short term trade finance in respect of sales of copper/gold concentrate production.

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. In February 2017 the Sprott Facility was extended for a term expiring on 31 August 2017. The amount outstanding under the Sprott Facility at 31 December 2016 was US\$1.37 million (excluding future interest).

#### *Liquidity risk*

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

On 26 September 2014, Serabi Gold plc entered into the Sprott Facility details of which are set out above.

The Group has during the year used a trade financing facility for up to US\$7.5 million with Auramet Trading LLC for the sale of its copper/gold concentrate. Following a change in final customer for the purchase of this copper/gold concentrate during the second half of 2016, the Group no longer requires to draw down on this facility and, at 31 December 2016, the balance outstanding under this finance facility was US\$415,607.

As at 31 December 2016, in addition to the Sprott Facility and the Auramet facility, the Group had obligations under fixed rate finance leases amounting to US\$1.25 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. There are risks associated with any 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 31 December 2016:

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>Group</b>	<b>Group</b>
	<b>US\$</b>	<b>US\$</b>
Due in less than one month	1,774,068	3,120,923
Due between one month and three	2,462,350	6,064,870
Due between three months and one year	4,179,387	6,412,165
Total due within one year	8,415,805	15,597,958
Due more than one year	2,288,876	1,986,555
<b>Total</b>	<b>10,704,681</b>	<b>17,584,513</b>

### *Currency risk*

Although the Company is incorporated in the United Kingdom, its financial statements and those of the Group are presented in US Dollars which is also considered to be the functional currency of the Company as funding of activities of its subsidiaries is generally made in US Dollars, all sales for the Group are denominated in US Dollars and future remittances of dividends, loans or repayment of capital 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 Company expects that future issues of Ordinary Shares may be priced in Sterling or Canadian Dollars. Expenditure is primarily in Brazilian Real and also in US Dollars, Sterling, Euros and Australian Dollars.

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

	<b>Group</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
US Dollar	3,425,809	1,449,663
Canadian Dollar	(5,183)	11,762
Sterling	136,159	278,136
Australian Dollar	6,350	12,630
Euro	53,261	32,611
Brazilian Real	544,087	406,957
<b>Total</b>	<b>4,160,923</b>	<b>2,191,759</b>

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

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

The 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 by ensuring settlement 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\$8,647,602 (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 currently sells most of its copper/gold concentrate production to a single customer, a publicly quoted trading group located in Japan having changed customer in the second half of 2016. 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. Whilst the Group has made sales to other parties during the year all amounts due have been settled and therefore there is no credit risk associated with these sales.

#### **Subsequent events**

On 23 February, the Group extended the term for repayment of its secured loan facility with Sprott to 31 August 2017. With this exception there has been no item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the continuing operation of the entity, the results of these operations, or the state of affairs of the entity in future financial periods.

#### **Changes in accounting policies**

The Group has not adopted any standards or interpretations in advance of the required implementation dates.

The following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU):

IAS 12 (amended) "Recognition of Deferred Tax Asset for Unrealised Losses"

IFRS 16 "Leases"

IAS 7 Disclosure Initiative

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Annual improvements to IFRSs: 2014-2016 Cycle

IFRS 9 "Financial Instruments"

IFRS 15 "Revenue from Contracts"

IFRS 2 (amended) Classification and Measurement of Share-based Payment Transactions

IFRS 15 Clarification to IFRS 15 Revenue from Contracts with Customers

The Group considers that the only standard that may have any impact is IFRS 9. The new standard will replace existing accounting standards. It is applicable to financial assets and liabilities and will introduce changes to existing accounting concerning classification, measurement and impairment (introducing an expected loss method). The Group considers that whilst IFRS 15 and IFRS 16 may impact on the Group the effect will not be significant. The operating leases held by the Company are of low value and revenue contracts usually contain a single performance criteria that is satisfied at a point in time. The Group will adopt the above standards at the time stipulated by that standard. The Group does not at this time anticipate voluntary early adoption of any of the standards.

### **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 2016 Financial Statements 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 of mineral resources between Ore Reserves, Measured and Indicated Resources and Inferred Resources. This would, in turn, affect certain amounts in the financial statements such as depreciation and closure provisions, which are calculated on projected life of mine figures, and

carrying values of mining property and plant which are tested for impairment by reference to future cash flows based on projected life of mine figures.

#### ***Development and deferred exploration expenditure***

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

#### ***Inventory valuation***

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

#### ***Utilisation of historic tax losses and recognition of deferred tax assets***

The recognition of deferred tax assets is based upon whether sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Recognition of deferred tax assets therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

#### ***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 rate, inflation rate and foreign exchange rate 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 2016, 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 2016.

### **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 2016, 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 2016, 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 12 month period ended 31 December 2016 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 29 March 2017:

Ordinary Shares	698,701,772
Stock Options	49,910,000
Fully diluted ordinary shares outstanding	<u>748,661,772</u>

Fratelli Investments Limited holds 386,375,734 Ordinary Shares in the Group representing 55.30 per cent 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](http://www.sedar.com) and the Group's website at [www.serabigold.com](http://www.serabigold.com) which contains additional discussion of risks and in particular risks for investors in the Group's securities. Additionally risks and uncertainties not currently known to the Group or that management currently deems to be immaterial, may also materially affect the Group's business, financial condition and/or future results.

<b>ECONOMIC RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<b>Changes in gold prices</b>	<p>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.</p> <p>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.</p>	<b>High</b>	<p>Management closely monitors commodity prices and economic and other events that may influence commodity prices.</p> <p>The Board will use hedging instruments if and when it considers it appropriate.</p>
<b>Currency fluctuations may affect the costs of doing business and the results of operations.</b>	<p>The Group's major products are traded in prices denominated in US dollars. The Group incurs most of its expenditures in Brazilian Reals although it has a reasonable level of expenses in US Dollars, UK Pounds and other currencies. Following a period of significant weakening of the Brazilian Real against the US Dollar during 2015, the currency appreciated by approximately 20 per cent during 2016, significantly affecting the margins that can be achieved.</p>	<b>High</b>	<p>Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.</p>
<b>Availability of working capital.</b>	<p>The Company whilst having little debt is reliant on generating regular revenue and cash flow from its operations on a monthly basis to meet its monthly operating costs and to fund capital investment and exploration programmes. It has no overdraft or stand-by credit facilities in place in the event of any operational difficulties or other events that may reduce or delay revenue receipts on a short term</p>	<b>High</b>	<p>Management, in designing and planning the Group's operations, incorporates contingency planning. The Group has multiple mining faces to minimise geological and mining risk to operations, it has a modular plant to ensure gold processing can be maintained to the greatest extent possible at all times and its deals with customers for its products with good credit and standing in the industry. Management also manage the Group's commitments and obligations to maximise the level of cash holdings at any time and works closely with existing and potential lenders and other potential financing partners to ensure that, to the greatest extent possible, it can have access to additional cash resources should any unexpected need arise.</p>

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>Future exploration may not result in increased mineral resources</i>	Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Group discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals.	<b>Medium</b>	Management undertakes exploration only following careful evaluation of opportunities and designs programmes that seek to ensure that expenditure is carefully controlled and can be ceased at any time that management considers that the exploration prospect is unlikely to be commercially viable and does not warrant further evaluation.
<p><i>No guarantee that the Group's applications for exploration licences and mining licences will be granted.</i></p> <p><i>Existing exploration licences may not be renewed or approved or converted into mining licences.</i></p> <p><i>Title to any of the Group's mineral properties may be challenged or disputed</i></p>	<p>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.</p> <p>The exploration licence for the Sao Chico property expired in March 2014. The Group applied for a full mining licence and the application and all supporting information and reports have been made in accordance with prescribed regulations. The Group has received no indications that the full mining licence will not be granted.</p> <p>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.</p>	<b>High</b>	<p>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.</p> <p>The Group employs staff and consultants who are experienced in Brazilian mining legislation to ensure that the Group is in compliance with legislation at all times.</p>
<i>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.</i>	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. The Group did not however ever commission an independent technical assessment to demonstrate whether or not the resource can be mined on a commercial scale or that any mining activities that might be undertaken will be profitable in the future.	<b>High</b>	<p>Management has made its own assessment of the Sao Chico Mine and whilst during 2015, when the mine was in the early stages of development, that the mineralisation is more complex than was initially envisaged, management has put in place changes to the mine plans and mining methodology to address the issues that were encountered.</p> <p>Management is confident, based on its experience and knowledge, that the Sao Chico Mine will be a commercially viable long-term mining operation.</p>
<i>Exploration and</i>	Whilst the Group anticipates that it will use	<b>Low</b>	Management of capital resources is a



<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>development of the Group's other properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional funding.</i>	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.		high priority for the Group and prior to taking any development decision the Group will seek to ensure, to the greatest extent possible, that the development is fully funded and will manage the development budgets and programmes to minimise and anticipate any potential budget over-runs.
<i>The Group may experience higher costs and lower revenues than estimated due to unexpected problems.</i>	Mining operations often experience unexpected problems during the life of the mine which may result from events of nature, unexpected geological features or mechanical 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.	<i>Medium</i>	Management is experienced with similar mining operations and has gained valuable operational experience at both Palito and Sao Chico. At Palito management has during 2016 increased the number of mining areas that can be active at any time 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.
<i>Environmental legislation</i>	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.	<i>Low</i>	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.
<i>Exposure to mining hazards.</i>	The Group is exposed to a number of risks and hazards typically associated with mining operations including environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel. These risks may result in: damage to, or destruction of, the Group's properties or	<i>Medium</i>	The Group's operational teams regularly monitor mining risks, and report to the CEO who in consultation with the Board is responsible, on behalf of the Board, for ensuring appropriate measures are in place for anticipating, and responding to, such matters.

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
	production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability.		
<i>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.</i>	Mineral resource estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, and assumptions about operating costs and metal prices, all of which may prove unreliable. The Group cannot be certain that the resource estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals. Future production could differ dramatically from such estimates if mineralisation or formations at the properties were different from those predicted by drilling, sampling and similar examinations.	<b>Medium</b>	The Group's in-house staff regularly review and update mineral resource estimates based on the latest available geological information. Whilst these reports being not subject to third party conformation may not be made publicly available they provide management with the assurance as to the long term commercial viability of the Group's mining operations. The internal reports are prepared by personnel with significant experience of working with and evaluating deposits with similar properties to the Group's mines.
<i>The Group is required to obtain and renew governmental permits and licences in order to conduct mining operations, which can be a costly and time-consuming process.</i>	In the ordinary course of business, the Group will be required to obtain and renew governmental permits and licences for the operations and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time consuming process. The duration and success of the Group's efforts to obtain and renew permits and licences are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting 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.	<b>Low</b>	The Group maintains good relationships with the appropriate licensing authorities and management are responsible for ensuring that conditions are adhered to and that renewals are submitted in a timely and complete manner.
<i>The mining industry is intensely competitive in all of its phases and the Group competes with many companies possessing greater financial and technical resources than itself.</i>	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.	<b>Low</b>	The Group has negligible debt. Whilst its cash flow is dependent on the prevailing gold price and the Brazilian Real exchange rate neither of which are within its control, management is confident that the Group will continue to have the relative strength to attract and retain employees and to acquire and develop new properties and projects.

<b>COUNTRY RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>The Group's operations are conducted in Brazil and, as such, the Group's operations are exposed to various levels of political, economic and other risks and uncertainties.</i>	<p>The government of Brazil had been seeking to introduce a new Mining Code for some time and whilst the matter continues to be area of debate recent announcements indicate that significant change is unlikely in the near-term. However 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 any new Mining Code.</p> <p>A change in the President during 2016 has seen policies implemented to reduce public expenditure and reduce the likelihood of significant increases in taxes on mining operations or royalties on mineral production.</p>	<b>Medium</b>	The mining industry in Brazil is dominated by a small number of influential local companies and the interests and needs of smaller mining operations can be limited. The Group is affiliated with group's who help promote and lobby for the needs of smaller mining enterprises.

<b>OTHER RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<b>Finance risk</b>	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.	<b>Low</b>	The Group is in compliance with its obligations under the loan agreements with Sprott and management does not anticipate that the Group's financial position will reach a stage where it would breach its lending covenants.
<b>Portfolio risk of having a two relatively small interdependent operating assets</b>	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.	<b>Low</b>	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.