



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

**For the three and nine month periods  
ended 30 September 2017**

**14 November 2017**

**SERABI GOLD PLC**  
**Management's Discussion and Analysis**  
**for the three and nine month periods ended 30 September 2017**

**Introduction**

This Management's Discussion and Analysis ("MD&A"), dated 14 November 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 interim unaudited condensed financial statements of the Group for the three and nine month periods ended 30 September 2017 and also read in conjunction with the Group's annual report and audited consolidated financial statements and the Group's MD&A for the 12 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 located in the Tapajos region of northern Brazil. The current mining operations are over the Palito orebody ("Palito" or the "Palito Mine") and the Sao Chico orebody ("Sao Chico" or the "Sao Chico Mine") and lie within the larger Jardim do Ouro Gold Project ("JDO Project") which comprises a series of contiguous exploration licences covering an area of over 40,000 hectares, and lies on the 50 kilometres wide north west to south east trending Tocantinzinho Trend, 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, developing the existing underground mine and renovating 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 and approximately 27,100 ounces in 2016.

The gold at Palito is associated with occurrences of copper and iron and is hosted in quartz veins with bonanza gold grades associated with massive chalcopyrite-pyrite blowouts within the quartz veins. Gold recovery is undertaken by crushing and grinding prior to passing the ore through a flotation plant producing a copper/gold concentrate which can account for up to approximately 60 per cent to 70 per

cent of the gold recovered from the Palito orebody. 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 orebody is approximately 92 per cent.

The Sao Chico orebody 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 Sao Chico was declared as of 1 January 2016 and gold production during 2016 was approximately 12,300 ounces. Ore from the Sao Chico Mine is transported by truck to a central gold process plant located adjacent to the Palito orebody.

The gold of the Sao Chico orebody 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 per cent 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 orebody 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 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 Group drew down US\$2 million against this convertible loan facility 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. On 30 June 2017, the Group entered into a credit facility for US\$5 million with the Sprott Resource Lending Partnership (“Sprott”) to provide development and working capital for Palito and Sao Chico. This facility included an amount of US\$1.37 million that was outstanding under a previous credit facility with Sprott, entered into on 26 September 2014, with the remaining funds being received on 5 July 2017.

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 NINE MONTHS ENDING 30 SEPTEMBER 2017				
	3 months to 30 September 2017 US\$	9 months to 30 September 2017 US\$	3 months to 30 September 2016 US\$	9 months to 30 September 2016 US\$
Revenue	12,908,790	36,225,050	16,209,753	42,120,928
Cost of Sales	(7,695,870)	(24,558,180)	(25,828,941)	(25,828,941)
Depreciation and amortisation charges	(2,934,986)	(7,545,847)	(6,552,101)	(6,552,101)
Gross profit	2,277,934	4,121,023	3,086,473	9,739,886
Profit / (loss) before tax	490,532	(337,135)	743,503	2,305,731
Profit after tax	235,051	(770,629)	465,480	1,471,662
Earnings per ordinary share (basic)	0.03c	(0.11c)	0.07c	0.22c
Average gold price received		US\$1,238		US\$1,256
			As at 30 September 2017	As at 31 December 2016
Cash and cash equivalents			9,753,385	4,160,923
Net assets			64,598,323	63,378,973
<b>Cash Cost and All-In Sustaining Cost ("AISC")</b>				
			6 months to 30 September 2017	9 months to 30 September 2016
Gold production for cash cost and AISC purposes			27,666	29,900
Total Cash Cost of production (per ounce)			US\$795	US\$772
Total AISC of production (per ounce)			US\$1,058	US\$951

## Key Operational Information

### SUMMARY PRODUCTION STATISTICS FOR THE THREE QUARTERS TO 30 SEPTEMBER 2017

		Quarter 1 2017	Quarter 2 2017	Quarter 3 2017	Year to Date 2017	Quarter 1 2016	Quarter 2 2016	Quarter 3 2016	Quarter 4 2016	Total 2016
Horizontal development – Total	Metres	2,251	1,855	2,996	7,102	2,925	2,941	2,649	2,694	11,209
Mined ore – Total	Tonnes	36,918	42,075	41,263	120,256	37,546	33,606	43,133	44,579	158,864
	Gold grade (g/t)	10.12	7.80	9.80	9.20	11.02	9.56	9.61	8.94	9.74
Milled ore	Tonnes	46,663	43,905	44,954	135,522	36,615	39,402	42,464	40,485	158,966
	Gold grade (g/t)	7.09	6.26	7.21	6.86	8.58	8.17	8.08	7.60	8.11
Gold production <sup>(1)(2)</sup>	Ounces	9,861	8,148	9,657	27,666	9,771	9,896	10,310	9,413	39,390

(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 2017 include treatment of 4,941 tonnes of flotation tails (2016 full year : 16,716 tonnes)

## Financial Highlights

- Cash Cost for the year to date of US\$795 per ounce of gold.
- All-In Sustaining Cost for the year to date of US\$1,058 per ounce of gold.
- Gross profit from operations for the first nine months of 2017 of US\$4.12 million.
- Profit per share of 3 cents for Q3 and loss per share of 11 cents for the first nine months of 2017.
- Cash holdings of US\$9.75 million at 30 September 2017.
- Average gold price of US\$1,238 per ounce received on gold sales in the first nine months of 2017.

## 2017 Guidance

- Forecast gold production for the fourth quarter of 2017 of approximately 10,000 ounces to achieve full year production of approximately 38,000 ounces.
- Cost guidance for 2017 of an All-In Sustaining Cost ("AISC") of US\$1,000 to US\$1,025 per ounce.

## Operational Highlights

- Third quarter production of 9,657 ounces of gold.
- Mine production totalled 41,263 tonnes at 9.80 grammes per tonne ("g/t") of gold.
- 44,954 tonnes processed through the plant for the combined mining operations, with an average grade of 7.21 g/t of gold.
- 2,996 metres of horizontal mine development completed in the quarter.
- The Palito orebody saw development and production focus on the Senna, Pipocas, G3 and Mogno veins principally, with three other veins, (Zonta, G1, Jatoba) in development.
- The mine ramp accessing the Sao Chico orebody has now reached the 26mRL, approximately 230 vertical metres below surface. Production is coming from the 128mRL and 100mRL levels with levels 86mRL, 70mRL, 56mRL, 40mRL and now 26mRL all either developed or in development, comfortably ahead of production.
- By the end of the third quarter, surface ore stocks were approximately 15,000 tonnes (30 June 2017: 12,000 tonnes) with an average grade of 3.2 g/t of gold.
- A surface diamond drill programme of approximately 10,000 metres has commenced and will principally focus on the strike extensions of the veins in the Palito orebody.
- The results of a new 43-101 Technical Report comprising the geological resource and mineable reserve are close to completion and are expected to be issued before the end of November.

## Outlook and Strategy

### Mining

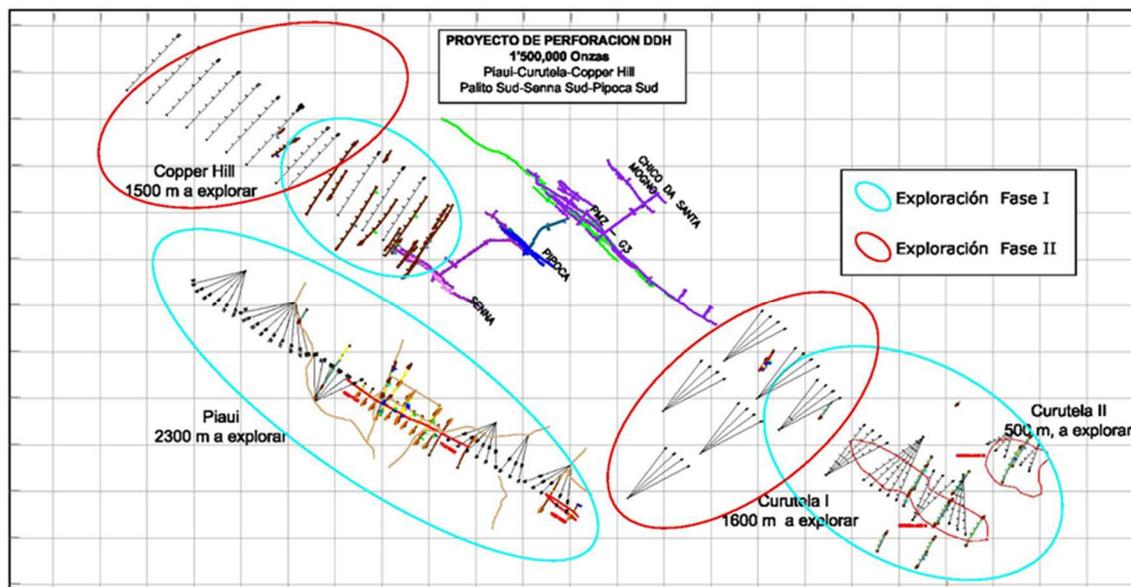
The Palito Mine is currently operating across four key mining sectors and the current mining plans for the next two years take into account only eight of the 24 veins that comprise the Measured, Indicated and Inferred resources of the Palito Mine. Underground drilling of the Palito orebody is helping 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 Palito orebody, the G3 vein is the most developed of the 24 veins, developed to a depth of approaching 300 metres and over a strike length of over one kilometre. Management consider that there is strong potential for the Palito veins to continue both along strike to the southeast and the northwest, as far as the Currutela and Copper Hill discoveries respectively, opening up a potential four kilometre strike length of mineralisation.

At Sao Chico the mine development has, to date, focused on the central ore shoot of the Main Vein. The Sao Chico orebody, 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 levels of stoping activity began to increase. During the remainder of 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 orebody are now being followed up with an initial 8,000 metre surface drilling programme which should commence before the end of November 2017. This is the first phase of a larger exploration and evaluation drill programme that management would like to undertake and which it feels could, on or before completion, provide sufficient confidence to justify commencement of new mine portals and underground exploration development drives. These would be used to access and fully evaluate any new discoveries that are considered to have potential to be commercially viable. In time, these discoveries could become new near-mine satellite deposits adding incremental production.



Indicative locations and allocation of the planned 8,000 metre drill programme

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 have used 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 opportunities.

All exploration had 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 electro-magnetic (“VTEM”) surveys and these initial aerial surveys have highlighted many areas of interest and exploration opportunities to pursue in due course as and when adequate funding is available. The Group is cognisant that the exploration tenements it holds are only granted for limited terms and is therefore keen to implement a regional exploration programme to highlight the tenement areas that should be prioritised as having the highest potential as soon as it can make available adequate funds. 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 could have the potential to be additional satellite operations lying within 15 kilometres of its current Palito or Sao Chico operations and contribute 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 a low capital cost, leverage off existing infrastructure and resources to minimise development and operational costs and, with high grades and low volumes, have a low environmental impact.

Except for the 8,000 metre programme planned to commence in November 2017 at Palito, 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, at the beginning of 2017, forecast 40,000 ounces of gold production for the year, with an All In Sustaining Cost (“AISC”) of between \$950 and \$975 per ounce, broadly in line with the cost guidance of 2016. Gold production for the first nine months remains broadly in line with the Company’s forecast.

With year to date production standing at 27,666 ounces, an additional fourth quarter of 10,000 ounces forecast should result in full year production of a minimum of approximately 38,000 ounces. Management hope that production for the fourth quarter will improve on prior quarters with the addition of increased levels of processing of 2014 flotation tails during the final quarter, a benefit which will continue through 2018 as well.

Based on consensus opinions at the start of the year the Group had anticipated a weakening of the Real in the second half of 2017, which has not been the case. Whilst costs in Brazilian Reais are below managements forecasts the Group had slightly increased its estimate of AISC for the full year to be between US\$1,000 to US\$1,025 per ounce.

### **Operational Review for the year to date**

Total gold production for the third quarter of 2017 was 9,657 ounces of gold resulting in total gold production for the year to date of 27,666 ounces. Whilst this production is approximately eight per cent lower than the corresponding nine month period in 2016, this reduction was the result of an operational issue experienced during April and much of May (and fully described in the Company’s Management Discussion and Analysis for the second quarter of 2017, issued on 14 August 2017), which has now been

resolved. Management hope that production for the fourth quarter will improve on prior quarters. The Group has designed and is constructing an independent conveyor to feed historic flotations tailings, produced during 2014, directly into the ball mills, allowing this material to be added to the current dry mill feed, and therefore increasing the levels that can be treated each month. With an increased level of processing of 2014 flotation tails during the final quarter, management expect that production for the fourth quarter of 2017 will be at least 10,000 ounces.

### **Mining operations**

Mining of the Palito orebody has been at relatively steady levels for over two years and production and development rates achieving a steady state of mine output. The ore generated from the Sao Chico orebody in 2016 was derived principally from development. With sufficient development headings now established the Group started to increase the level of stoping activity in the first quarter of 2017 and consequently the tonnage of ore that is being recovered from stope mining. However the stoping method at Sao Chico requires the use of remote controlled loaders to muck the broken ore, and during the first half of 2017 the Group was still in the process of building up its mining fleet. A mechanical problem, during April and May, with a loader whilst a second unit was in the process of being shipped and delivered significantly reduced stope production during these months and it was therefore necessary to use development ore as alternative mill feed. Ore recovered from development mining is unavoidably more diluted and is therefore generally lower grade. By June, with the original unit returned to full operation and the second new unit commissioned and operating, production improved significantly. During the third quarter mine production from the Sao Chico orebody has been excellent with no further significant operational issues.

There were improvements in the average grades mined from both orebodies during the third quarter, with average mined grades of over 9.0 g/t of gold being reported. Mine development from the Sao Chico orebody in particular has been very encouraging, especially on the 40mRL, the lowest level currently in development. To date, the 40mRL level exhibits greater than forecast payable strike lengths compared with the upper levels. Development of the next level, the 26mRL, is eagerly anticipated to see if this trend continues. The exciting results from level 40mRL meant mill feed ore from the Sao Chico orebody was predominantly from development, with relatively little from stoping. In addition, development is now comfortably ahead of stoping, with over two years of ore now developed and 'blast ready' at current production rates.

At the Palito orebody, seven veins out of the 25 veins that comprise the total geological resource, are now in various stages of development and production. The Pipocas, G3, and Senna veins remain the backbone of the sources of ore, with smaller contributions from the newly developed Jatoba, Mogno, Zonta and G1 veins. As has been previously reported, the G3 vein has been intersected on the -50mRL, the lowest level in the mine, and development on this level has been on-going through the third quarter. The mineralised vein remains strong, with very good grades being encountered. The Pipocas vein is in development on the 30mRL and 0mRL levels, with deepening underway to access the -30mRL level.

Performance of the combined mining operations of both the Palito and Sao Chico orebodies has resulted in approximately 120,000 tonnes of ore being extracted during the first nine months of 2017 which compares with a total of approximately 114,000 tonnes produced in the corresponding nine month period of 2016, representing an improvement of five per cent. This increase in output has been assisted by the continued development of the Sao Chico orebody where there are now a number of faces available and with mining operations (stopping and development) now active over eight different levels.

Mined grades achieved for the first nine months of 2017 which averaged 9.20 g/t, and whilst an improvement compared to the average of 8.89 g/t reported for the first six months of 2017, this remains slightly lower than the corresponding period in 2016 (10.06 g/t). Whilst the lower grades from the Palito orebody were expected and reflect variances arising from normal mine scheduling, the lower grades from the Sao Chico orebody were the consequence of the mechanical failure of the remote controlled loader during the second quarter and the resultant increase in the higher level of development ore mining than was undertaken to compensate for lost stope mining and to provide the necessary mill feed.

With both of the Palito and Sao Chico orebodies, development is significantly in advance of production, and as a result the Group has been able to reduce the levels of development mining activity during 2017 by over 15 per cent compared with rates for same nine month period in 2016.

At the end of the third quarter of 2017 combined coarse ore stocks were approximately 15,000 tonnes with an average grade of 3.2 g/t of gold (31 December 2016: approximately 21,000 tonnes with an average grade of 4.0 g/t of gold).

#### Palito Orebody

Mining of the Palito orebody is now very much in regime. During 2016, the Group 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 Group 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.

In the G1, G2 and G3 vein complex, the main ramp has now reached the -50 mRL where the G3 vein has been intersected. Development of this new level started during the second quarter of 2017 and it is the lowest production level in the Palito orebody.

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.

Opening up new sectors of the Palito orebody 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 Company plans 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 were previously necessary. 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 that can be recovered in each vertical metre of mine development, which can improve margins and reduce costs.

In the longer term, management anticipates that the Palito orebody will expand along strike as well, with continuity particularly to the south towards the Palito South and Currutela prospects. The Group has undertaken 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. Underground diamond drilling will be used to test the down-dip continuity of the G3 vein at depth and management hopes to be in a position to undertake a drilling programme during 2017 to evaluate this area further.

#### Sao Chico Orebody

Underground development of the Sao Chico orebody 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 26mRL, approximately 225 metres below surface and will continue to be deepened during 2017. Development has been completed, or is active, on the 86mRL, 70mRL, 56mRL and 40mRL as well as the new 26mRL, whilst stoping activity is currently focused on the 128mRL, 116mRL and 100mRLs.

During 2016, the decision to implement sublevel open stoping as the principal mining method was taken, which resulted in the development of sublevels with 15 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 within it is much less so, and as a result, on-lode development levels are mined 15 vertical metres apart, along which regular channel sampling is made. This is further complimented by 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 100-130 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 Group 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 first nine months of 2017 was 27,666 ounces of gold, generated from the processing of the run of mine ("ROM") ore from the Palito and Sao Chico orebodies, combined with the surface coarse ore stockpiles and the stockpiled flotation tailings accumulated from the processing of Palito Mine production in 2014.

Gold production for the nine month period to 30 September 2017 came from the processing of 135,522 tonnes from the Palito and Sao Chico orebodies with an average grade of 6.86g/t of gold (nine months to 30 September 2016: 118,481 tonnes at 8.27g/t of gold). The total mined ore for the same nine month period was 120,256 tonnes with an average grade of 9.20g/t of gold (nine months to 30 September 2016: 114,285 tonnes at 10.06g/t of gold). The increase in processed ore reflects the increased plant capacity installed and available from the second half of 2016, and the introduction of the gravity circuit and ILR for treating the Sao Chico ore.

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 tonnes per day ("tpd") to at least 500 tpd. Further improvements undertaken within the process plant during 2016 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 regenerates 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, a legacy of the fact that mine production began six months before the ore processing.

Plant performance during the quarter was excellent, with approximately 45,000 tonnes of ROM ore milled. With 41,000 tonnes having been mined, the balance of the plant throughput was made up by processing the low grade surface stockpiled ore. However, the Group still has over 15,000 tonnes of coarse ore in stockpiles and over 35,000 tonnes of flotation tails stockpiled (with an average grade of around 3.0g/t of gold), levels that have been fairly static since 2014. This reflects that the operation remains somewhat constrained by the capacity of the plant.

To date the Group has tried to pump the flotation tailings in a wet form to the CIP plant, but this has proved to be slow and labour intensive. Passing the material 'dry' through the ore feed system has to date been restricted by belt capacity, and would therefore otherwise be displacing higher grade ore. An independent conveyor to feed these tails directly into the ball mills has now been designed and is on construction allowing this material to be added to the current dry mill feed, and therefore increase the levels that can be treated each month. It is hoped that this solution will be operational by the end of November.

An encouraging development this year has been the test work undertaken by the Group on ore sorting of the Palito and Sao Chico ores. Current mining operations whilst employing the most selective methods possible, nonetheless result in a minimum stope mining width of generally 1.0 metre. The veins being mined have an approximate width of 0.5 metres, and therefore there remains considerable dilution from stope mining with even higher levels in the development mining activities. Having undertaken test work initially in Brazil and more recently on bulk samples at the manufacturer's facilities in Poland, excellent results have been achieved using X-ray scanning to physically separate crushed ore between the sulphide bearing ore and granite waste. The contrast and results have been quite remarkable. The intention now is to introduce an X-ray ore sorter after the main crushing plant that will separate material ahead of milling and remove from the mill feed a significant percentage of the waste that would otherwise have formed part of the feed into the plant. Not only will this reduce process costs per ounce recovered, it will also liberate capacity in a mill constrained operation. In this way it is hoped that, using this technology, the plant can be debottlenecked, mill feed grade elevated as a result, and plant capacity freed up for the future organic growth. This equipment is built to order and it is anticipated it will take between nine months and a year before it can be fabricated, installed and commissioned. Payback of the estimated US\$1.2 million cost is however expected to be less than 12 months.

#### 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 orebody 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 Aprovimientto Economico, a form of economic assessment prepared in accordance with Brazilian legislation. However, with the Guia de Utilização (a trial mining license) already in place, all mining operations can continue in parallel. Prior to its expiry in December 2017, a submission has been made for a further extension of the Guia de Utilização for a period of one additional year. 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 orebody. DHEM provides data to model the likely geographical location and extent of the sulphide rich zones intersected in the 2011 drill holes. The second programme was undertaken at Sao Chico using surface induced polarisation (“IP”) and, included areas immediately around the Sao Chico orebody. Some large anomalies parallel to the Sao Chico orebody have been identified and will require further testing by surface drilling. 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.

The Group, during 2017, has secured additional tenements located to the south and the west of the original Sao Chico licence area, and management consider that these offer excellent potential for hosting strike extensions of the current Sao Chico veins.

As noted earlier an initial 8,000 metre drill programme focussed on four key areas around the current Palito orebody is due to commence in late November 2017. This is the first phase of a larger exploration and evaluation drill programme that management would like to undertake and which it feels could, on or before completion, provide sufficient confidence to justify commencement of new mine portals and underground exploration development drives

### **Jardim do Ouro Exploration**

With the addition of the new tenement to the west and south at Sao Chico, the 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 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 orebody 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

### **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.

### **Background to the Palito and Sao Chico Gold Projects**

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

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 mining operation which was operated by the Group from late 2003 until the end of 2008. Between the start 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 main infrastructure was kept intact as much 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 (Iriiri) 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 contained gold mined from the Palito orebody of approximately 90,700 ounces having mined (including development activity in 2013) a total of approximately 415,200 tonnes at an average grade of 9.31 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

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 high grade underground gold mining operation some 30 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 22 December 2017. 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 starting mining of the Sao Chico orebody, the Group has declared total contained gold mined of approximately 27,400 ounces having mined a total of approximately 102,400 tonnes at an average grade of 10.14 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.

## 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 IFRS in force at the reporting date and their interpretations issued by the IASB and adopted for use within the European Union and with IFRS and their interpretations adopted by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Whilst the unaudited interim financial statements are compiled in accordance with IFRS, they do not contain sufficient financial information to comply with IFRS.

### Three month period ended 30 September 2017 compared to the three month period ended 30 September 2016

During the third quarter of 2017 the Group produced 9,657 ounces of gold (third quarter of 2016: 10,234 ounces) however due to timing differences of sales the Group only recognised sales for 9,804 ounces (third quarter of 2016: 11,712 ounces). This primarily reflects the timing of sales of copper/gold concentrate. During the third quarter of 2016 the Group recognised the sale of 640 tonnes of copper/gold concentrate compared with only 320 tonnes during the same period of 2017. The Group has been producing more of its gold in the form of bullion, rather than copper/gold concentrate during 2017, reflecting the variation in the ore sources mined compared with the prior year, the result of an increased contribution of ore from the Sao Chico ore body, together with accessing veins within the Palito orebody that have lower grades of copper.

However, following a change in purchaser for the Group's production of copper/gold concentrate and associated new terms, during September 2016, the Group recognised the equivalent of two months sales as the date of revenue recognition was brought forward by approximately 30 days with the sale being recognised when the goods left Brazil rather than when the goods arrived at the purchaser's premises.

The Group has reported a Gross Profit for the quarter of US\$2,627,934 (three months to 30 September 2016: US\$3,086,473), with total revenue of US\$12,908,790 for the three months ended 30 September 2017 in comparison to US\$16,209,753 for the same period in 2016.

The gross profit of US\$2,277,934 for the financial quarter ended 30 September 2017 can be analysed and compared against the gross profit of US\$3,086,473 for the financial quarter ended 30 September 2016 as follows:

	Three months ended Sept 2017	Three months ended Sept 2016	Variance US\$	Variance %
Concentrate sold (Ounces)	3,079	6,173	(3,094)	(20%)
Bullion Sold (Ounces)	6,725	5,539	1,186	21%
<b>Total Ounces</b>	<b>9,804</b>	<b>11,712</b>	<b>(1,908)</b>	<b>(16%)</b>

	Three months to 30 September 2017 US\$	Three months to 30 September 2016 US\$	Variance US\$	Variance %
<b>Revenue from Ordinary Activity</b>				
Copper/ Gold Concentrate	4,255,227	8,882,936	(4,627,709)	(52%)
Gold Bullion – Palito and Sao Chico	8,653,563	7,326,817	1,326,746	18%
<b>Total Sales</b>	<b>12,908,790</b>	<b>16,209,753</b>	<b>(3,300,963)</b>	<b>(20%)</b>
<b>Costs of sales</b>				
Operational costs	(6,728,652)	(9,059,132)	2,330,480	26%
Stock Impairment provision	(400,000)	–	(400,000)	(100%)
Shipping costs	(303,727)	(583,828)	280,101	48%
Treatment charges	(123,114)	(326,379)	203,265	62%
Royalties	(140,377)	(246,780)	106,403	43%
Amortisation of Mine Property	(2,191,090)	(2,292,006)	100,916	4%
Depreciation of Plant & Equipment	(743,896)	(615,155)	(128,741)	(21%)
<b>Total Operating costs</b>	<b>(10,630,856)</b>	<b>(13,123,280)</b>	<b>2,492,424</b>	<b>19%</b>
<b>Gross profit</b>	<b>2,277,934</b>	<b>3,086,473</b>	<b>(808,539)</b>	<b>(26%)</b>

During the third quarter of 2017 the Group has recognised total sales of US\$12,908,790 (three months to 30 September 2016: US\$16,209,753). The sales were split between sales of copper/gold concentrate of US\$4,255,227 (three months to 30 September 2016: US\$8,882,936) and sales of gold bullion of US\$8,653,563 (three months to 30 September 2016: US\$7,326,817).

During 2017, with the Group producing more gold in the form of bullion as opposed to in copper/gold concentrate, there has been an 18 percent increase in bullion sales during the three months ended 30 September 2017 compared with the same period of 2016. At the same time there has been a 52 per cent decrease in sales of copper/gold concentrate, although the extra sale reported in 2016 accounted for 1,668 ounces of gold representing approximately 27 per cent of the sales in the third quarter of 2016 and generating revenue of approximately US\$1.9 million.

During the three months to 30 September 2017 the Group produced 314 wet tonnes of copper/gold concentrate containing an estimated 2,657 ounces (three months to 30 September 2016: 451 wet tonnes containing 4,645 ounces) although revenue has been recognised for 320 tonnes containing an estimated 3,079 ounces (three months to 30 September 2016: 640 wet tonnes containing 6,173 ounces) which were delivered in accordance with the sales contract to the end customer. The unsold material is held as inventory.

During the third quarter of 2017 the Group sold 6,725 ounces of gold bullion generating revenue of US\$8,653,563, (third quarter of 2016: 5,539 ounces for revenue of US\$7,326,817).

### Operating Costs

Operating costs of US\$6,728,652 for the third quarter of 2017, (quarter ended 30 September 2016: US\$9,059,132) relate to all mining and plant processing costs, as well as all general site costs incurred at Palito during the period.

	Third Quarter 2017	Third Quarter 2016	Variance	Variance %
Ounces Sold	9,804	11,712	(1,908)	(16%)
	Third Quarter 2017	Third Quarter 2016	Variance	Variance %
	US\$'000	US\$'000	US\$'000	%
<b><u>Operating Costs</u></b>				
Labour	3,162	3,770	(608)	(16%)
Mining consumables & Maintenance	2,019	2,970	(951)	(32%)
Plant Consumables	875	1,320	(445)	(34%)
General Site	673	1,000	(327)	(33%)
	6,729	9,060	(2,331)	(26%)

Notwithstanding that gold production was less than that achieved in the corresponding quarter of 2016 and gold sales decreased by 16 per cent, the actual tonnage processed has increased by six per cent. However total operating costs have decreased by 26 per cent. Much of this reduction reflects the level of concentrate sales that were realised in the three month period to 30 September 2016 when four sales were made totalling 640 tonnes compared with the same period in 2017 when only two sales were made totalling 320 tonnes. Whilst some of the gold production and sales revenue shortfall from sales of concentrate has been made up by an increased level of gold produced and sold as bullion, one of these additional sales of concentrate was the direct result of the new contract terms. As a result the Group recognised both the revenue and the costs associated with this additional sale in the third quarter of 2016 with no equivalent cost being recognised in the same quarter of 2017. The Group has also undertaken a number of initiatives to reduce operational costs over the last 12 months.

### Labour Costs

Labour costs have decreased by 16 per cent during the third quarter of 2017 in comparison to the same period in the previous year. For the three month period ended 30 September 2017, operational staff headcount has been reduced by approximately 5 per cent in comparison to the same period of the previous year with other reductions reflecting the lower level of sales of copper/gold concentrate made in the period

### Mining Costs

Mining consumables and maintenance for the three-month period ended 30 September 2017 have reduced by 32 per cent in comparison to the same period of the previous year. The main area of cost saving relates to power generation and supply following improved use of grid sourced electricity and lower diesel prices with other reductions reflecting the lower level of sales of copper/gold concentrate made in the period

### Plant Costs

Plant costs have decreased by 34 per cent for the three month period ended 30 September 2017 in comparison to the same period in the previous year. The main area of cost saving relates to power generation and supply following improved use of grid sourced electricity and lower diesel prices with other reductions reflecting the lower level of sales of copper/gold concentrate made in the period.

### General Site Costs

General site costs for the three month period ended 30 September 2017 decreased by 33 per cent versus the same period in the previous year reflecting the reduction in the numbers of operational staff on site

during each of the respective periods and the lower level of sales of copper/gold concentrate made in the period.

#### Provision for impairment of inventory

The Group calculates unit costs of mined production on a cost per tonne basis irrespective of grade and has established stockpiles of low grade ROM ore which are available for processing in the future. The average grade of these stockpiles is decreasing as the higher grade material is used to supplement day-to-day mine production. The Group has assessed the likely future value of these stockpiles and made an increase to the general impairment provision of US\$0.40 million during the third quarter of 2017 to a total of US\$0.62 million for 2017 against the carrying value of these coarse ore stockpiles and reflecting the reducing grade of the ore.

#### Shipping Costs

Shipping costs of US\$303,727 (2015: US\$583,828) include all domestic road and river freight in Brazil from the Palito Mine to the international port at Belem and also international sea freight to the end purchaser as well as air transport and insurance for the bullion sold from the Palito Mine to its final destination in Sao Paulo. The decrease by comparison to the same period in 2016 reflects the reduction in the volume of concentrate shipped; third quarter of 2017 being 320 tonnes in comparison to 640 tonnes for the same period of the previous year.

#### Treatment Charges

Treatment charges of US\$123,114 (2016: US\$326,379) include US\$104,055 (2016: US\$296,097) relating to the treatment of the copper concentrate and levied by the smelter and US\$19,519 (2015: US\$30,282) for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group. The reduction in treatment charges is primarily due to the reduction in the volume of copper concentrate sold between the two respective periods; third quarter of 2017 being 320 tonnes in comparison to 640 tonnes for the same period of the previous year.

#### Royalty Charges

Royalty payments of US\$140,377, (2016: US\$246,780) comprise statutory levies payable in Brazil. Rates are uniform across all mining operations and currently comprise a one per cent royalty on gold production and a two per cent royalty on copper production. The decrease by comparison with the same quarter in 2016 reflects an overall decrease in gold sold during the period

#### Amortisation Charges

Charges for the amortisation of mine property are calculated by reference to the depletion during the quarter, of the total estimated mineable resource at each of the Palito and Sao Chico orebodies. In each case the base carrying cost of the asset is adjusted to include a provision for future mine development costs for each of these ore bodies. The total amortisation charge relating to the Palito and Sao Chico ore bodies for the third quarter of 2017 is approximately US\$1.73 million. 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 decrease in the amortisation charge of US\$0.10 million reflects the lower levels of gold production and therefore depletion in the period and the relative strength of the Brazilian Real against the US Dollar compared with the same three month period in 2016. The average exchange rate for the first nine months of 2017 was BrR\$3.17:US\$1.00, compared with BrR\$3.54:US\$1.00 for the same period in 2016 which represents a 12 per cent strengthening of the Brazilian Real against US Dollar. The amortisation charge is also impacted by the lower levels of work-in-progress inventories held at the end of the current quarter compared with levels at 30 September 2016.

#### Depreciation Charges

Depreciation charges of US\$0.74 million (three months to 30 September 2016: US\$0.62 million) are in respect of mining and processing plant and equipment. The variation is a combination of increased mobile fleet with new items acquired in the fourth quarter of 2016 and first nine months of 2017 for both the Palito and Sao Chico Mine operations, as a well as the strengthening of the Brazilian Real against the US Dollar which has increased effective charges in US Dollar terms.

### Operating Profit

The Group has recognised an operating profit before interest and other income for the three month period ended 30 September 2017 of US\$0.78 million compared with a profit of US\$1.72 million for the same period of the previous year reflective of the lower level of revenue and gross profit.

Administration expenses have increased during this period by approximately US\$0.14 million primarily because during the third quarter of 2017 the Group incurred additional legal and professional fees in relation to due diligence work performed during the period. The Group also incurred costs of US\$0.10 million on share based payments (2016: US\$0.10 million). The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the three months to 30 September 2017 is in respect of options granted between November 2014 and September 2017.

The Company recorded a foreign exchange loss of US\$24,021 in the three month period to 30 September 2017 which compares with a foreign exchange loss of US\$28,860 recorded for the three months ended 30 September 2016. These foreign exchange gains and losses primarily occurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest and other finance related costs for the three month period to 30 September 2017 were US\$269,501 compared with US\$947,210 for the same period in the previous year.

	<b>Quarter Ended September 2017</b>	<b>Quarter Ended September 2016</b>
	<b>US\$</b>	<b>US\$</b>
Interest expense on secured loan	122,063	59,193
Expense on revaluation of derivatives	82,469	177,594
Amortisation of fair value of derivatives	65,000	201,126
Finance cost on gold trading	–	422,302
Interest on trade finance facility	–	66,411
Interest expense on convertible loan stock	–	20,328
Asset finance charges	–	296
	<hr/>	<hr/>
	269,532	947,250
Interest income	(31)	(40)
Net finance expense	<hr/>	<hr/>
	269,501	947,210

The interest on the Sprott loan of US\$122,063, (2016: US\$59,193) is the cost of three months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership, with the increase reflecting the higher levels of loan principal outstanding during the period. On 30 June 2017, the Group entered into a new loan agreement with Sprott to increase the loan facility from US\$1.37 million to US\$5.00 million.

The expense on the revaluation of derivatives of US\$82,469 (three months to 31 September 2016: US\$177,594) represents the expense arising on the revaluation of the derivative provision at the 30 September 2017. The derivative provision was revalued to US\$732,469 on 30 September 2017 from an initial value of US\$650,000. For the three months to 2016 the expense on the revaluation of derivatives of US\$177,594 represented the loss arising from a period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership LLP and the equity element of the convertible loan stock. These revaluations reflect in the case of the call options the higher gold price prevailing at the period end and in the case of the convertible loan stock the higher share price at the period end

The amortisation of fair value of derivatives of US\$65,000 represents three months amortisation charge of the fair value ascribed to the call option granted to Sprott on 30 June 2017. On 30 June 2017, the Group entered into a new loan agreement with Sprott for a US\$5 million loan facility. As part of this arrangement the Group was granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,320 which expire on 31 December 2019. On 30 June 2017, the date these call options were

granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 was recognised in the accounts.

### Nine month period ended 30 September 2017 compared to the nine month period ended 30 September 2016

The first nine months of 2017 has seen higher levels of gold bullion production than previous periods offset by lower levels of production of copper/gold concentrate reflecting the variations in the ore sources and grades being mined during 2017 compared with 2016. These changes do not have any direct effect on the overall levels of gold production achieved by the Group.

Gold production for the nine month period ended 30 September 2017 was 27,666 ounces which is approximately seven per cent less than the same period in the previous year (29,877 ounces). The Group experienced shortfalls in gold production during April 2017 and May 2017 resulting from a mechanical breakdown that has now been fully resolved with gold production levels in the third quarter being back to the average levels experienced in the first quarter of 2017 and for much of 2016. However, as a result, both production and sales of gold have decreased in comparison with corresponding nine month period of 2016. Reflecting the decrease in production the total amount of ounces sold during the first nine months of 2017 was 27,867 ounces, which is approximately 11 per cent less than the 31,378 ounces sold during the first nine months of 2016.

The Group has reported a gross profit for the nine month period ended 30 September 2017 of US\$4.12 million (nine months to 30 September 2016: US\$9.74 million) and a loss before taxation for the nine month period ended 30 September 2017 of US\$0.34 million in comparison to a profit of US\$2.31 million for the nine months ended 30 September 2016. The Group has reported total revenue of US\$36.23 million during the nine month period to 30 September 2017 (nine months to 30 September 2016: US\$42.12 million).

The gross profit of US\$4,121,023 can be analysed as follows:

	Three months ended Sept 2017	Three months ended Sept 2016	Variance US\$	Variance %
Concentrate sold (Ounces)	9,428	15,750	(6,322)	(40%)
Bullion Sold (Ounces)	18,439	15,628	2,811	18%
<b>Total Ounces</b>	<b>27,867</b>	<b>31,378</b>	<b>(3,511)</b>	<b>(11%)</b>

	Nine months to 30 September 2017 US\$	Nine months to 30 September 2016 US\$	Variance US\$	Variance %
<b>Revenue from Ordinary Activity</b>				
Copper/Gold Concentrate	13,087,086	22,442,739	(9,355,653)	(42%)
Gold Bullion – Palito & Sao Chico	23,137,964	19,678,189	3,459,775	18%
<b>Total Sales</b>	<b>36,225,050</b>	<b>42,120,928</b>	<b>(5,895,878)</b>	<b>(14%)</b>
<b>Costs of sales</b>				
Operational costs	(22,018,171)	(22,382,160)	(363,989)	(2%)
Stock Impairment	(620,000)	-	(620,000)	(00%)
Shipping costs	(1,095,824)	(1,814,146)	718,322	40%
Treatment charges	(436,606)	(932,080)	495,474	53%
Royalties	(387,661)	(700,555)	312,976	45%
Amortisation of Mine Property	(5,566,280)	(5,115,180)	(451,100)	(9%)
Depreciation of Plant & Equipment	(1,979,567)	(1,436,921)	(542,646)	(38%)
<b>Total Operating costs</b>	<b>(32,104,027)</b>	<b>(32,381,042)</b>	<b>277,015</b>	<b>1%</b>
<b>Gross profit</b>	<b>4,121,023</b>	<b>9,739,886</b>	<b>(5,618,863)</b>	<b>(58%)</b>

Under the current contracts that the Group has in place, revenue from the sale of copper/gold concentrate is recognised at the time that this product departs from the port of Belem in Brazil and the customer assumes all further physical risk for the product.

During the first nine months of 2017 the Group has recognised total sales of US\$36,225,050 (nine months to 30 September 2016: US\$42,120,928). The sales were split between sales of copper/gold concentrate of US\$13,087,086 (nine months to 30 September 2016: US\$22,442,739) and sales of gold bullion of US\$23,137,964 (nine months to 30 September 2016: US\$19,678,189).

During the nine months to 30 September 2017 the Group produced 1,086 wet tonnes of copper/gold concentrate containing an estimated 8,192 ounces (nine months to 30 September 2016: 1,568 wet tonnes containing 14,174 ounces) although revenue has been recognised for 1,160 tonnes containing an estimated 9,428 ounces (nine months to 30 September 2016: 1,780 wet tonnes containing 15,750 ounces) which were delivered in accordance with the sales contract to the end customer. The unsold material is held as inventory.

The amount of gold sold as concentrate has therefore reduced by approximately 40 per cent although production of gold in concentrate has decreased by 42 per cent. This reduction in the both the production and sale of gold in concentrate has been partly offset by an increase in the production and sale of gold in the form of bullion. The concentrate sales revenue recognised during the first nine months of 2017 included adjustments for shipments sold during the last four months of 2016 but for which final settlement details, including pricing and gold content, were only finalised during 2017. This adjustment was US\$0.34 million with the equivalent adjustment recognised during 2016, relating to gold sold during the last quarter of 2015 being approximately US\$0.53 million. In addition, and as noted in the commentary of the result for the three month period ended 30 September 2017, following a change in purchaser and contract terms for the Group's production of copper/gold concentrate, the Group recognised during September 2016 the sale of an additional shipment of copper/gold concentrate having the effect of reducing inventory of this material and recognition of additional revenue of US\$1.9 million.

The Group also sold 18,439 ounces of gold bullion generating revenue of US\$23,137,964 during the first nine months of 2017 (nine months to 30 September 2016: 15,628 ounces (US\$19,678,189)). Gold bullion production for the first nine months of 2017 was approximately 27,666 ounces by comparison with the same period in 2016 when production was approximately 29,978 ounces.

#### Operating Costs

Operating costs of US\$22,018,171 (nine months to 30 September 2016: US\$22,382,160) 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 three month period to produce the final product sold as shown in the table below

	Nine months ended September 2017	Nine months ended September 2016	Variance	Variance %
Ounces Sold	27,867	31,178	(3,511)	(11%)
	Nine months ended September 2017	Nine months ended September 2016	Variance	Variance %
	US\$'000	US\$'000	US\$'000	%
<b><u>Operating Costs</u></b>				
Labour	9,759	9,260	499	5%
Mining consumables & Maintenance	6,796	7,422	(626)	(8%)
Plant Consumables	3,046	3,271	(225)	(7%)
General Site	2,417	2,430	(13)	(1%)
	22,018	22,383	(365)	(2%)

#### Labour Costs

Labour costs have increased by US\$0.50 million for the nine month period ended 30 September 2017 in comparison to the same period in the previous year due to each Brazilian employee receiving a 10 per cent increase in salary in May 2016 and eight per cent in May 2017 as a result of the national collective agreement in Brazil. Also, The Group did incur one-off termination costs of BrR\$417,000 during the first quarter of 2017 following a reduction in headcount.

#### Mining Costs

Mining consumables and maintenance for the nine month period ended 30 September 2017 have decreased by US\$0.63 million in comparison to the same nine month period from 2016. The main area of cost saving relates to power generation and supply.

#### Plant Costs

Plant costs have decreased by 7 per cent for the nine month period ended 30 September 2017 in comparison to the same period in the previous year. The main area of cost saving relates to power generation and supply.

#### General Site Costs

General site costs for the nine month period ended 30 September 2017 decreased by two per cent versus the same period in the previous year reflecting the reduction in the numbers of operational staff on site during each of the respective periods as well as the reduction in the number of gold ounces produced and sold.

#### Provision for impairment of inventory

The Group calculates unit costs of mined production on a cost per tonne basis irrespective of grade and has established stockpiles of low grade run of mine ore which are available for processing in the future. The Group has assessed the likely future value of these stockpiles and made a general impairment provision of US\$0.62 million during the nine months of 2017 against the carrying value of these coarse ore stockpiles.

#### Treatment Charges

Treatment Charges of US\$0.46 million (2016: US\$0.68 million) include US\$0.38 million (2016: US\$0.86 million) relating to the treatment of the copper concentrate and levied by the smelter, and US\$0.05 million, (2016: US\$0.07) for the cost of weighing, sampling and assay analysis carried out on behalf of the Group and the balance being charges for the refining of gold bullion. The decrease by comparison to the same period in 2016 reflects the decrease in level of concentrate shipped (a decrease in tonnage of 35 per cent).

#### Royalty Charges

Royalty payments of US\$0.38 (nine months to 30 September 2016: US\$0.7 million) comprise statutory levies payable in Brazil. Rates are uniform across all mining operations and currently comprise a one per cent royalty on gold production and a two per cent royalty on copper production. The decrease by comparison with the same period in 2016 reflects an overall decrease in gold sold during the period.

#### Amortisation Charges

Charges for the amortisation of mine property are calculated by reference to the depletion during the quarter, of the total estimated mineable resource at each of the Palito and Sao Chico orebodies. In each case the base carrying cost of the asset is adjusted to include a provision for future mine development costs for each of these orebodies. 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 in the amortisation charge of US\$0.45 million reflects the lower levels of gold production and therefore depletion in the period and the relative strength of the Brazilian Real against the US Dollar compared with the same nine month period in 2016. The average exchange rate for the first nine months of 2017 was BrR\$3.17:US\$1.00, compared with BrR\$3.54:US\$1.00 for the same period in 2016 which represents a 14 per cent strengthening of the Brazilian Real against US Dollar. The amortisation charge is also

impacted by the lower levels of work-in-progress inventories held at the end of the current quarter compared with levels at 30 September 2016

#### Depreciation Charges

Depreciation charges of US\$1.98 million (nine months to 30 September 2016: US\$1.44 million) are in respect of mining and processing plant and equipment and is an increase of US\$0.54 million. The increase is primarily due to the movement in the exchange rate which for the first nine months of 2017 was BrR\$3.17:US\$1.00, compared with BrR\$3.54:US\$1.00 for the same period in 2016 and represents an 11 per cent strengthening of the Brazilian Real against US Dollar. It is also impacted by an increased mobile fleet acquired for both the Palito and Sao Chico Mine operations partly offset by reduced depreciation charges for equipment that remains operational but is reaching the end of its useful life.

#### Operating Loss

The Group has recognised an operating loss before interest and other income of US\$0.38 million, (2016: operating profit of US\$2.3 million) reflective of the lower level of gross profit from operations and after incurring US\$3.83 million (2016: US\$3.81 million) in administrative expenses as well as US\$0.28 (2016: US\$0.25 million) on share based payments. The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the nine months to 30 September 2017 is in respect of options granted between November 2014 and 30 September 2017. The Group also reported a profit of US\$0.13 million from the disposal of assets (2016: US\$0.03 million).

Administration costs of US\$3.83 million for the nine month period ended 30 September 2017 are comparable with the amount of US\$3.81 million in administration costs incurred during the period ended 30 September 2016. Corporate costs in Brazil have decreased by US\$0.29 million during the first nine months of 2017 in comparison to the same period in the previous year reflecting the settlement during 2016 of once off old tax bills relating to the period between 2008-2013. Corporate costs incurred in the United Kingdom for the nine month period ended 30 September 2017 have increased by US\$0.30 million in comparison to the same period of the previous year reflecting costs related to the compilation of a new technical report as well as work done on the evaluation of growth opportunities for the Group.

The Company recorded a foreign exchange loss of US\$144,420 in the nine month period to 30 September 2017 which compares with a foreign exchange loss of US\$101,268 recorded for the nine months ended 30 September 2016. These foreign exchange losses are primarily incurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest and other finance related costs for the nine month period to 30 September 2017 were US\$337,443 compared with US\$3,299,880 for the first nine months of 2016. An analysis of the composition of these charges is set out in the table below:

	<b>Nine Months Ended September 2017</b>	<b>Nine Months Ended September 2016</b>
	<b>US\$</b>	<b>US\$</b>
Interest expense on secured loan	109,074	248,659
Expenses of revaluation of derivatives	82,469	1,343,513
Amortisation of fair value of derivatives	65,000	355,663
Finance cost on gold trading	–	916,253
Interest on trade finance facility	–	256,898
Interest on convertible loan stock	–	137,049
Finance arrangement fee	–	37,500
Asset finance charges	–	4,455
	<hr/>	<hr/>
	337,543	3,299,989
Finance income		
Interest income	(100)	(109)
Net finance expense	<hr/>	<hr/>
	337,443	3,299,880

The interest on the Sprott loan of US\$109,074(2016: US\$248,659) is the cost of nine months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership, with the reduction reflecting the lower levels of loan principal outstanding during the period.

The expense on the revaluation of derivatives of US\$82,469 (nine months to 31 September 2016: US\$1,343,513) represents the expense arising on the revaluation of the fair value of derivatives. This derivative expense relates to the fair value of call options granted in favour of Sprott Resource lending Partnership (“Sprott”) over 6,109 ounces of gold at a strike price of US\$1,320 per ounce exercisable at any time up until 31 December 2019. The fair value was calculated as being US\$732,469 as at 30 September 2017 compared with an initial fair value at the date of grant of US\$650,000. For the first nine months of 2016 the expense on the revaluation of derivatives of US\$1,343,513 represented the loss arising from a period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership LLP and the equity element of the convertible loan stock (US\$966,038). These revaluations reflect in the case of the call options the higher gold price prevailing at the period end and in the case of the convertible loan stock the higher share price at the period end

The amortisation of fair value of derivatives of US\$65,000 represents three months amortisation charge of the fair value ascribed to the call option granted to Sprott on 30 June 2017.

Summary of quarterly results	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	30 September	30 June	31 March	31 December
	2017	2017	2017	2016
	US\$	US\$	US\$	US\$
Revenues	12,908,790	10,142,676	13,173,584	10,472,823
Operating expenses	(7,295,870)	(6,849,960)	(9,792,350)	(7,077,485)
Provision for impairment of inventory	(400,000)	–	(220,000)	–
Amortisation of mine property	(2,191,090)	(1,984,784)	(1,390,406)	(1,193,660)
Depreciation of plant and equipment	(743,896)	(725,373)	(510,298)	(638,977)
Gross profit	2,277,934	582,599	1,260,530	1,562,701
Administration expenses	(1,407,836)	(1,178,903)	(1,241,455)	(1,179,345)
Option costs	(101,665)	(112,412)	(65,620)	(101,071)
Gain on disposal of asset	15,621	115,975	–	34,742
Operating (loss) / profit	784,054	(592,781)	(46,545)	317,027
Exchange	(24,021)	(167,236)	46,837	(135,351)
Net finance expense	(269,501)	(34,159)	(33,783)	(617,228)
Profit / (loss) before taxation	490,532	(794,176)	(33,491)	(435,552)
Income tax expense	(255,481)	(97,461)	(80,552)	3,394,182
Profit / (loss) after taxation	235,051	(891,637)	(114,043)	2,958,630
Earnings / (loss) per ordinary share (basic)	0.03cents	(0.13) cents	(0.016) cents	0.423 cents
Deferred exploration costs	10,235,454	9,868,205	10,234,360	9,990,789
Property, plant and equipment	44,260,723	43,557,012	45,862,328	45,396,140
Total current and other assets	26,498,341	21,798,843	20,668,013	20,454,525
Total assets	80,994,518	75,268,109	76,764,701	75,841,454
Total liabilities	16,396,195	13,373,479	11,966,304	12,462,481
Shareholders' equity	64,598,323	61,894,630	64,798,397	63,378,973

Summary of quarterly results	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	30 September	30 June	31 March	31 December
	2016	2016	2016	2015
	US\$	US\$	US\$	US\$
Revenues	16,209,753	14,232,086	11,679,089	8,042,431
Operating expenses	(10,216,119)	(8,923,316)	(6,689,506)	(4,235,007)
Amortisation of mine property	(2,292,006)	(1,845,601)	(977,573)	(1,689,113)
Depreciation of plant and equipment	(615,155)	(582,612)	(239,154)	(547,846)
Gross profit	3,086,473	2,880,557	3,772,856	1,570,465
Administration expenses	(1,265,828)	(1,387,719)	(1,129,632)	(1,355,099)
Option costs	(101,072)	(25,640)	(123,116)	(101,019)
Operating profit	1,719,573	1,467,198	2,520,108	114,347
Exchange	(28,860)	(31,609)	(40,799)	99,958
Net finance (expense) / income	(947,210)	(1,374,665)	(978,005)	70,916
Profit / (loss) before taxation	743,503	60,924	1,501,304	285,221
Income tax expense	(278,023)	(402,407)	(153,639)	(525,032)
Profit / (loss) after taxation	465,480	(341,483)	1,347,665	(239,811)
Earnings / (loss) per ordinary share (basic)	0.071 cents	(0.052) cents	0.205 cents	(0.036) cents
Deferred exploration costs	9,731,144	9,550,074	9,324,314	8,679,246
Property, plant and equipment	44,860,837	46,927,210	42,123,789	40,150,484
Total current and other assets	22,798,838	26,427,165	23,092,061	17,663,339
Total assets	77,390,819	82,904,449	74,540,164	66,493,069
Total liabilities	16,648,980	25,336,298	22,015,609	19,709,424
Shareholders' equity	60,741,839	57,568,151	52,524,555	46,783,645

## Liquidity and Capital Resources

### Non-current assets

On 30 September 2017, the Group's net assets amounted to US\$64.70 million, which compares to US\$63.38 million as reported at 31 December 2016. The Group has reported a small post-tax loss for the nine month period to 30 September 2017, and the increase in the net assets reflects the general effect on the Balance Sheet arising from the strengthening of the Brazilian Real between 31 December 2016 when the exchange rate was BrR\$3.259 to US\$1.00 and 30 September 2017 when the rate was US\$3.167 to US\$1.00.

Non-current assets totalling US\$57.76 million at 30 September 2017 (31 December 2016: US\$58.64 million), are primarily comprised of property, plant and equipment, which as at 30 September 2017 totalled US\$44.26 million (31 December 2016: US\$45.40 million) as well as development and deferred exploration costs with a value of US\$10.24 million (31 December 2016: US\$10.00 million). The Group also carries a provision for a deferred tax asset of US\$3.27 million (31 December 2016: 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 recognised a deferred tax asset for the first time for the year ended 31 December 2016. For the first nine months of 2017 the Group released US\$0.18 million of this Deferred Tax asset to the income statement reflecting the estimate of the benefit of the tax losses utilised in the period.

The Group's property, plant and equipment include the value of its mine assets at 30 September 2017 of US\$30.42 million (31 December 2016: US\$31.79). The Group owns land, buildings, plant and equipment with a value of US\$10.72 million (31 December 2016: US\$10.78 million). During the first nine months of 2017 the Group has acquired additional plant and machinery (including assets acquired under finance leases) to the value of US\$1.70 million and capitalised expenditure of US\$3.2 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\$4.40 million has been recorded for the nine month period to 30 September 2017, (nine months to 30 September 2016: US\$4.2 million). The amortisation charge is calculated based on the number of ounces of gold extracted from the mine during the period. Whilst gold production has been lower compared with 2016, the increase of US\$0.2 million in the amortisation charge for the first nine months of 2017 is a result of the strengthening of the Brazilian Real against the US Dollar having the effect of an increased charge when reported in US Dollars.

Deferred exploration costs as at 30 September 2017 totalled US\$10.23 million (31 December 2016: US\$10.00 million), which relates to capitalised exploration expenditures around the Palito Mine, Sao Chico Mine and the wider Jardim Do Ouro project area. The small movement in the carrying value of the asset is as a result of the strengthening of the Brazilian Real from BrR\$3.259 to US\$1.00 at 31 December 2016 to US\$3.167 to US\$1.00 at 30 September 2017.

### Finance and debt

On 30 June 2017 the Group entered into a new agreement with the Sprott Resource Lending Partnership ("Sprott") for a US\$5 million loan expiring 31 December 2019 (to include US\$1.37 million being the remaining loan principal under the previous arrangement) although the incremental funds of US\$3.63 million were not received until 5 July 2017. The Sprott Facility carries interest at a rate of 10 per cent per annum and the first repayment is not due until January 2018.

## Working Capital

The Group had a working capital position of US\$13.87 million at 30 September 2017 compared to US\$8.88 million at 31 December 2016, the improvement of US\$4.99 million being detailed in the table below:

	September 2017 US\$	December 2016 US\$	Variance US\$
<b><u>Current assets</u></b>			
Inventories	7,196,529	8,110,373	(913,844)
Trade and other receivables	1,433,010	1,233,049	199,961
Prepayments	4,950,976	3,696,550	1,254,426
Cash and cash equivalents	9,753,385	4,160,923	5,592,462
<b>Total current assets</b>	<b>23,233,900</b>	<b>17,200,895</b>	<b>6,133,005</b>
<b><u>Current liabilities</u></b>			
Trade and other payables	5,313,706	4,941,775	371,931
Trade finance facility	–	415,607	(415,607)
Secured loan facility	1,290,000	1,371,489	(81,489)
Lease finance liabilities	1,054,632	1,176,961	(122,329)
Derivative financial liabilities	732,470	–	732,470
Accruals	450,867	415,810	35,057
<b>Total current liabilities</b>	<b>8,841,675</b>	<b>8,321,642</b>	<b>520,033</b>
<b>Working capital</b>	<b>14,492,225</b>	<b>8,879,253</b>	<b>5,612,972</b>
<b><u>Non-current liabilities</u></b>			
Trade and other payables	2,276,769	2,211,078	65,691
Provisions	1,905,230	1,851,963	53,267
Secured loan facility	3,125,000	–	3,125,000
Lease finance liabilities	247,521	77,798	169,723
<b>Total non-current liabilities</b>	<b>7,554,520</b>	<b>4,140,839</b>	<b>3,413,681</b>

## Inventories

The level of inventory held by the Group at 30 September 2017 has decreased by US\$0.91 million since the 31 December 2016. A breakdown of the Group's inventories at the 30 September 2017 and at 31 December 2016 is set out in the table below:

	30 September 2017 US\$	31 December 2016 US\$	Variance US\$	Variance %
Stockpile of mined ore	1,352,565	2,829,600	(1,477,035)	(52%)
Finished Goods awaiting sale	1,679,363	1,572,774	106,588	7%
Other material in process	962,063	618,350	343,712	56%
Stockpile of flotation tails	521,570	708,775	(187,205)	(26%)
	<b>4,515,561</b>	<b>5,729,500</b>	<b>(1,213,939)</b>	<b>(21%)</b>
Consumables	2,680,968	2,380,873	300,095	13%
<b>Total Inventory</b>	<b>7,196,529</b>	<b>8,110,372</b>	<b>(913,844)</b>	<b>(11%)</b>

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 September 2017 of US\$2.68 million have increased by approximately US\$0.30 million by comparison with the same inventory of consumables at 31 December 2016. 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 have increased reflecting a requirement to keep on hand higher levels of items related to equipment and plant maintenance.

The value of the stock of surface ore has decreased by 52 per cent from US\$2.83 million to US\$1.14 million as the Group has sought to reduce its overall levels of coarse ore stockpiles. The total coarse ore

stockpile tonnage has decreased from 21,429 tonnes at 31 December 2016 to 15,216 tonnes at 30 September 2017, a decrease of 29 percent. In addition, the Group has made a general provision of US\$620,000 against the carrying values of these low grade coarse ore stockpiles.

The value of finished goods awaiting sale at 30 September 2017 of US\$1.68 million compares with the value at 31 December 2016 of US\$1.57 million. The total value of finished goods held in stock at 30 September 2017 comprises 88 bags of copper/gold concentrate (31 December 2016: 162 bags) and bullion on hand for smelting which, at 30 September 2017, was 47,023 grammes valued at US\$1.16 million in comparison to 13,508 grammes at 31 December 2016 valued at US\$0.33 million.

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 2.5 g/t. At 31 December 2016, there were approximately 20,800 tonnes of flotation stockpile on site with a value of US\$0.71 million. During the first nine months of 2017 the Group processed approximately 4,941 tonnes of this stockpile leaving approximately 14,869 tonnes at 30 September 2017 with a value of US\$0.52 million.

The valuation attributable to gold locked up within the processing plant has increased to US\$0.96 million as at 30 September 2017 (31 December 2016: US\$0.62 million) reflecting normal operational variances.

#### Trade and Other Receivables

Trade and other receivables at 30 September 2017 of US\$1.43 million have increased by US\$0.2 million from US\$1.23 million at 31 December 2016.

Also included within trade and other receivables are other some trade advances for freight and insurance which have decreased from US\$0.18 million at 31 December 2016 to US\$0.04 million at 30 September 2017.

#### Prepayments

Prepayments have increased by US\$1.25million between 31 December 2016 and 30 September 2017. This is primarily due to an increase in prepaid taxes which have increased by US\$1.15 million between December 2016 and September 2017. This reflects an increase in the levels of ICMS (States taxes) and PIS and Cofins (federal taxes) that remain to be recovered at the period end. These taxes are levied on the purchase of goods and services and may be repaid or recovered by offset against other state and federal tax liabilities.

#### Cash

Between 31 December 2016 to 30 September 2017 cash balances have increased by approximately US\$5.60 million which is primarily as a result of the receipt of the Sprott loan totalling US\$3.67 million on 5 July 2017. The Group has also improved its cash position over the first nine months of 2017 as a result of its positive operational performance.

#### Current Liabilities

Current liabilities have increased by US\$1.15 million from US\$8.32 million at 31 December 2016 to US\$9.47 million at 30 September 2017. Further details of this increase are set out below.

#### Trade Creditors

Trade and other payables amounting to US\$4.94million at 31 December 2016 compare with an amount owed by the Group of US\$5.3 million at 30 September 2017, an increase of US\$0.37 million. This increase in trade creditors is as a result of timing differences between the two period ends.

#### Secured loan facility with Sprott

On 30 June 2017 the Group entered into a new agreement with Sprott for a US\$5.00 million loan expiring 31 December 2019 (to include US\$1.37 million being the remaining loan principal under the previous arrangement) with the loan repayments commencing over 24 months starting in January 2018. Of the total loan US\$3,125,000 is due in more than 12 months. The total loan balance shown in the table above is US\$4.42 million with the balance of US\$0.58 representing the unamortised portion of the fair value derivative relating to the gold call options granted as part of the loan.

#### Obligations under Finance Leases

Obligations under finance leases for less than one year have increased by US\$0.12 million from US\$1.17 million at 31 December 2016 to US\$1.05 million at 30 September 2017. During the first nine months of 2017, the Group purchased one new underground loader, however this was offset by lease repayments totalling approximately US\$0.48 million. All finance leases are held by Serabi Mineracao SA ("SMSA") in Brazil but are denominated in Euro or US Dollar before being converted to Brazilian Reais, the functional currency for SMSA.

#### Derivative Financial Liabilities

On 30 June 2017, the Group entered into a new loan agreement with Sprott for a US\$5 million loan facility. As part of this arrangement the Group has granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,320 which expire on 31 December 2019. On 30 June 2017, the date these call options were granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 has been recognised in the accounts. At 30 September 2017, the derivative provision was revalued to US\$732,469 with the increase in the provision of US\$82,470 being reflected as an expense in the income statement.

#### 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 30 September 2017 was US\$1.90 million. The value at 31 December 2016 was US\$1.85 million. There has been no movement in the estimations underlying the provision and the small change in the value of the provision is the result of exchange rate movements.

The property acquisition payment due by the Group has decreased by US\$0.07 million as a result of the strengthening of the Brazilian Real against the US Dollar between 31 December 2016 and 30 September 2017.

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

#### **Non-IFRS Financial Measures**

The gold mining industry has sought to establish a common voluntary standard to enable investors to assess and compare the performance of companies engaged in gold mining activities. The Group has elected to provide calculations of Cash Costs and All-In Sustaining Costs and has confirmed its calculation of these performance measurements with the guidance notes released by the World Gold Council. The measures seek to capture all of the important components of the Group's production and related costs. In addition, management utilises these and similar metrics as a valuable management tool to monitor cost performance of the Group's operations. These measures and similar measures have no standardised meaning under IFRS and may not be comparable to similar measures presented by other companies. This measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with 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.

	9 Months to 30 September 2017 (US\$)	9 Months to 30 September 2016 (US\$)	12 Months to 31 December 2016 (US\$)
Cost of sales	23,938,180	25,828,941	32,906,426
<b>Add/(subtract)</b>			
Finished goods and WIP inventory stock adjustment	(867,423)	(1,469,124)	(914,050)
Grossing up of revenue for metal deductions	476,534	762,530	1,022,048
By-product credits	(1,549,572)	(2,033,197)	(2,691,851)
Total Cash Cost of production	21,997,720	23,089,150	30,322,573
Corporate G&A (excl. exceptional items)	3,828,194	3,373,459	4,962,524
Share-based remuneration	279,697	249,828	350,899
Capitalised cost for mine development	3,155,641	1,718,759	2,366,486
All-In Sustaining Cost of production	29,261,252	28,431,197	38,002,482

	9 Months to 30 September 2017 (ounces)	9 Months to 30 September 2016 (ounces)	12 month to 31 December 2016 (ounces)
Gold production for Cash Cost and AISC purposes	27,666	29,900	39,390

	9 Months to 30 September 2017 (US\$)	9 Months to 30 September 2016 (US\$)	12 Months to 31 December 2016 (US\$)
<b>Total Cash Cost of production (per ounce)</b>	US\$795	US\$772	US\$770
Total All-In Sustaining Cost of production (per ounce)	US\$1,058	US\$951	US\$965

## 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 approximately US\$48,000 (31 December 2016: US\$90,000).

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
	\$	\$	\$	\$	\$
Short term debt	4,415,000	1,290,000	3,125,000	—	—
Capital lease obligations	1,302,153	1,054,632	247,521	—	—
Operating leases	175,525	73,838	101,687	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
<b>Total contractual obligations</b>	<b>5,892,678</b>	<b>2,418,470</b>	<b>3,474,208</b>	<b>—</b>	<b>—</b>

## Transactions with related parties of the Group

During the period the Group has not entered into any transactions with related parties of the Group.

## Financial and other instruments

The Group's and the Company's financial assets at 30 September 2017 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 30 September 2017, the Group carried inventory of finished goods and work-in-progress valued at US\$4.52 million (31 December 2016: US\$5.73 million) including US\$0.52 million of copper/gold concentrate representing 88 tonnes of material awaiting sale (31 December 2016: US\$1.24 million; 162 tonnes) and US\$3.99 million of other material in process (31 December 2016: US\$4.50 million). All inventory as at 30 September 2017, 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 the preceding two years the Group has taken out fixed rate finance leases for the acquisition of some equipment and, during 2016, utilised floating rate short term trade finance, in respect of sales of copper/gold concentrate production and in September 2014 took out a US\$8 million loan facility with Sprott of which US\$1.37 million remained outstanding as at the start of the year.

On 30 June 2017, the Group signed a new US\$5 million loan facility with Sprott expiring on 31 December 2019 and, to be used to support general working capital requirements (to include the rolling over of any remaining liability under the previous arrangement). The increased funds of US\$3.63 million were received on 5 July 2017. There have been no repayments of this loan during 2017 and the balance outstanding at 30 September 2017 is US\$5.0 million.

### *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 has also used floating rate short term trade finance and fixed rate finance leases to finance its activities and on 30 June 2017 increased a secured loan facility from US\$1.37 million to US\$5.00 million, all of which remained outstanding as at 30 September 2017.

As at 30 September 2017, the amount outstanding under a trade finance facility available in connection with the sale of its copper/gold concentrate was US\$ nil (31 December 2016: US\$415,607).

As at 30 September 2017, in addition to the Sprott Facility the Group had obligations under fixed rate finance leases amounting to US\$1.30 million (31 December 2016: US\$1.25 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 30 September 2017:

	30 September 2017	31 December 2016
	US\$	US\$
Due in less than one month	1,784,756	1,774,068
Due between one month and three	2,807,909	2,462,350
Due between three months and one year	3,056,672	4,179,387
Total due within one year	7,658,337	8,415,805
Due more than one year	3,372,521	2,288,876
Total	11,030,858	10,704,681

### *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:

	30 September 2017 US\$	31 December 2016 US\$
US Dollar	8,747,740	3,425,809
Canadian Dollar	48,284	(5,183)
Sterling	66,581	136,159
Australian Dollar	2,151	6,350
Euro	51,446	53,261
Brazilian Real	837,184	544,087
<b>Total</b>	<b>9,753,385</b>	<b>4,160,923</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\$16,137,371 (31 December 2016: US\$9,090,502). 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.

## Subsequent events

On 13 November 2017, Serabi signed a conditional acquisition agreement to acquire 100 per cent. of the issued share capital and inter-company debt of Chapleau Resources Ltd (“Chapleau”), a Canadian registered company wholly-owned by Anfield Gold Corp (“Anfield”), which holds the Coringa gold project (“Coringa”) located in the Tapajos gold province in Para, Brazil.

Serabi will acquire the entire issued share capital of Chapleau together with its outstanding inter-company debts owed to Anfield. Serabi will make an initial payment to Anfield on closing of the transaction (“Closing”) of US\$5 million in cash from existing resources. A further US\$5 million in cash is payable within three months of Closing and a final payment of US\$12 million in cash will be due upon the earlier of either the first gold being produced or 24 months from the date of Closing (both payments together being the “Deferred Consideration”). The total proposed consideration for the acquisition amounts to US\$22 million in aggregate.

The Agreement is conditional on a number of items including:

- Completion by Serabi of its due diligence, including the receipt of satisfactory legal opinions as to mining title, labour, environmental and tax matters;
- Approval of the shareholders of Anfield and approval of the TSX-V; and
- Approval of Serabi’s secured lender (Sprott).

Pursuant to the Agreement, Anfield has provided Serabi with certain indemnities in respect of future claims relating to activities prior to Closing, including labour and tax liabilities. In addition, the Agreement includes representations and warranties from Anfield in favour of Serabi as would be customary for a transaction of this nature both on execution of the Agreement and at Closing.

Serabi has agreed, on Closing, to grant to Anfield, subject to the approval of Serabi’s secured lender and, if required, sub-ordinated to any security granted by Serabi to its secured lender, a pledge over the shares of Chapleau as security for the full and irrevocable payment of the Deferred Consideration.

Anfield proposes to hold its shareholder meeting to approve the proposed transaction on 19 December 2017, and Closing is anticipated to occur shortly thereafter.

Chapleau is not required to prepare audited financial statements. Based on information provided by Beech and extracted from the unaudited consolidated financial statements of Beech to 31 December 2016, Chapleau on a consolidated basis, reported a loss before taxation of C\$22.3 million for the 12 month period ended 31 December 2016 after (i) expensing exploration and evaluation expenditure of C\$7.9 million, (ii) recognising a foreign exchange loss of the capitalisation of intergroup loans into shares of Chapleau Brazil of C\$13.7 million, and (iii) other one-off costs estimated at C\$1.3 million. Chapleau had no revenues. As at 30 June 2017 total assets and shareholders’ equity amounted to C\$19.6 million and C\$(20.3 million) respectively with shareholder loans totalling C\$38.6 million. The balance sheet carrying value of property, plant and equipment associated with the Coringa project as at 30 June 2017 amounted to C\$16.6 million which excludes past exploration costs as these have been expensed. As at 30 June 2017 Chapleau had net cash and cash equivalents of C\$2.5 million and except for intercompany loans (amounting to C\$38.6 million), which will be assigned to Pine on Closing, had no borrowings..

## 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 2016 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.

The amounts recognised in the consolidated financial statements are derived from the Group's best estimation and judgement.

#### ***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 nine month period ended 30 September 2017 that have materially affected, or are reasonably likely to materially affect, the Group's internal controls over financial reporting.

## Disclosure of outstanding share data

The Company had the following Ordinary Shares, Stock Options and Warrants outstanding at 13 November 2017:

Ordinary Shares	698,701,772
Stock Options	49,760,000
Fully diluted ordinary shares outstanding	<u>748,461,772</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 30 years' experience in the mining industry. He holds a BSc (Hons) Geology, University of London, a MSc Mining Geology, University of Leicester and is a Fellow of the Institute of Materials, Minerals and Mining and a Chartered Engineer of the Engineering Council of UK, recognising him as both a Qualified Person for the purposes of Canadian National Instrument 43-101 and by the AIM Guidance Note on Mining and Oil & Gas Companies dated June 2009.*

## Cautionary statement on forward-looking information

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

## Risks and uncertainties

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

<b>ECONOMIC RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<b>Changes in gold prices</b>	The profitability of the Group's operations is dependent upon the market price of gold. Gold prices fluctuate widely and are affected by numerous factors beyond the control of the Group. Reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Group's investment in mining properties and increased amortisation, reclamation and closure charges.	<b>High</b>	Management closely monitors commodity prices and economic and other events that may influence commodity prices.  The Board will use hedging instruments if and when it considers it appropriate.
<b>Currency fluctuations may affect the costs of doing business and the results of operations</b>	The Group's major products are traded in prices denominated in US dollars. The Group incurs most of its expenditures in Brazilian Reals although it has a reasonable level of expenses in US Dollars, UK Pounds and other currencies. 2015 was a period of significant weakening of the Brazilian Real against the US Dollar whilst in 2016 there was a 20 per cent strengthening.	<b>High</b>	Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.

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

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<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>The exploration licence for the Sao Chico property expired March 2014. The Group has begun the process of applying for a full mining licence and has received no indication that, provided that the content and form of the application is made in accordance with prescribed regulations, a mining licence would 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>		<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>
<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></p>	<p>The Sao Chico Mine has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource and the Group has declared that commercial production has been attained effective as of 1 January 2016. There is however no NI 43-101 compliant technical report commissioned to date to demonstrate whether or not this resource can be mined on a commercial scale or that any mining activities that might be undertaken will be profitable in the future.</p>	<b>High</b>	<p>Management has made its own assessment of the Sao Chico Mine and during 2015 the mine has been in a development phase. Whilst management have noted, during the course of the development mining undertaken in 2015, that the mineralisation is more complex than was initially envisaged, it has now put in place changes to the mine plans and mining methodology to address the issues that were encountered.</p> <p>Management is now confident, based on its experience and knowledge, that the Sao Chico Mine will be a commercially viable mining operation.</p>
<p><i>Exploration and development of the Group's other properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional funding</i></p>	<p>Whilst the Group anticipates that it will use cash flow generated from operations at the Palito and Sao Chico Mines to finance further exploration and development activities at the Group's other properties, any cash flow that the Group generates may not be sufficient to meet these future exploration and development activities. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any of the Group's other properties or even a loss of a property interest.</p>	<b>Low</b>	<p>Management of capital resources is a high priority for the Group and prior to taking any development decision the Group will seek to ensure, to the greatest extent possible, that the development is fully funded and will manage the development budgets and programmes to minimise and anticipate any potential budget over-runs.</p>
<p><i>The Group may experience higher costs and lower</i></p>	<p>Mining operations often experience unexpected problems during the life of the mine which may result from events of nature,</p>	<b>Medium</b>	<p>Management is experienced with similar mining operations and has gained valuable operational experience at both</p>

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>revenues than estimated due to unexpected problems</i>	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.		Palito and Sao Chico. Management have, during 2015, increased the number of mining areas that can be active at any time at Palito and established increased process capacity levels which it does not intend to be fully utilised at all times.  In this way it anticipates that short term operational issues should not be unduly disruptive and that any shortfall can be caught up quickly once the issue is resolved.
<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 production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability.	<i>Medium</i>	The Group's operational teams regularly monitor mining risks, and report to the CEO who, in consultation with the Board, is responsible, on behalf of the Board, for ensuring appropriate measures are in place for anticipating, and responding to, such matters.
<i>If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Group's financial condition and 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.	<i>Medium</i>	The Groups mineral resource estimates are prepared by either in-house staff or third party consultants who have considerable experience and as appropriate are certified in accordance with recognised international standards.
<i>The Group is</i>	In the ordinary course of business, the Group	<i>Low</i>	The Group maintains good relationships

<b>OPERATIONAL RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>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>	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.		with the appropriate licencing authorities and management are responsible for ensuring that conditions are adhered to and that renewals are submitted in a timely and complete manner.
<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.	<i>Low</i>	The Group anticipates that it will be in a position to generate positive cash flow and have re-paid debt by the end of 2016 increasing its relative strength to attract and retain employees and to acquire and develop new properties and projects.

<b>COUNTRY RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<i>The Group's operations are conducted in Brazil and, as such, the Group's operations are exposed to various levels of political, economic and other risks and uncertainties</i>	The government of Brazil has been seeking to introduce a new Mining Code for some time and the matter continues to be area of debate. Any new legislation could result in all current applications being cancelled and require applicants to make new applications under the terms of and in compliance with the new Mining Code. New proposals were announced in July 2017 including the establishment of a new body to replace the DNPM and have oversight of the mining industry and changes to the royalty rates introducing a proposal to increase the government royalty on gold production from 1 per cent to 2 per cent. These proposals are being debated before being passed into law.	<i>Medium</i>	The mining industry in Brazil is dominated by a small number of influential local companies and the interests and needs of smaller mining operations can be limited. The Group is affiliated with group's who help promote and lobby for the needs of smaller mining enterprises.

<b>OTHER RISKS</b>			
<b>Risk</b>	<b>Comment</b>	<b>Business Impact</b>	<b>Mitigation</b>
<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 new loan agreement in on 30 June 2017 for a facility of US\$5 million. 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 at the current time anticipates meeting the on-going debt servicing obligations.
<b>Portfolio risk of having 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.