SERABI GOLD

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## For the three and six month periods ended 30 June 2018

**14 August 2018**

**SERABI GOLD PLC**
**Management's Discussion and Analysis**
**for the three and six month periods ended 30 June 2018**

## Introduction

This Management's Discussion and Analysis ("MD&A") dated 14 August 2018 provides a review of the performance of Serabi Gold plc ("Serabi", the "Company" or the "Group"). It includes financial information from, and should be read in conjunction with, the interim unaudited condensed financial statements of the Group for the three and six month periods ended 30 June 2018 and also read in conjunction with the Group's annual report and audited consolidated financial statements and the Group's MD&A for the twelve month period ended 31 December 2017.

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

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

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

## Overview

The Company is a United Kingdom registered and domiciled gold mining and development company based in London, England. The Group has a current 40,000 ounce per annum producing gold operation in the Tapajos region in the State of Para in Brazil. This is held through its wholly owned subsidiaries Serabi Mineração S.A. and Gold Aura do Brasil Mineração Ltda. On 21 December 2017, the Group acquired the Coringa Gold Project ("Coringa") also located in the Tapajos Region approximately 200 kilometres to the south of the Jardim do Ouro project area ("JDO Project"). This interest is held through a wholly owned subsidiary Chapleau Exploração Mineral Ltda ("Chapleau Brazil").

The current mining operations within the Palito Complex are over the Palito orebody ("Palito") and the Sao Chico orebody ("Sao Chico") and lie within the larger JDO Project which comprises a series of contiguous exploration licences covering an area of over 45,000 hectares, and lies on the 50 kilometres wide north west to south east trending Tocantinzinho Trend, a 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 operation is fully permitted and has a mining licence issued in October 2007, covering 1,150 hectares. 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 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.

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 the Palito deposit. Initial development of the mine portal and ramp was undertaken during 2015 with the Main Vein intersected in January 2015. 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. Ore from the Sao Chico deposit 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. The ore passes initially to a gravity concentrator after milling, with the concentrate produced being passed through the In-Line Leach Reactor ("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.

On 12 April 2018 the Company completed a Subscription Agreement with Greenstone Resources II LP ("Greenstone"). Greenstone subscribed ("the Subscription") for 297,759,419 New Ordinary Shares ("the Subscription Shares") at a price of 3.6 pence per share (the "Subscription Price"). The New Ordinary Shares issued pursuant to the Subscription rank pari passu with the existing Ordinary Shares.

On 15 May 2018 the Company completed the placing of a further 176,678,445 New Ordinary Shares ("Placing Shares") at a price of 3.6 pence per Placing Share (the "Placing Price"), raising gross proceeds of £6.36 million for the Company. The Placing Shares rank pari passu with the existing Ordinary Shares.

On 20 June 2018 the Company undertook a consolidation of its existing Ordinary Shares whereby one new Ordinary Share with a par value of 10 pence ("New Ordinary Shares") was exchanged for every 20 existing Ordinary Shares with a par value of 0.5 pence each ("Existing Ordinary Shares"). Each New Ordinary Share confers upon the holder identical rights to the Existing Ordinary Shares.

In January 2018 the Group released a technical report (the NI 43-101 Technical Report Palito Mining Complex, Brazil) prepared by its consultants, SRK Consultants (US) Inc ("SRK") (the "Palito Complex Technical Report") which provided updated estimates of the Mineral Reserves and Mineral Resources for each of the Palito and Sao Chico orebodies. The report estimated, as of 30 June 2017, an NI 43-101 compliant Proven and Probable Reserves for the Palito ore body of 157,000 ounces of gold at an average grade of 7.99 grammes per tonne ("g/t") and included within a Measured and Indicated mineral resource of 271,000 ounces of gold and an Inferred mineral resources of 177,000 ounces of gold and for the Sao Chico orebody an NI 43-101 compliant Proven and Probable Reserves of 24,000 ounces of gold at an average grade of 8.43 g/t, included within a Measured and Indicated mineral resource of 36,000 ounces of gold and an Inferred mineral resources of 54,000 ounces of gold.

Coringa was acquired by the Group from Anfield Gold Corp. ("Anfield") on 21 December 2017 (the "Acquisition"). Management considers that Coringa is very much a "carbon-copy" of Palito in terms of the geology, size and mining operations that will be used. Coringa is an advanced development project and a feasibility study prepared by MTB Project Management Professionals of Colorado USA for Anfield and Chapleau Resources Ltd ("Chapleau"), published in September 2017 ("the Coringa FS") estimated:

- Gold production of approximately 32,000 ounces per year averaged over a 4.8 year mine life;
- Average life of mine process fully-diluted gold grade of 6.5 g/t;
- Post-tax internal rate of return of 30.1 per cent.;
- Post-tax net present value of US$30.5 million at a five per cent. discount rate;

- Remaining capital costs of US$28.8 million;
- Average net cash operating costs of US$585 per ounce and all-in sustaining costs of US$786 per ounce; and
- Probable mineral reserves of 161,000 ounces of gold and 324,000 ounces of silver.

Serabi has made two payments to Anfield in respect of the Acquisition each of US$5 million in cash. 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 21 December 2017. The total proposed consideration for the acquisition amounts to US$22 million in aggregate.

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 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. On 19 January 2018, the facility was increased to US$8 million to provide additional working capital to the Group and in particular to reimburse the funds used to settle the initial US$5 million payment made to Anfield in respect of the Acquisition.

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**

| | **6 months to 30 June 2018 US$** | **3 months to 30 June 2018 US$** | 6 months to 30 June 2017 US$ | 3 months to 30 June 2017 US$ |
|---|---|---|---|---|
| **Revenue** | **25,700,634** | **11,873,783** | 23,316,260 | 10,142,676 |
| **Cost of Sales** | **(17,272,887)** | **(7,783,786)** | (16,862,310) | (6,849,960) |
| **Gross Operating Profit** | **8,227,747** | **3,889,997** | 6,453,950 | 3,292,716 |
| **Administration and share based payments** | **(2,780,485)** | **(1,422,883)** | (2,482,415) | (1,175,340) |
| **EBITDA** | **5,447,262** | **2,467,114** | 3,971,535 | 2,117,376 |
| **Depreciation and amortisation charges** | **(4,490,900)** | **(2,498,047)** | (4,610,861) | (2,710,157) |
| **Operating profit before finance and tax** | **956,362** | **(30,933)** | (639,326) | (592,781) |
| | | | | |
| **Loss after tax** | **(482,634)** | **(493,420)** | (1,005,680) | (891,637) |
| **Earnings per ordinary share (basic)** | **(1.10c)** | **(0.94c)** | (2.88c) | (2.55c) |
| | | | | |
| **Average gold price received** | **US$1,309** | **US$1,296** | US$1,221 | US$1,242 |

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| **Cash and cash equivalents** | **21,052,325** | 4,093,866 |
| **Net assets** | **74,465,696** | 60,770,712 |

**<u>Cash Cost and All-In Sustaining Cost ("AISC")</u>**

| | **6 months to 30 June 2018** | 6 months to 30 June 2017 |
|---|---|---|
| **Gold production for cash cost and AISC purposes** | **18,751** | 18,009 |
| | | |
| **Total Cash Cost of production (per ounce)** | **US$861** | US$819 |
| **Total AISC of production (per ounce)** | **US$1,121** | US$1,072 |

**Key Operational Information**

| SUMMARY PRODUCTION STATISTICS FOR 2018 YEAR TO DATE AND 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Qtr 1 2018** | **Qtr 2 2018** | **Year to Date 2018** | Qtr 1 2017 | Qtr 2 2017 | Qtr 3 2017 | Qtr 4 2017 | Total 2017 |
| **Horizontal development – Total** | **Metres** | **2,353** | **2,744** | **5,097** | 2,251 | 1,855 | 2,996 | 2,762 | 9,864 |
| **Mined ore – Total** | **Tonnes** | **39,669** | **36,071** | **75,740** | 36,918 | 41,684 | 41,263 | 49,011 | 168,876 |
| | **Gold grade (g/t)** | **7.49** | **8.12** | **7.79** | 10.12 | 7.80 | 9.80 | 8.25 | 8.92 |
| **Milled ore** | **Tonnes** | **43,145** | **38,155** | **81,300** | 41,722 | 43,294 | 44,205 | 43,345 | 172,565 |
| | **Gold grade (g/t)** | **7.04** | **7.71** | **7.36** | 7.62 | 6.29 | 7.28 | 7.27 | 7.11 |
| **Gold production (1) (2)** | **Ounces** | **9,188** | **9,563** | **18,751** | 9,861 | 8,148 | 9,657 | 9,337 | 37,004 |

(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 2018 include treatment of 6,624 tonnes of flotation tails at a grade of 3.92 g/t (2017 full year : 4,568 tonnes)
(3) The table may not sum due to rounding.

**Financial Highlights**

- Cash holdings at period end of over US$21 million (31 December 2017: US$4.1 million).
- EBITDA for the six months to 30 June 2018 has increased by 37% to US$5.45 million (six months to 30 June 2017: US$3.97 million).
- Operating profit before finance and tax for the six month period of US$956,362 (six months to 30 June 2017: loss of US$639,326).
- Completion of share placements raising gross proceeds of US$23.8 million with strategic and institutional investors.
- Payment, on 16 April 2018, of second US$5 million instalment for the purchase of Chapleau Resource Ltd and the Coringa Gold Project.
- Consolidation of share capital completed on 19 June 2018, with every 20 existing ordinary shares being exchanged for 1 new ordinary share.

**2018 Guidance**

- Management maintain its 2018 guidance that gold production for 2018 will exceed that of 2017 and be up to 40,000 ounces.

**Operational Highlights**

- Second quarter production of 9,563 ounces of gold bring total production for the year to 18,751 ounces.
- Mine production for the year to date totalling 75,740 tonnes at 7.79 g/t of gold.
- 81,300 tonnes of run of mine ("ROM") ore processed through the plant, for the year to date, from the combined Palito and Sao Chico orebodies, with an average grade of 7.36 g/t of gold.
- Additional 6,624 tonnes of historical tailings processed through the leaching circuit at a grade of 3.92 g/t of gold.
- 5,097 metres of horizontal mine development completed during the first six months of the year.
- Palito development and production continues to focus on the four main sectors of Senna, Pipocas, G3 and Mogno, whilst in the Sao Chico orebody, the main ramp is now close to reaching the next planned level at -

15mRL, approximately 280 vertical metres below surface. Production is coming from levels 70 and 56mRL, with levels 10 and -3mRL in development.

- Step out surface drilling is underway on both the Palito and Sao Chico orebodies with initial drilling results to be released during the third quarter.
- By the end of the second quarter of 2018, surface ore stocks were approximately 7,800 tonnes, (March 2018: 10,200 tonnes) with an average grade of 3.5 g/t of gold, together with approximately 36,000 tonnes of flotation tailings grading approximately 3.0 g/t gold.

**Outlook and Strategy**

Operations

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 26 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 26 veins, developed to a depth of approaching 300 metres and over a strike length of over one kilometre, with drill holes now extending that strike length to over 1.5 kilometres. Management consider that there is strong potential for the Palito veins to continue both at depth and 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 the date of this report, the Group is actively drilling the G3 orebody to both the north at depth and the south. Although the programme is currently ongoing, numerous economic intersections have already been recorded. Drilling continues and although many assay results are pending, the mineralisation has generally been intersected as anticipated.

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 much 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 later in 2016 that levels of stoping activity began to increase. 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 focussing on the deeper part of the mine, and the depth of the central ore zone.

The Group has been conducting extensive test work to assess the benefits of ore-sorting to further enhance ore feed grade and to reduce waste entering the process plant. This will also free plant capacity for future organic growth. Test on the Palito ore have been extremely encouraging and further tests on Sao Chico ore have also returned good results. The Company has taken the decision to purchase an ore sorting unit, and this is now being designed and expected to be commissioned in early 2019. The Group therefore does not expect to see this process change to have any impact during 2018.

Near-term production growth for the Palito Complex

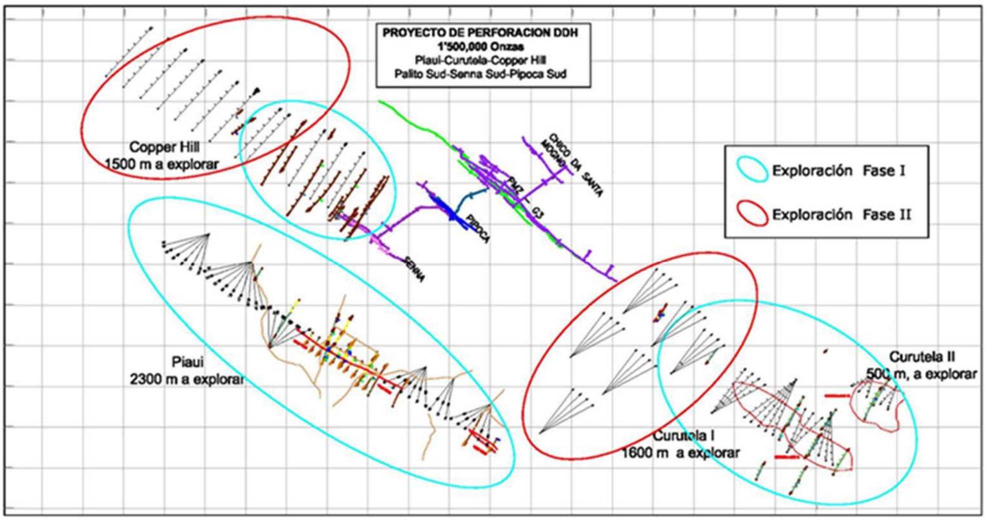
Management continues to evaluate the Group's options for expanding its gold production from its Tapajos operations and project area.

Current exploration activities fall into four categories;

- A surface diamond drilling programme of approximately 20,000 metres, focusing on extensions of known veins on both the Palito and Sao Chico orebodies,
- Ground geophysics exploring the 'anticipated trend and projection' of the main vein at Sao Chico,
- Follow-up soil geochemical programme over near mine-site anomalies adjacent to the Palito orebody,

- A regional airborne electro-magnetic ("EM") geophysical survey, covering those parts of the JDO tenement holdings that had not previously been covered by similar surveys.

The 20,000 metre drill programme is divided between both orebodies and over Palito, the programme has initially focused on step out drilling on the known veins, with a view to justify subsequent underground development. At the time of writing this report a little over 8,000 metres have been completed.




On the Sao Chico orebody, the surface drilling is only just underway and is focusing on the three geophysical anomalies that lie to the north and south of the main vein, which the Company anticipates could be sub-parallel ore zones. The ground geophysical survey that generated the three anomalies was undertaken in late 2016 and had to be suspended prematurely due to poor weather. Management considers that the mineralisation at Sao Chico is hosted in a regional shear zone and have used geophysics to help identify additional deposits that may lie along a five kilometre strike zone around the current Sao Chico deposit. The Company has now engaged the same geophysical contractor to complete the initial programme as well as surveying an extended area. The survey is for 45 kilometres induced polarisation ("IP") ground geophysics, and should be concluded before the end of the third quarter of 2018.

In addition to this, the Company is also undertaking, and very close to completing, an airborne EM geophysical survey, covering those parts of the JDO tenement holdings that had not previously been covered by such a survey. In two previous campaigns the Group has flown a total of 14,650 hectares of airborne EM geophysical surveys and these initial aerial surveys have highlighted many areas of interest and exploration opportunities to pursue in the future. The data gathered from this survey is currently being processed and interpreted and the results will be announce by the Group in due course. The Group is cognisant that the exploration tenements it holds are only granted for limited terms and has therefore been keen to implement a regional exploration programme to highlight those areas within its tenements that should be prioritised as having the highest potential. With a number of historic garimpo (artisanal) 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 and Sao Chico operations, and contribute further resource and production growth. Management expects that the survey will generate multiple targets and anomalies, in this first stage of the evaluation and prioritisation of the total tenement holding.

During 2010 and 2011 the Group undertook a 12,000 metre drilling campaign over nine anomalies identified by the first VTEM survey. This resulted in the discovery of the Palito South, Currutela and Piaui prospects, confirming the suitability and success of this exploration technique as a pathfinder for identifying sulphide orebodies that can potentially host gold mineralisation.

The Group has also engaged a geological contractor to undertake soil geochemistry surveys over the Calico anomaly close to Palito. This prospect lies some four kilometres from the Palito deposit, and was one of the most significant anomalies identified during the initial EM survey. Subsequent trenching, confirmed this to be a very interesting target and as a result it is now being tested with a close spaced soil sampling programme.

Other Palito Complex and JDO Exploration
Cash constraints meant all exploration activity had been on-hold since the end of 2011 as the Company chose to focus its immediate efforts on bringing the Palito orebody and subsequently the Sao Chico orebody into production. The issues of new equity completed in 2018 have allowed management to pick up where exploration was left in 2011, and go significantly further, engaging, not only in 'headframe' exploration, but also including regional programmes to help evaluate its whole tenement package.

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.

Coringa

Serabi is continuing the work started by Anfield on the permitting and licencing process and will pursue the formal approval of the Environmental Impact Study ("EIS") and undertake any supplementary work or reports that may be requested. The Group will review the cost estimates contained in the Coringa Feasibility Study and optimise these, prepare its own mine development plans and evaluate alternative construction development and processing options that Serabi's management consider could enhance the economics of the project. Coringa has been placed on care and maintenance whilst the permitting process is completed.

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.

**2018 Production Guidance**

Management does not anticipate a major shift in mine performance and therefore hard rock gold production, in 2018 compared with 2017. However, with the ability to process increased levels of stockpiled flotation tails in 2018, management expects that gold production for 2018 should slightly exceed that of 2017 and be up to 40,000 ounces.

**Operational Review for the year to date**

Overview
Total gold production for the second quarter of 2018 was 9,563 ounces of gold and increase of 17 per cent compared with the same quarter in 2017 and resulted in total gold production for the year to date of 18,751 ounces, a four per cent improvement compared with the first six months of 2017. Average mined grades are 6.1 per cent higher than for the equivalent six month period in 2017, whilst the volume processed through the plant is 4.4 per cent lower. Management do not consider these variations significant given the nature of the orebodies being mined. The Group has designed and commissioned, in May 2018, an independent feed system to increase the processing of historic flotations tailings, produced during 2014. This has increased the levels that can be treated each month increasing total gold production. In the second quarter of 2018, a total of 4,861 tonnes were treated representing 73.4 per cent of the total tonnage processed in the year to date.

The successful outcome of the ore-sorting test work will bring feed grade increases as well as freeing up some plant capacity, and is key to allowing some future organic growth to be realised without plant expansion. The order for this equipment has been placed although, with manufacturing and other lead times involved, it is not expected that this process enhancement will have any major impact until 2019.

The Group has just commissioned a new detoxification plant based on the INCO process. This will see further reductions of cyanide levels in the discharges and significantly below the levels prescribed by legislation.

Mining operations

Mining of the Palito orebody has been at relatively steady levels for over three 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 could be recovered from stope mining.

Mine development from the Sao Chico orebody in recent quarters has been very encouraging, and there are no indications that the payability of ore development is diminishing with depth. 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 26 veins that comprise the total geological resource, are now in various stages of development and production. The Pipocas, G3, and Senna veins have been and remain the backbone of the sources of ore, with increasing contribution 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 to the north has been on-going through the second half of the year. The mineralised vein remains strong, with good grades being encountered. The vein is now being drilled from surface to the south and at depth to determine the best approach for the future development of the vein. The Pipocas vein is in development on the 30mRL and 0mRL levels, and has now just been intersected on the deepest level, -30mRL level.

Performance of the combined mining operations of both the Palito and Sao Chico orebodies has resulted in approximately 75,740 tonnes of ore being extracted during the first six months of 2018 which compares with a total of approximately 78,602 tonnes produced during the same period in 2017. Whilst this represents a reduction of approximately 3.6 per cent, this is within operational norms.

Mined grades achieved for the first six of 2018 averaged 7.79 g/t, and whilst lower than reported for the same period in 2017, and slightly below the average reserve grade for the two orebodies of just over 8.0 g/t estimated by SRK in the Palito Complex Technical Report issued in January 2018. This is reflective of the particular veins being mined in the quarter, each of which varies in its width and grade characteristics, and normal mine scheduling will always give rise to quarterly variation. During the first quarter of 2018, the first new generation mini scoops arrived on site which, alongside a new face drilling jumbo with a narrower profile. This smaller equipment permits smaller mine development, resulting in reducing production costs for development mining combined with lower dilution and higher quality of development ore, but perhaps more importantly it will greatly assist in minimising dilution in the subsequent stoping of these veins. Results to date have been very encouraging with development metres being 24 per cent higher than in the equivalent six month period in 2017. This equipment will only be deployed at Palito where the potential benefits of minimising the mining widths are significant.

At the end of the second quarter of 2018 combined coarse ore stocks were approximately 7,800 tonnes with an average grade of 3.5 g/t of gold (31 December 2017: approximately 15,000 tonnes with an average grade of 3.0 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 -50mRL 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, 210mRL and 185mRL is on-going with the ramp now being taken down to the 170mRL. The adjacent Zonta vein is also under development on levels 225mRL, 210mRL, 185mRL and has just been intersected on level 170mRL. 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 Ipe, Jatoba and Mogno veins are being developed. Good grades have been encountered in all three veins, though the veins in the sector tend be slightly narrower than other veins being mined elsewhere in the Palito Mine. The recently purchased mini scoop and jumbo combination will be tested first in this sector.

Opening up new sectors of the Palito orebody has created options and flexibility, an essential part of any small underground mining operation. Underground diamond drilling is being used to evaluate numerous known, but underexplored, veins and together with these new sectors, the Group 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.

Such 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 than 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. To the south this will be towards the Palito South and Currutela prospects. Recent underground development and surface drilling on the Pipocas vein is suggesting some good potential to the north and further to the north there is also the Copper Hill geophysical anomaly which offers the exciting possibility of a significant discovery. At this time, drill intersections on the Pipocas north area show the vein continuing north approximately 250 metres from the most northerly exposure underground. Assay analysis is currently in progress. 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. Diamond drilling from surface is now ongoing, drilling both to the south and at depth on G3. Economic mineable widths and grades have now been intersected 150 metres beyond the most southerly mine development, and remain open to the south, drilling continues.

Sao Chico Orebody

Underground development of the Sao Chico orebody commenced in the fourth quarter of 2014 and in 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. Approximately 2,800 metres of development were completed in 2015, allowing mining on three levels.

Since that 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 -19mRL, the next planned level, some 280 vertical metres below surface will continue to be deepened during 2018. Development has been completed, or is active, on the 56mRL, 40mRL, 26mRL, 10mRL and the new -3mRL whilst stoping activity is currently focused on the 70mRL and 56mRL.

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 Group 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 wide 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 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 mineralisation 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 (floor to floor), 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 to 150 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 in future periods.

Underground exploration drilling of the central pay-shoot is ongoing, targeting the down dip extension and is confirming the belief that the Main Vein of the Sao Chico deposit, is hosted within a regional shear structure. At the current time, the deepest intersection has cut the Main Vein at approximately -75mRL, some 70 metres below the current lowest developed level. The drilled intersection was over 6m, suggesting a true width of at least three metres. The intersection is yet to be sampled but exhibited visible sulphides which bodes well.

**Plant operations**

Total gold production for the first six months of 2018 was 18,751 ounces of gold, generated from the processing of ROM ore from the Palito and Sao Chico orebodies, combined with the surface coarse ore stockpiles and a small contribution from the stockpiled flotation tailings accumulated from the processing of Palito Mine production in 2014.

Gold production for the six month period came from the processing of 81,300 tonnes from the Palito and Sao Chico orebodies with an average grade of 7.36 g/t of gold (six months to 30 June 2017: 85,016 tonnes at 6.94 g/t of gold). Whilst hard rock processed in lower by 4.4 per cent or approximately 3,700 tonnes, during the same period a total of 6,600 tonnes of reprocessed tailing has passed through the plant an increase of approximately 2,600 tonnes compared with the same six month period in 2017.

Since the operations began, plant capacity has limited the ability 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 first six months has been excellent, averaging approximately 490 tonnes of ROM ore and reprocessed tailing per day. The Group still has approximately 7,800 tonnes of coarse ore in stockpiles and an estimated 36,000 tonnes of flotation tails stockpiled (with an average grade of around 2.7 g/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.

The Group had been trying to pump the flotation tailings in a wet form to the CIP plant, but this proved to be slow and labour intensive. Passing the material once 'dried' through the ore feed system has, to date, been restricted by belt capacity, as well as compaction issues in the silos. So far, it has not been easy to independently feed this material, though during May and June, some success was made by mixing this material with coarser SC crushed ore.

An encouraging development during 2017 was the test work undertaken by the Group on ore sorting of the Palito and Sao Chico ores. Current mining operations whilst excellent, we are employing the most selective methods possible. With veins typically 0.5 to 0.7 metres wide, the minimum mining width of 1.0 metre means significant amounts of granite waste still form part of the mined material coming to surface. Having undertaken test work in Brazil and subsequently at the manufacturer's facilities in Poland, excellent results have been achieved using X-ray scanning on the Palito ore using relative atomic densities to physically separate crushed sulphide bearing ore and granite waste. The contrast and results have been quite remarkable. The Group has ordered an ore sorter, which will have both X-ray and colour sorting capability. The colour scanner can be added at construction stage at a modest cost and as Sao Chico ore performs well with colour sorting, the Company sees the option to campaign both ore feeds in the future.

The sorter will be installed 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 with the added benefit of potentially reducing the surface stockpiles of ore. 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.

Palito Complex Exploration and Licensing matters

The Group undertook, and completed, a surface diamond drill programme in March 2015 at the Sao Chico Mine that 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 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 QuemScan 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 full mining licence. As the next major step in the conversion procedure, Serabi submitted, in September 2015, the Plano Approvimiento Economico, a form of economic assessment prepared in accordance with Brazilian legislation. Additionally, the Group needs to engage a certified third party Environmental Consultancy to prepare a full socio-economic analysis and Environmental Impact Assessment ("EIA") for Sao Chico. This is now ongoing and the Group expects the EIA to be submitted in September 2018, once approved, a public meeting will follow, and the Group is hopeful the full mining license will be granted before the end of 2018.

With the Guia de Utilização (a trial mining license) already in place, and valid until 6 April 2019, all mining operations can continue in parallel, whilst the full mining licence application is progressing. 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. Any further reports requested or updates to existing reports will be submitted promptly upon request.

Two geophysical exploration programmes commenced during the second half of 2016, over each orebody. 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 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, a drill programme of approximately 20,000 metres, focused on step out drilling on known veins at Palito and Sao Chico, is underway. The drilling also includes testing of the geophysical anomalies that lie adjacent to the Main Vein at Sao Chico and may well represent sub-parallel veins.

Taking each orebody in turn, at Palito, extension drilling has now been completed on the Pipocas vein to the north and south, with smaller programmes testing Copper Hill and the Caixas anomaly. Drilling of the southerly extensions of the Ipe/Mogno veins of the Chico da Santa area is ongoing as is the drilling of southerly extension of the G3 vein. The first drilling into G3 was mixed, but the southernmost holes have been excellent so far, and drilling continues to enable the Company to ascertain the extent of the resource and how best to access these area. With many assays outstanding, the Company anticipates being able to issue an update of results during the third quarter of 2018.

The Sao Chico surface diamond drilling programme commenced in May 2018. The current orebody is completely open along strike and the Group has very little geological information outside the immediate mine limits. Nonetheless there are strong indications that substantial strike extensions of the principal vein and adjacent veins are waiting to be defined. To date approximately 2,000 metres have been drilled with the immediate priority being the Crossroads IP anomaly which could represent a parallel structure to the Main Vein currently being mined at Sao Chico. To date four holes have been drilled into the Crossroads anomaly and sulphide mineralisation, much as seen in the Main Vein, has been intersected, and with mineable widths. The Company is compiling results and anticipates to add further drilling into the Crossroads anomaly.

**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 over 45,000 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.

An airborne geophysical VTEM survey over the remainder of the JDO tenement was flown during July to supplement the two airborne geophysical VTEM surveys completed in 2008 and 2010 that covered a total area of 14,650 hectares. From these original surveys the Group has already identified a number of geophysical anomalies which it considers worthy of further investigation and management fully expect that further anomalies will be highlighted by the 2018 survey. The data from this 2018 survey is currently being processed and interpreted and management will then try to rank and prioritise these for further follow up exploration activity.

It has always been the intention of the Group to use cash flow generated from its production operations to advance its exploration opportunities.

**Coringa Project Development and Licencing**

On 14 August 2017, Anfield announced that it had received key permits required to commence construction of the Coringa project, being (1) the license of operation for exploration and trial mining, (2) the vegetation suppression permit and (3) fauna capture permit, all issued by the SEMAS. The SEMAS permits contain a list of conditions for the conservation and protection of fauna and flora.

The next step in the permitting process will be for a formal trial mining licence to be issued by the DNPM. The trial mining licence will authorise the Group to commence mine development and limited production from Coringa. The trial mining license will authorise mining and processing of up to 50,000 tonnes of ore per year at Coringa. Under applicable regulations, once the mine is operational, Chapleau Brazil may apply to the DNPM to increase the processing limit.

On 27 September 2017, Anfield announced that it understood the Brazilian Ministério Público Federal ("MPF") was bringing an action against SEMAS, the DNPM and Chapleau Brazil. The action seeks to nullify the operating license previously granted to Chapleau Brazil by SEMAS and states that SEMAS should not have granted the license without requiring Chapleau Brazil to prepare a full socio-economic analysis and EIA for Coringa. Anfield and its legal counsel believe that Chapleau Brazil has complied with all applicable regulations. The court denied a request from the MPF to cancel the operating licence and instead requested that all parties (MPF, DNPM, Chapleau and SEMAS) should meet on 26 April 2018 for further discussions. The results of this meeting were inconclusive, it included requests from the MPF to undertake further studies that are not required by the law in particular with relation to any potential impact on areas occupied by indigenous populations. The Group had already begun assembling information to complete such an assessment notwithstanding that any indigenous populations are located beyond the buffer zones stipulated by the law.

On 23 May 2018, Serabi received news that the court and judge who presided over the hearing on 26 April 2018, denied the MPF any action against SEMAS, the DNPM and Chapleau Brazil and also denied any right to appeal the decision, thus allowing Chapleau to proceed with advancing the project. To that point, the Company has since successfully obtained a trial mining licence for each of the concessions 850568/1990 and 850567/1990.

Progress has also been made in several other areas relating to the development of Coringa. Applications for required camp and start-up water were submitted prior to the date of the Acquisition and the tailings storage permit request was submitted on 11 December 2017. Discussions for long-term land access agreements are underway with the Instituto Nacional de Colonização e Reforma Agrária ("INCRA"), a government agency which claims ownership of the surface rights where the project is situated.

**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. These projects are non-core for the Group and it is the intention to relinquish these tenements upon their expiry.

**Background to the Group's Tapajos 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 (Iriri) River.

In January 2018, the Group released the Palito Complex Technical Report which estimated an NI 43-101 compliant Proven and Probable Reserves for the Palito ore body of 157,000 ounces of gold at an average grade of 7.99 g/t and included within a Measured and Indicated mineral resource of 271,000 ounces of gold and an Inferred mineral resource of 177,000 ounces of gold.

Since 30 June 2017 the Group has extracted, from the Palito orebody, total contained gold of approximately 25,200 ounces, having mined a total of approximately 98,600 tonnes at an average grade of 7.95 g/t.

**Table 1 - Mineral Resource Statement, Palito Mine, Para State, Brazil, as of June 30, 2017**

| | Vein Width | Quantity | Grade | | Contained Metal | |
|---|---|---|---|---|---|---|
| **Classification** | | | **Gold** | **Copper** | **Gold** | **Copper** |
| | **m** | **000't** | **g/t** | **%** | **000'oz** | **t** |
| **Underground** | | | | | | |
| Measured | 0.52 | 274 | 15.21 | 0.77 | 134 | 2,110 |
| Indicated | 0.57 | 371 | 10.91 | 0.57 | 130 | 2,115 |
| **Surface Stockpiles** | | | | | | |
| Measured | - | 12 | 3.15 | - | 1 | - |
| **Tailings** | | | | | | |
| Measured | - | 60 | 2.70 | - | 5 | - |
| **Combined** | | | | | | |
| Measured | - | 346 | 12.62 | 0.61 | 140 | 2,110 |
| Indicated | - | 371 | 10.91 | 0.57 | 130 | 2,115 |
| **Measured and Indicated** | **-** | **717** | **11.74** | **0.59** | **271** | **4,225** |
| **Underground** | | | | | | |
| Inferred | 0.77 | 784 | 7.02 | 0.20 | 177 | 1,568 |

Notes to Table 1:

(1) *Mineral Resources have been rounded. Mineral Resources are not Mineral Reserves and have not demonstrated economic viability. Mineral Resources are reported inclusive of Mineral Reserves. All figures are rounded to reflect the relative accuracy of the estimates. Underground Mineral Resources are reported within classification domains inclusive of in-situ dilution at a cut-off grade of 3.10 g/t gold assuming an underground extraction scenario, a gold price of US$1,500/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 91%. Polygonal techniques were used for mineral resource estimates. Surface stockpiles and tailings are reported at a cut-off grade of 1.65 g/t gold assuming a gold price of US$1,500/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 78%.*

(2) *Serabi is the operator and owns 100% of the Palito Mine such that gross and net attributable mineral resources are the same. The mineral resource estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Glen Cole of SRK Consulting (Canada) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.*

**Table 2 - Mineral Reserves Statement, Palito Mine, Para State, Brazil, as of June 30, 2017**

| Classification | Quantity | Grade | | Contained Metal | |
|---|---|---|---|---|---|
| | | Gold | Copper | Gold | Copper |
| | 000't | g/t | % | 000'oz | T |
| **Underground** | | | | | |
| Proven | 265 | 9.77 | 0.46 | 83 | 1,219 |
| Probable | 276 | 7.64 | 0.39 | 68 | 1,076 |
| **Surface Stockpiles** | | | | | |
| Proven | 12 | 3.15 | - | 1 | - |
| **Tailings** | | | | | |
| Proven | 60 | 2.70 | - | 5 | - |
| **Combined** | | | | | |
| Proven | 337 | 8.28 | 0.36 | 90 | 1,219 |
| Probable | 276 | 7.64 | 0.39 | 68 | 1,076 |
| **Proven and Probable** | **613** | **7.99** | **0.37** | **157** | **2,295** |

Notes to Table 2:

(1) *Mineral Reserves have been rounded to reflect the relative accuracy of the estimates. Proven Underground Mineral Reserves are reported within the Measured classification domain, and Probable Underground Mineral Reserves are reported within the Indicated classification domain. Proven and Probable Underground Mineral Reserves are inclusive of external mining dilution and mining loss and are reported at a cut-off grade of 3.70 g/t gold assuming an underground extraction scenario, a gold price of US$1,250/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 91%. Proven Mineral Reserves surface stockpiles and tailings are reported at a cut-off grade of 1.95 g/t gold assuming a gold price of US$1,250/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 78%.*

(2) *Serabi is the operator and owns 100% of the Palito Mine such that gross and net attributable mineral reserves are the same. The mineral reserve estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Timothy Olson of SRK Consulting (US) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.*

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 6 April 2019. 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. 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 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.

In January 2018 the Group released the Palito Complex Technical Report which estimated an NI 43-101 compliant Proven and Probable Reserves of 24,000 ounces of gold at an average grade of 8.43 g/t and included within a Measured and Indicated mineral resource of 36,000 ounces of gold and an Inferred mineral resource of 54,000 ounces of gold.

Since 30 June 2017 the Group has extracted, from the Sao Chico orebody, total contained gold of approximately 19,700 ounces, having mined a total of approximately 67,300 tonnes at an average grade of 9.12 g/t.

**Table 3 - Mineral Resource Statement, Sao Chico Mine, Para State, Brazil, as of June 30, 2017**

| Classification | Thickness | Quantity | Grade | Contained Metal |
|---|---|---|---|---|
| | | | Gold | Gold |
| | M | 000't | g/t | 000'oz |
| Measured | 1.82 | 60 | 13.34 | 26 |
| Indicated | 1.79 | 22 | 14.70 | 10 |
| **Measured and Indicated** | **1.81** | **82** | **13.70** | **36** |
| Inferred | 1.80 | 123 | 13.77 | 54 |

Notes to Table 3:

(1) *Mineral Resources have been rounded. Mineral Resources are not Mineral Reserves and have not demonstrated economic viability. Mineral Resources are reported inclusive of Mineral Reserves. All figures are rounded to reflect the relative accuracy of the estimates. Underground Mineral Resources are reported within classification domains inclusive of in-situ dilution at a cut-off grade of 2.85 g/t gold assuming an underground extraction scenario, a gold price of US$1,500/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 95%. Polygonal techniques were used for mineral resource estimates.*

(2) *Serabi is the operator and owns 100% of the Sao Chico Mine such that gross and net attributable mineral resources are the same. The mineral resource estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Glen Cole of SRK Consulting (Canada) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.*

**Table 4 - Mineral Reserves Statement, Sao Chico Mine, Para State, Brazil, as of June 30, 2017**

| Classification | Quantity | Grade | Contained Metal |
|---|---|---|---|
| | | Gold | Gold |
| | 000't | g/t | 000'oz |
| **Underground** | | | |
| Proven | 65 | 8.15 | 17 |
| Probable | 25 | 9.15 | 7 |
| **Proven and Probable** | **90** | **8.43** | **24** |

Notes to Table 4:

(1) *Mineral Reserves have been rounded to reflect the relative accuracy of the estimates. Proven Underground Mineral Reserves are reported within the Measured classification domain, and Probable Underground Mineral Reserves are reported within the Indicated classification domain. Proven and Probable Underground Mineral Reserves are inclusive of external mining dilution and mining loss and are reported at a cut-off grade of 3.45 g/t gold assuming an underground extraction scenario, a gold price of US$1,250/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 95%*

(2) *Serabi is the operator and owns 100% of the Sao Chico Mine such that gross and net attributable mineral reserves are the same. The mineral reserve estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Timothy Olson of SRK Consulting (US) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.*

Coringa Gold Project – Para State, Brazil

Coringa is located in north-central Brazil, in the State of Pará, 70 kilometres southeast of the city of Novo Progresso. Access to the property is provided by paved (National Highway BR-163) and gravel roads. Coringa is in the south eastern part of the Tapajós gold district, Brazil's main source of gold from the late 1970s to the late 1990s. Artisanal mining at Coringa produced an estimated 10 tonnes of gold (322,600 ounces) from alluvial and primary sources within the deep saprolite or oxidised parts of shear zones being mined using high-pressure water hoses or hand-cobbing to depths of 15 metres. Other than the artisanal workings, no other production has occurred at Coringa. Artisanal mining activity ceased in 1991 and a local Brazilian company (Tamin Mineração Ltda.) staked the area in 1990. Subsequently, the concessions were optioned to Chapleau (via its then subsidiary, Chapleau Brazil) in August 2006. On 1 September 2009, Magellan Minerals Ltd. ("Magellan Minerals") acquired Chapleau. Between 2007 and 2013, extensive exploration programmes were completed on the property, including airborne magnetic, radiometric and electro-magnetic surveys; surface IP surveys; stream, soil, and rock sampling; and trenching and diamond drilling (179 holes for a total length of 28,437 meters). On 9 May 2016, Anfield acquired Magellan Minerals. Anfield subsequently completed an infill drill programme (183 holes for a total length of 26,413 meters) for the Serra and Meio veins in 2016 and 2017.

**Table 5 - Mineral Resources Statement, Coringa Gold Project, Para State, Brazil, as of May 3, 2017**

| Zone | ktonnes | Average Grade | | | | | Contained Metal | |
|---|---|---|---|---|---|---|---|---|
| | | Au (g/t) | Ag (g/t) | Cu (%) | Pb (%) | Zn (%) | Au (koz) | Ag (koz) |
| **Indicated** | | | | | | | | |
| Serra | 488 | 7.45 | 16.1 | 0.04 | 0.09 | 0.04 | 117 | 253 |
| Meio | 160 | 10.69 | 20.7 | 0.12 | 1.38 | 0.65 | 55 | 106 |
| Galena | 78 | 9.36 | 14.7 | 0.13 | 0.70 | 0.45 | 24 | 37 |
| Total | 726 | 8.36 | 17.0 | 0.07 | 0.44 | 0.22 | 195 | 396 |
| **Inferred** | | | | | | | | |
| Serra | 262 | 4.30 | 8.7 | 0.02 | 0.03 | 0.01 | 36 | 73 |
| Meio | 229 | 4.18 | 6.1 | 0.03 | 0.22 | 0.12 | 31 | 45 |
| Galena | 63 | 3.41 | 3.5 | 0.03 | 0.38 | 0.15 | 7 | 7 |
| Mae de Leite | 244 | 5.92 | 2.6 | 0.01 | 0.18 | 0.04 | 46 | 20 |
| Come Quieto | 253 | 4.50 | 7.5 | 0.06 | 0.02 | 0.01 | 37 | 61 |
| Valdette | 249 | 2.96 | 1.0 | 0.00 | 0.04 | 0.03 | 24 | 8 |
| Total | 1,301 | 4.32 | 5.1 | 0.02 | 0.11 | 0.05 | 181 | 215 |

Notes to Table 5:

*Base case cut-off is 2 g/t Au.*

**Table 6 - Mineral Reserves Statement, Coringa Gold Project, Para State, Brazil, as of July 1, 2017**

| Classification | Quantity | Grade | Contained Metal |
|---|---|---|---|
| | | Gold | Gold |
| | 000't | g/t | 000'oz |
| **Underground** | | | |
| **Proven** | - | - | - |
| **Probable** | **768.6** | **6.49** | **160.3** |
| **Proven and Probable** | **768.6** | **6.49** | **160.3** |

Notes to Table 6:

(1) *The reserves summarized in the table above include diluting material, thus the grades are fully diluted.*

(2) *Probable Reserves are reported based on Indicated resources inside of mining shapes and after it was demonstrated that it can be mined at a profit.*

(3) *Indicated resources below the mining cut-off grade, and inside of mining solids are also included in reserves as internal dilution.*

(4) *Rounding may result in apparent summation differences.*
*The effective date of the mineral reserves estimate is July 1, 2017.*

**SELECTED FINANCIAL INFORMATION**
The data included herein is taken from the Company's annual audited financial statements and unaudited interim financial information. The audited financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") and adopted for use within the European Union and with IFRS and their interpretations adopted by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Whilst the unaudited interim financial statements are compiled in accordance with IFRS, they do not contain sufficient financial information to comply with IFRS.

**Results of Operations**

**Three month period ended 30 June 2018 compared to the three month period ended 30 June 2017**

During the second quarter of 2018 the Group produced 9,563 ounces of gold (second quarter of 2017: 8,148 ounces) and recognised sales for 8,916 ounces (second quarter of 2017: 7,608 ounces).

The gross profit of US$1,391,950 for the financial quarter ended 30 June 2018 can be analysed as follows:

| | **Three months ended June 2018** | **Three months ended June 2017** | **Variance US$** |
|---|---|---|---|
| Concentrate sold (Ounces) | 2,173 | 3,004 | (831) |
| Bullion Sold (Ounces) | 6,743 | 4,604 | 2,139 |
| **Total Ounces Sold** | **8,916** | **7,608** | **1,308** |
| | **US$** | **US$** | **US$** |
| **Revenue from Ordinary Activity** | | | |
| Gold (in Concentrate) | 2,785,508 | 3,810,949 | (1,025,441) |
| Copper (in Concentrate) | 382,383 | 505,866 | (123,483) |
| Silver (in Concentrate) | 16,002 | 39,501 | (23,499) |
| **Total Concentrate Revenue** | **3,183,893** | **4,356,316** | **(1,172,423)** |
| Gold Bullion | 8,689,890 | 5,786,360 | 2,903,530 |
| **Total Sales** | **11,873,783** | **10,142,676** | **1,731,107** |
| **Costs of sales** | | | |
| Operational costs | (7,379,211) | (6,216,099) | (1,163,112) |
| Release of impairment provision | 200,000 | - | 200,000 |
| Shipping costs | (280,639) | (367,670) | 87,031 |
| Treatment + Handling charges | (139,332) | (161,202) | 21,870 |
| Royalties | (184,604) | (104,989) | (79,615) |
| Amortisation of Mine Property | (1,733,384) | (1,984,784) | 251,400 |
| Depreciation of Plant & Equipment | (764,663) | (725,373) | (39,290) |
| **Total Operating costs** | **(10,281,833)** | **(9,560,117)** | **(721,716)** |
| **Gross Profit** | **1,591,950** | **582,559** | **1,009,391** |

Revenue

For the three month period ended 30 June 2018 the Group generated US$3,183,893 (2017: US$$4,356,316) in revenue by selling an estimated 2,173 ounces of gold from the sale of 320 tonnes of copper concentrate (2017: 3,004 ounces from 420 tonnes) and also recognised revenue for 6,743 ounces of gold bullion generating revenue of US$8,689,890 during the second quarter of 2018, (second quarter of 2017: sale of 4,604 ounces for revenue of US$5,786,360).

During the second quarter of 2018, with the Group producing more gold in the form of bullion as opposed to in copper/gold concentrate, there has been a 51 per cent increase in bullion production, (46 per cent increase in bullion sales) during the three months ended 30 June 2018 compared with the same period of 2017. At the same time there has been a 41 per cent decrease in production of copper/gold concentrate, (decrease of 28 per cent in sales of copper/gold concentrate).

During the three months to 30 June 2018 the Group produced 297 wet tonnes of copper/gold concentrate, containing an estimated 1,773 ounces; (during the three months to 30 June 2017: the Group produced 368 wet tonnes of copper/gold concentrate, containing 2,985 ounces of gold). The unsold material is held as inventory.

Operating Costs

Operating costs of US$7.38 million, (three month period to 30 June 2017: US$6.2 million), comprise all mining costs at both the Palito and Sao Chico mine, plant processing costs, as well as all general site costs incurred on both mine sites during the period in the production of the final sales products as per the table below. The table below shows a breakdown of operating activities and operating costs.

| | 3 Months to 30 June 2018 | 3 Months to 30 June 2017 | Variance | Variance % |
|---|---|---|---|---|
| Tonnes Mined | 36,071 | 41,021 | (4,950) | (12%) |
| Tonnes Milled | 38,155 | 43,294 | (5,139) | (12%) |
| Ounces Sold | 8,916 | 7,608 | 1,308 | 17% |
| | **Second Quarter 2018** | **Second Quarter 2017** | **Variance** | **Variance %** |
| | **US$'000** | **US$'000** | **US$'000** | **%** |
| **Operating Costs** | | | | |
| Labour | 3,247 | 2,733 | 513 | 19% |
| Mining consumables & Maintenance | 2,237 | 1,964 | 363 | 18% |
| Plant Consumables | 1,046 | 839 | 207 | 25% |
| General Site | 759 | 680 | 80 | 12% |
| | 7,379 | 6,216 | 1,163 | 19% |

During the second quarter of 2018, the Group mined 12 per cent less tonnes and milled 12 per cent more tonnes in comparison to the same period in 2017. However, the Group sold 17 per cent more ounces during the second quarter of 2018 compared with the same period in 2017.

Release of impairment provision

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. As at 31 December 2107, the Group had established a general impairment provision of US$950,000 against the carrying value of these coarse ore stockpiles. With reduced levels of coarse ore stockpiles at 30 June 2018, the Group has determined that this provision can be reduced to US$750,000. The reduction in the impairment provision of US$ 200,000 has been released to the Income Statement.

Labour

The increase in labour costs of 19 per cent is primarily due to each Brazilian employee receiving an eight per cent increase in salary in May 2017 as well as three per cent salary increase in May 2018 a result of the national collective agreement in Brazil. During the second quarter of 2018 there was also more staff on site in comparison to the same period of the previous year providing additional support costs such as underground drilling.

Mining consumables & Maintenance

Mining consumables and maintenance for the three month period ended 30 June 2018 have increased by US$0.36 million in comparison to the same three month period from 2017. This is primarily due to the increase in power costs, particularly diesel power, which have increased significantly during the second quarter of 2018 in comparison to the same quarter of 2017 following a global increase in the price of oil. Maintenance costs of underground equipment has also increased in comparison to 2017 as a result of a larger fleet and the existing machines being one year older.

Plant Consumables

Plant costs have increased by US$0.2 million, for the three month period ended 30 June 2018 in comparison to the same period in the previous year. Again, this is primarily due to the increase in power costs, particularly diesel power, which have increased significantly during the second quarter of 2018 in comparison to the same quarter of 2017 following a global increase in the price of oil.

General Site Costs

General site costs for the three month period ended 30 June 2018 increased by 12 per cent compared with the same period in the previous year reflecting one off consulting fees incurred during the second quarter of 2018 as well as general costs increases due to additional staff being on site as well as inflation.

Other costs of Sales

Shipping costs of US$0.28 million (2017: US$0.37 million) 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 2017 reflects the reduction in the volume of concentrate shipped; second quarter of 2018 being 320 tonnes in comparison to 420 tonnes for the same period of the previous year.

Treatment Charges

Treatment Charges have decreased by 14 per cent between the second quarter of 2017 in comparison to the same period during 2018 as the Group sold 100 tonnes less of copper concentrate in the three month period ended 30 June 2018 in comparison to the same period in 2017.

Royalties

Royalty payments of US$0.18 million (2017: US$0.10 million) comprise statutory levies payable in Brazil. Rates are uniform across all mining operations, however royalties on gold increased during the fourth quarter of 2017, with a new rate of 1.5 per cent on gold replacing the previous rate of 1.0 per cent. The royalty on copper production of 2.0 per cent has not been adjusted. The increase in royalty payments of US$0.08 million by comparison with the same quarter in 2017 reflects this increase of 0.5 per cent on gold royalties.

Amortisation

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 second quarter of 2018 is approximately US$0.17 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 for the three month period ended 30 June 2018 in comparison to the same period of the previous year is primarily due to the eight per cent weakening of the Brazilian Real in comparison to the US Dollar, (six month period to 30 June 2018 the Brazilian Real to US Dollar exchange rate was BR$3.42:US$1 in comparison top BR$3.17:US$1 for the same period of 2017).

Depreciation

There was also a depreciation charge of US$0.76 million recorded during the second quarter of 2018 on plant and equipment used in the mining and processing, (second quarter of 2017: US$0.73 million). The increase is primarily due to the larger mobile fleet acquired for both the Palito and Sao Chico Mine during 2017 which is offset by the eight per cent weakening of the Brazilian Real in comparison to the US Dollar, (six month period to 30 June 2018 the Brazilian Real to US Dollar exchange rate was BR$3.42:US$1 in comparison to BR$3.17:US$1 for the same period of 2017).

Operating Profit

The Group has recognised an operating profit before interest and other income for the three month period ended 30 June 2018 of US$0.17 million compared with a loss of US$0.59 million for the same period of the previous year reflective of the increase in the gross profit which is offset by increase in administration costs.

Administration expenses have increased during this period by approximately US$0.18 million primarily because during the second quarter of 2018 the Group incurred additional professional fees connected with share placements completed during the quarter.

The Group also incurred costs of US0.08 million on share-based payments (2017: US$0.11 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 June 2018 is in respect of options granted between June 2015 and June 2018.

The Company recorded a foreign exchange loss of US$0.49 million in the three month period to 30 June 2018 which compares with a foreign exchange loss of US$0.17 million recorded for the three months ended 30 June 2017. These foreign exchange gains and losses primarily relate to the settlement of foreign currency liabilities from Brazil and therefore reflect the devaluation of the Brazilian Real and the revaluation of cash holdings of the Company in currencies other than US Dollars as at the period end. The exchange movements on cash holdings do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest and other finance related costs for the three-month period to 30 June 2018 were US$0.11 million compared with US$0.034 million for the same period in the previous year. An analysis of the composition of these charges is set out in the table below:

| | Quarter Ended June 2018 US$ | Quarter Ended June 2017 US$ |
|---|---|---|
| Interest expense on secured loan | (205,479) | (34,194) |
| Unwinding of discount on acquisition payment | (246,137) | – |
| Amortisation of fair value of derivatives | (65,000) | – |
| | (516,616) | (34,194) |
| Gain on revaluation of derivatives | 407,471 | – |
| Interest income | – | 35 |
| Net finance expense | (109,145) | (34,159) |

The interest on the secured loan of US$205,479 (2017: US$34,194) is the cost of three months of interest paid on the loan advanced under the credit agreement with Sprott, with the increase reflecting the higher levels of loan principal outstanding during the period. On 30 June 2017, the Group entered into a new agreement with Sprott to increase the loan from US$1.37 million to US$5.00 million and further increased this loan to US$8 million on 23 January 2018.

The expense on the unwinding of the discount on acquisition is as a result of change in the net present value of the final payment due on the acquisition of Chapleau Resources.

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. As part of the US$5 million loan arrangement the Group 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.

The gain on the revaluation of derivatives of US$407,471 (three months to 30 June 2017: US$nil) represents the gain arising on the revaluation of the derivative provision at the 30 June 2018. The initial value of the provision as at 30 June 2017 was US$650,000 which having been revalued to US$709,255 as at 31 December 2017 and US$754,462 as at 31 March 2018 required a downward revaluation to US$346,991 at 30 June 2018 resulting in a gain during the three month period ended 30 June 2018. For the three months to 30 June 2017 there was no similar derivative liability owe by the Group and therefore no comparable charge.

**Six month period ended 30 June 2018 compared to the six month period ended 30 June 2017**

The six month period ended 30 June 2018 has seen higher levels of gold bullion production than the same period of 2017 offset by lower levels of production of copper/gold concentrate reflecting the variations in the ore sources and grades being mined during 2018 compared with 2017. These changes do not have any direct effect on the overall levels of gold production achieved by the Group.

Gold production for the six month period ended 30 June 2018 was 18,751 ounces which is approximately four per cent more than the same period in the previous year (18,009 ounces). Reflecting the increase in production the total amount of ounces sold during the first six months of 2018 was 19,180 ounces, which is approximately six per cent more than the 18,063 ounces sold during the corresponding period of 2017.

The Group has recognised a gross profit for the six month period ended 30 June 2018 of US$3,736,847 (2017: US$1,843,089) and an operating profit of US$956,632, (2017 operating loss of: US$639,326).

The gross profit of US$3,736,847 for the period ended 30 June 2018 can be analysed as follows:

| | **Six months ended June 2018** | **Six months ended June 2017** | **Variance** |
|---|---|---|---|
| Concentrate sold (Ounces) | 3,923 | 6,349 | (2,426) |
| Bullion Sold (Ounces) | 15,257 | 11,714 | 3,543 |
| **Total Ounces** | **19,180** | **18,063** | **1,117** |
| | | | |
| **Revenue from Ordinary Activity** | **US$** | **US$** | **Variance** |
| Gold (in Concentrate) | 4,854,020 | 7,747,519 | (2,893,499) |
| Copper (in Concentrate) | 766,840 | 1,014,614 | (247,774) |
| Silver (in Concentrate) | 29,006 | 69,726 | (40,720) |
| **Total Concentrate Revenue** | **5,649,866** | **8,831,859** | **(3,181,993)** |
| Gold Bullion | 20,050,768 | 14,484,401 | 5,566,367 |
| **Total Sales** | **25,700,634** | **23,316,260** | **2,384,374** |
| | | | |
| **Costs of sales** | | | |
| Operational costs | 16,283,308 | 15,289,519 | 993,789 |
| Stock Impairment Provision | (200,000) | 220,000 | (420,000) |
| Shipping costs | 542,161 | 792,097 | (249,936) |
| Treatment charges | 241,959 | 313,492 | (71,533) |
| Royalties | 405,459 | 247,202 | 158,257 |
| Amortisation of Mine Property | 3,158,643 | 3,375,190 | (216,547) |
| Depreciation of Plant & Equipment | 1,332,257 | 1,235,671 | 96,586 |
| **Total Operating costs** | **21,763,787** | **21,473,171** | **290,616** |
| **Gross Profit** | **3,736,847** | **1,843,089** | **1,893,758** |

Revenue

For the six month period ended 30 June 2018 the Group generated US$5,649,866 (2017: US$8,831,859) in revenue by selling an estimated 3,923 ounces of gold from the sale of 600 tonnes of copper concentrate (2017: 6,349 ounces from 840 tonnes) and also recognised revenue for 15,257 ounces of gold bullion generating total revenue of US$20,050,768 during the first six months of 2018, (first six of 2017: sale of 11,714 ounces for revenue of US$14,484,401).

During the first half of 2018, with the Group producing more gold in the form of bullion as opposed to in copper/gold concentrate, there has been a 30 per cent increase in bullion sales during the six months ended 30 June 2018 compared with the same period of 2017. At the same time there has been a 38 per cent decrease in sales of copper/gold concentrate.

During the six months to 30 June 2018 the Group produced 590 wet tonnes of copper/gold concentrate, containing an estimated 3,768 ounces; (during the six months to 30 June 2017: the Group produced 772 wet tonnes of copper/gold concentrate, containing 5,535 ounces of gold). The unsold material is held as inventory.

Operating Costs

Operating costs for the six months ended 30 June 2018 of US$16.283 million (2017: US$15.29 million) 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 six month period in the production of the final sales products as shown in the table below:

| | **Six months ended June 2018** | **Six months ended June 2017** | **Variance** | **Variance %** |
|---|---|---|---|---|
| Tonnes Mined | 75,740 | 77,281 | (1,541) | (2%) |
| Tonnes Milled | 81,300 | 85,016 | (3,716) | (4%) |
| Ounces Produced | 18,751 | 18,009 | 742 | 4% |

| | **Six months ended June 2018** | **Six months ended June 2017** | **Variance** | **Variance %** |
|---|---|---|---|---|
| | **US$'000** | **US$'000** | **US$'000** | **%** |
| **Operating Costs** | | | | |
| Labour | 7,002 | 6,544 | 458 | 7% |
| Mining consumables & Maintenance | 5,134 | 4,776 | 358 | 7% |
| Plant Consumables | 2,309 | 2,200 | 109 | 5% |
| General Site | 1,838 | 1,768 | 70 | 4% |
| | 16,283 | 15,290 | 993 | 6% |

Release of impairment provision

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. For the year ended 31 December 2107, the Group had recognised a general impairment provision of US$950,000 against the carrying value of these coarse ore stockpiles, (year to date 20 June 2017 the Group had recognised a general impairment of US$220,000). At 30 June 2018, the value of the provision against the carrying value of these coarse ore stockpiles was reduced to US$750,000, therefore the reduction in the impairment provision of US$ 200,000 was released to the profit and loss account.

Labour Costs

Labour costs have increased by US$0.458 million for the six month period ended 30 June 2018 in comparison to the same period in the previous year due to each Brazilian employee receiving an eight per cent increase in salary in May 2017 as a result of the national collective agreement in Brazil, (in May 2018 the labour force received a three per cent increase).

Mining Costs

Mining consumables and maintenance for the six month period ended 30 June 2018 have increased by US$0.358 million in comparison to the same six month period from 2017. The main area of cost increases relates to power generation and supply during the first six months of the year as a result the global increase in the price of oil. Maintenance costs have also increased during the first six months of 2018 in comparison to the same period of the previous year as the underground fleet increased in size and existing machinery is one year older.

Plant processing costs

Plant costs are five per cent higher in the first six months of 2018 in comparison to the same period in the previous year. The main area of cost increases relates to power generation and supply during the first six months of the year as a result the global increase in the price of oil. There was also an increase in maintenance costs resulting from the aging of the equipment.

General Site Costs

General site costs for the six month period ended 30 June 2018 increased by four per cent versus the same period in the previous year reflecting general increases in inflation between the two periods as well as more third-party contractors being on site as a result of the exploration programme that the Group is currently undertaking.

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. As at 31 December 2107, the Group had established a general impairment provision of US$9500,000 against the carrying value of these coarse ore stockpiles. With reduced levels of coarse ore stockpiles at 30 June 2018, the Group has determined that this provision can be reduced to US$750,000. The reduction in the impairment provision of US$ 200,000 has been released to the Income Statement.

Shipping Costs

Shipping costs of US$0.54 million (2017: US$0.79 million) 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 2017 reflects the reduction in the volume of concentrate shipped; first quarter of 2018 being 600 tonnes in comparison to 840 tonnes for the same period of the previous year.

Treatment Charges

Treatment Charges have decreased by 23 per cent between the first half of 2017 in comparison to the same period during 2018 as the Group sold 240 tonnes less, (29 per cent) of copper concentrate in the six month period ended 30 June 2018 in comparison to the same period in 2017.

Royalties

Royalty payments of US$0.41 million (2017: US$0.25 million) comprise statutory levies payable in Brazil. Rates are uniform across all mining operations, however royalties on gold increased during the fourth quarter of 2017, with a new rate of 1.5 per cent on gold replacing the previous rate of 1.0 per cent. The royalty on copper production of 2.0 per cent has not been adjusted. The increase in royalty payments of US$0.15 million compared with the first half of 2017 reflects this increase of 0.5 per cent on gold royalties.

Amortisation

Charges for the amortisation of mine property are calculated by reference to the depletion, during the period, of the total estimated mineable resource at each of the Palito and Sao Chico 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 first half of 2018 is approximately US$3.16 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 for the six month period ended 30 June 2018 in comparison to the same period of the previous year is primarily due to the reduced levels of inventory held in stock at the end of the period in comparison to the previous year. As there is less stock held in inventory, there is a higher percentage of the total amortisation charge for the period released to the Income Statement.

Depreciation

There was also a depreciation charge of US$1.33 million recorded during the first half of 2018 on plant and equipment used in the mining and processing, (first half of 2017: US$1.23 million). The increase is primarily due to the larger mobile fleet acquired for both the Palito and Sao Chico Mine during the second half of 2017.

Operating Profit

The Group has recognised an operating profit before interest and other income of US$1.16 million, (2017: operating loss of US$0.64 million) reflective of the higher level of gross profit from operations and after incurring US$2.69 million (2017: US$2.42 million) in administrative expenses as well as US$0.16 (2017: US$0.18 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 six months to 30 June 2018 is in respect of options granted between January 2015 and 30 June 2018. The Group also reported a profit of US$0.01 million from the disposal of assets (2017: US$0.12 million).

Administration costs of US$2.69 million for the six month period ended 30 June 2018 are roughly 11 per cent higher than the amount of US$2.42 million in administration costs incurred during the six month period ended 30 June 2017. Corporate costs in Brazil are roughly in line in 2018 in comparison to the same period in the previous year reflecting, however Corporate costs incurred in the United Kingdom for the six months ended 30 June 2018 have increased by 17 per cent in comparison to the same period of the previous year reflecting additional legal and professional fees connected with the acquisition of Chapleau Resources at the end of 2017, fees associated with the additional loan arrangement with Sprott, and fees associated with the two capital raises that were completed during the start of the second quarter 2018.

The Company recorded a foreign exchange loss of US$0.56 million for the six months ended 30 June 2018 which compares with a foreign exchange loss of US$0.12 million recorded for the six months ended 30 June 2017. 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 charges for the six month period to 30 June 2018 were US$0.74 million compared with US$0.68 million for the same six month period of 2017. An analysis of the composition of these charges is set out in the table below:

| | **Six months ended 30 June 2018 US$** | **Six months ended 30 June 2017 US$** |
|---|---|---|
| Interest on secured loan | (357,899) | (68,011) |
| Unwinding of discount on acquisition payment | (483,883) | – |
| Amortisation of fair value of derivatives | (130,000) | – |
| Arrangement fee for secured loan | (90,000) | – |
| | (1,061,782) | (68,011) |
| Gain on revaluation of derivatives | 362,264 | – |
| Interest income | 34 | 69 |
| Net finance expense | (699,484) | (67,942) |

The interest on the secured loan of US$357,899 (2017: US$68,011) is the cost of six months of interest paid in relation to funds advanced under the credit agreement with Sprott, with the increase reflecting the higher levels of loan principal outstanding during the period. On 30 June 2017, the Group entered into a new agreement with Sprott to increase the loan from US$1.37 million to US$5.00 million and further increased this loan to US$8 million on 23 January 2018.

The expense on the unwinding of the discount on acquisition is as a result of change in the net present value of the final payment due on the acquisition of Chapleau Resources.

The amortisation of fair value of derivatives of US$130,000 represents six months amortisation charge of the fair value ascribed to the call option granted to Sprott on 30 June 2017. As part of the US$5 million loan arrangement the Group 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.

The arrangement fee for the secured loan of US$90,000 relates to the fee Sprott received for the new US$3 million loan and the revision to the terms of the existing US$5 million loan. The fee of US$90,000 was settled through the issue of 2,141,798 New Ordinary Shares of Serabi. The New Ordinary Shares rank *pari-passu* with the existing Ordinary Shares of the Company in issue.

The gain on the revaluation of derivatives of US$362,264 (six months to 30 June 2017: US$nil) represents the gain arising on the revaluation of the derivative provision at the 30 June 2018. The initial value of the provision as at 30 June 2017 was US$650,000 which having been revalued to US$709,255 as at 31 December 2017 required a revaluation to US$346,991 at 30 June 2018 resulting in a gain during the six month period ended 30 June 2018. For the six months to 30 June 2017 there was no similar derivative liability owe by the Group and therefore no comparable charge.

| Summary of quarterly results | Quarter ended 30 June 2018 US$ | Quarter ended 31 March 2018 US$ | Quarter ended 31 December 2017 US$ | Quarter ended 30 September 2017 US$ |
|---|---|---|---|---|
| Revenues | 11,873,783 | 13,826,851 | 12,224,818 | 12,908,790 |
| Operating expenses | (7,983,786) | (9,489,101) | (8,077,318) | (7,295,870) |
| Provision for impairment of inventory | 200,000 | – | (330,000) | (400,000) |
| Amortisation of mine property | (1,733,384) | (1,425,259) | (2,220,886) | (2,191,090) |
| Depreciation of plant and equipment | (764,663) | (567,594) | (698,550) | (743,896) |
| Gross profit | 1,591,950 | 2,344,897 | 898,064 | 2,277,934 |
| Administration expenses | (1,357,814) | (1,331,424) | (1,672,081) | (1,407,836) |
| Option costs | (78,278) | (77,293) | (101,665) | (101,665) |
| Gain on disposal of asset | 13,209 | 51,115 | 38,995 | 15,621 |
| Operating (loss) / profit | 169,067 | 987,295 | (836,687) | 784,054 |
| Exchange | (498,543) | (57,090) | (70,068) | (24,021) |
| Net finance expense | (109,145) | (590,339) | (501,613) | (269,501) |
| Profit / (loss) before taxation | (438,621) | 339,866 | (1,408,368) | 490,532 |
| Income tax expense | (54,799) | (329,080) | (218,906) | (255,481) |
| Profit / (loss) after taxation | (493,420) | 10,786 | (1,627,274) | 235,051 |
| Earnings / (loss) per ordinary share (basic) | (0.94) cents | 0.03 cents | (4.66) cents | 0.67 cents |
| | | | | |
| Deferred exploration costs | 24,490,001 | 25,295,721 | 23,898,819 | 10,235,454 |
| Property, plant and equipment | 42,049,417 | 47,736,835 | 48,890,381 | 44,260,723 |
| Total current and other assets | 35,707,966 | 22,263,549 | 19,956,554 | 26,498,341 |
| Total assets | 102,160,360 | 95,296,105 | 92,835,754 | 80,994,518 |
| Total liabilities | 27,781,688 | 34,681,745 | 32,065,042 | 16,396,195 |
| Shareholders' equity | 74,465,696 | 60,614,360 | 60,770,712 | 64,598,323 |

| Summary of quarterly results | Quarter ended 30 June 2017 US$ | Quarter ended 31 March 2017 US$ | Quarter ended 31 December 2016 US$ | Quarter ended 30 September 2016 US$ |
|---|---|---|---|---|
| Revenues | 10,142,676 | 13,173,584 | 10,472,823 | 16,209,753 |
| Operating expenses | (6,849,960) | (9,792,350) | (7,077,485) | (10,216,119) |
| Provision for impairment of inventory | – | (220,000) | | |
| Amortisation of mine property | (1,984,784) | (1,390,406) | (1,193,660) | (2,292,006) |
| Depreciation of plant and equipment | (725,373) | (510,298) | (638,977) | (615,155) |
| Gross profit | 582,599 | 1,260,530 | 1,562,701 | 3,086,473 |
| Administration expenses | (1,178,903) | (1,241,455) | (1,179,345) | (1,265,828) |
| Option costs | (112,412) | (65,620) | (101,071) | (101,072) |
| Gain on disposal of asset | 115,975 | – | 34,742 | – |
| Operating profit | (592,781) | (46,545) | 317,027 | 1,719,573 |
| Exchange | (167,236) | 46,837 | (135,351) | (28,860) |
| Net finance (expense) / income | (34,159) | (33,783) | (617,228) | (947,210) |
| (Loss) / profit before taxation | (794,176) | (33,491) | (435,552) | 743,503 |
| Income tax benefit / (expense) | (97,461) | (80,552) | 3,394,182 | (278,023) |
| Profit / (loss) after taxation | (891,637) | (114,043) | 2,958,630 | 465,480 |
| Profit / (loss) per ordinary share (basic) | (2.55) cents | (0.33) cents | 8.47 cents | 1.37 cents |
| | | | | |
| Deferred exploration costs | 9,868,205 | 10,234,360 | 9,990,789 | 9,731,144 |
| Property, plant and equipment | 43,557,012 | 45,862,328 | 45,396,140 | 44,860,837 |
| Total current assets | 21,798,843 | 20,668,013 | 20,454,525 | 22,798,838 |
| Total assets | 75,268,109 | 76,764,701 | 75,841,454 | 77,390,819 |
| Total liabilities | 13,373,479 | 11,966,304 | 12,462,481 | 16,648,980 |
| Shareholders' equity | 61,894,630 | 64,798,397 | 63,378,973 | 60,741,839 |

**Liquidity and Capital Resources**

**Non-Current Assets**

On 30 June 2018, the Group's net assets amounted to US$74.47 million, which compares to US$60.77 million as reported at 31 December 2017. The Group has also reported a loss after taxation of US$0.48 million in the six month period to 30 June 2018.

On 21 December 2017 ("Closing"), the Group finalised the acquisition of Chapleau Resources for a total amount of US$22 million, with US$5 million being paid in cash on 21 December 2017. A further US$5 million in cash was paid on 16 April 2018 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. As a result of the acquisition of Chapleau there is a US$10.48 million deferred payable included within long term liabilities representing the discounted net present value of the US$12 million final payment.

Non-current assets totalling US$70.37 million at 30 June 2018 (31 December 2017: US$77.29 million), are primarily comprised of property, plant and equipment, which as at 30 June 2018 totalled US$42.1 million, (31 December 2017: US$48.98 million), including assets acquired as part of the Chapleau acquisition, as well as development and deferred exploration costs with a value of US$24.5 million, (31 December 2017: US$23.90 million), including assets acquired as part of the Chapleau acquisition. The Group has also a provision for a deferred tax asset of US$2.27 million (31 December 2017: US$2.94 million) and a long-term receivable in respect of state taxes due in Brazil of US$1.55 million (31 December 2017: US$1.47 million). The weakening of the Brazilian Real from 31 December 2017 when the exchange rate was BrR$3.3074 to US$1.00 to the rate of US$3.8552 to US$1.00 at 30 June 2018 has had a negative impact on the net asset position but the main movements are discussed in more detail below.

The Group's property, plant and equipment includes the value of its mine assets relating to the Palito Mining Complex at 30 June 2018 of US$23.93 million (2017: US$28.41 million). This includes US$2.03 million of additions from the Palito and Sao Chico ore bodies incurred during the year. Assets in construction as at 30 June 2018 and relating to the Palito Mining Complex had a book value of US$3.86 million (2017: US$3.69 million).

The Group owns land, buildings, plant and equipment with a value of US$9.55 million (31 December 2017: US$11.19 million). During the first six months of 2018 the Group has acquired additional plant and machinery to the value of US$1.19 million in relation to its ongoing operations at the Palito Mining Complex.

The gross value ascribed to the Palito Mining Complex is now being amortised over the expected recoverable ounces of each orebody. An amortisation charge totalling US$3.14 million has been recorded for the six month period to 30 June 2018 (six month period to 30 June 2017: US$3.28 million).

Deferred exploration costs as at 30 June 2018 totalled US$24.49 million (31 December 2017: US$23.90 million), which relates to US$12.10 million capitalised exploration expenditures around the Palito Mine, Sao Chico Mine and the wider Jardim Do Ouro project area as well as US$12.47 million attributable to the value of the projects acquired as part of the Chapleau acquisition. During 2018 to date the Group capitalised costs of US$3.45 million (2017: US$2,487) on exploration and evaluation expenditure. The increase reflects the commencement of a drilling programme at Palito and pre-operational costs for the Coringa project which are being capitalised in advance of the project development and commencement of plant construction.

Working Capital

The Group had a working capital position of US$20.15 million at 30 June 2018 compared to US$1.03 million at 31 December 2017, the movement of US$19.13 million being detailed in the table below:

| | June 2018 US$ | December 2017 US$ | Variance US$ |
|---|---|---|---|
| **Current assets** | | | |
| Inventories | 5,827,745 | 6,934,438 | (1,106,693) |
| Trade and other receivables | 1,596,978 | 1,277,142 | 319,836 |
| Prepayments | 3,398,201 | 3,237,412 | 160,789 |
| Cash and cash equivalents | 21,052,325 | 4,093,866 | 16,958,459 |
| **Total current assets** | **31,875,249** | **15,542,858** | **16,332,391** |
| **Current liabilities** | | | |
| Trade and other payables | 5,050,232 | 5,347,964 | (297,732) |
| Acquisition payment due | – | 5,000,000 | (5,000,000) |
| Interest-bearing loan | 5,000,000 | 1,980,000 | 3,020,000 |
| Finance Leases | 774,122 | 865,711 | (91,589) |
| Derivative financial liabilities | 346,992 | 709,255 | (362,263) |
| Accruals | 350,878 | 614,198 | (263,321) |
| **Total current liabilities** | **11,522,224** | **14,517,129** | **(2,994,905)** |
| **Working capital** | **20,353,025** | **1,025,729** | **19,327,296** |
| **Non-current liabilities** | | | |
| Trade and other payables | 2,233,353 | 2,753,409 | (520,056) |
| Acquisition payment due | 10,481,843 | 9,997,961 | 483,882 |
| Provisions | 1,857,564 | 2,047,131 | (189,567) |
| Interest-bearing loan | 1,610,000 | 2,500,000 | (890,000) |
| Finance Leases | 76,704 | 249,412 | (172,708) |
| **Total non-current liabilities** | **16,259,464** | **17,547,913** | **(1,288,449)** |

The weakening of the Brazilian Real from 31 December 2017 when the exchange rate was BrR$3.3074 to US$1.00 to the rate of US$3.8552 to US$1.00 at 30 June 2018, a weakening of 17 per cent, has had a negative impact on primary areas which make up the working capital position, however the main movements are discussed in more detail below.

Inventories

The level of inventory held by the Group at 30 June 2018 has decreased by US$1.31 million since 31 December 2017. A breakdown of the Group's inventories at the 30 June 2018 and at 31 December 2017 is set out in the table below:

| | 30 June 2018 US$ | 31 December 2017 US$ | Variance US$ | Variance % |
|---|---|---|---|---|
| Stockpile of mined ore | 427,154 | 1,091,656 | (664,502) | (61%) |
| Finished Goods awaiting sale | 1,412,191 | 1,741,860 | (329,669) | (19%) |
| Other material in process | 982,793 | 1,019,593 | (36,800) | (4%) |
| Stockpile of flotation tails | 233,001 | 494,117 | (261,116) | (53%) |
| | **3,055,139** | **4,347,226** | **(1,292,087)** | **(30%)** |
| Consumables | 2,772,606 | 2,587,212 | 185,394 | 7% |
| **Total Inventory** | **5,827,745** | **6,934,438** | **(1,106,693)** | **(16%)** |

During 2017, the Group made a provision of US$950,000 against the value of its stockpiles of mined ore. At 30 June 2018, the value of the provision against the carrying value of these coarse ore stockpiles was reduced to US$750,000, with the reduction in the impairment provision of US$200,000 being released to the Income Statement.

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 June 2018 of US$2.77 million (31 December 2017: US$2.59 million) have increased by approximately US$0.19 million or seven per cent. 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 61 per cent from US$1.09 million to US$0.43 million. The total coarse ore stockpile tonnage has decreased from approximately 15,000 tonnes at 31 December 2017 to approximately 7,800 tonnes at 30 June 2018, a decrease of 48 per cent. The weakening of the Brazilian Real between 31 December 2017 and 30 June 2018 explains the remainder of the decrease.

The value of finished goods awaiting sale at 30 June 2018 of US$1.42 million compares with the value at 31 December 2017 of US$1.74 million. The total value of finished goods held in stock at 30 June 2018 comprises 132 bags of copper/gold concentrate with a value of US$0.57 million (31 December 2017: 142 bags with a value of US$0.66 million) and bullion on hand for smelting which, at 30 June 2018, was 31,089 grammes valued at US$0.85 million in comparison to 39,893 grammes at 31 December 2017 valued at US$1.08 million.

During 2014 the Group had established a stockpile of partly processed material which having only passed through the flotation processing circuit, retained a gold grade of approximately 2.5 g/t. At 31 December 2017, there were approximately 14,700 tonnes of flotation stockpile on site with a value of US$0.49 million. During 2018 the Group has processed approximately 6,624 tonnes of this stockpile leaving approximately 8,085 tonnes at 30 June 2018 with a value of US$0.23 million.

The valuation attributable to gold locked up within the processing plant has decreased to US$0.99 million as at 30 June 2018 (31 December 2017: US$1.02 million) reflecting normal operational variances.

Taxes Receivable after more than twelve months

The Group, in common with all businesses in Brazil, is subject to a number of State and Federal taxes on goods that it purchases. As an exporter of goods, it is exempt from any sales taxes on its products. As a result, it is due tax rebates by both Federal and State tax bodies. In general, the Company is able to utilise its tax debts by way of offset against other taxes that it owes. The Group has however determined based on the actions of the State tax authorities and the expected future operational expenditures over the next 12 months, that certain State taxes that is able to recover and is owed at 30 June 2018, are not expected to be recovered through such an offset arrangement during the next 12 months and has therefore categorised the balance owed in respect of these State taxes as being due in more than 12 months. The Group has received legal advice confirming that these taxes owed to the Group by the State of Para are fully recoverable.

Trade Receivables

Trade and other receivables at 30 June 2018 of US$1.60 million have increased by US$0.32 million from US$1.28 million at 31 December 2017.

As at 30 June 2018 the Group was owed US$1.44 million from the sale of its copper concentrate in comparison to US$1.23 million as at 31 December 2017.

Prepayments

Prepayments have increased by US$0.16 million from US$3.24 million at 31 December 2017 to US$3.40 million at 30 June 2018. The main reason for this increase is because during the first half of 2018 the Group made several down payments on underground mining equipment, (including supplier deposits and import taxes), totalling US$0.38 million. This increase in down payments on underground equipment has been offset by a decrease of US$0.22 million in prepaid taxes including recoverable taxes of PIS and Cofins (Federal taxes) that remain to be recovered at the period end.

Cash at Bank

Between 31 December 2017 and 30 June 2018, cash balances have increased by approximately US$16.96 million.

During the second quarter of 2018, the Group received a total of US$23.24 million, net of legal fees, for the issue of 474,437,864 shares. The group also repaid the second instalment of US$5.0 million for the acquisition of Chapleau on 16 April 2018.

During the first quarter of 2018, the Group increased the interest-bearing secured loan by a further US$3.0 million from US$5.00 million at 31 December 2017 to US$8.00 million. The additional loan was taken out in January 2018 to replace working capital that had been used to make a US$5.00 million payment for the acquisition of Chapleau Resources as the first instalment of the total consideration of US$22 million payable. The Group have also repaid US$1.0 million of this loan during the first half of 2018

During the first six months of 2018, the Group have also spent US$1.44 million on an exploration project around the Palito Mining Complex, US$1.06 million on mine development, US$0.89 million on plant and equipment and US$0.50 million on pre-operating costs on the Corringa project.

Current Liabilities
Current liabilities have decreased by US$3.00 million from US$14.52 million at 31 December 2017 to US$11.52 million at 30 June 2018. This mostly reflects the repayment of US$5.0 as the second instalment on the Chapleau acquisition netted off against the increase of the additional US$3 million loan received from Sprott in January 2018.

Trade Creditors
Trade and other payables amounting to US$5.10 million at 30 June 2018 compare with an amount owed by the Group of US$5.35 million at 31 December 2017, a decrease of US$0.30 million. This decrease in trade creditors is attributable to normal timing differences between the two period ends.

Interest-Bearing loan
On 30 June 2017, the Group entered into a new loan agreement with Sprott for US$5.00 million expiring 31 December 2019 with the loan repayments commencing over 24 months starting in January 2018. An amendment to this agreement was completed on 22 January 2018 whereby the Group increased its loan with Sprott by US$3 million ("The New Loan") and at the same time extended the final repayment period on its existing US$5 million loan (The Existing Loan") with Sprott by six months from 31 December 2019 to 30 June 2020. The New Loan may be repaid, at the Company's request and with the agreement of Sprott (the "Extension Option") in equal monthly instalments commencing 30 September 2018 with a final payment due 22 months later on 30 June 2020. If the Extension Option is not exercised the New Loan must be repaid in full on 30 September 2018. Notwithstanding the above, both the New Loan and the Existing Loan may be repaid by Serabi in full without penalty at any time.

Of the total loan US$1.61 million is due in more than 12 months and US$1.0 million was repaid during the period. The total loan balance shown in the table above is US$6.61 million.

Obligations under Finance Leases
Obligations under finance leases for less than one year have decreased by US$0.92 million from US$0.87 million at 31 December 2017 to US$0.77 million at 30 June 2018. During 2018, the Group has made one new equipment acquisitions using lease finance arrangements and has made capital repayments totalling approximately US$0.43 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 Reals, the functional currency for SMSA.

Derivative Financial Liabilities
By way of a fee for the loan agreement with Sprott 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 June 2018, the derivative provision was revalued to US$0.35 million with the decrease in the provision that has arisen in the year to date of US$0.36 million being reflected as finance income in the Income Statement.

Derivatives are valued by reference to available market data. Any change in the value of the derivative is recognised in the statement of comprehensive income in the period in which it occurs. The fair value of the derivative has been measured using level 1 inputs.

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 rehabilitation provision carried by the Group at 30 June 2018 was US$1.86 million. The value at 31 December 2017 was US$2.01 million. The variation is attributed to exchange rate variations between the two periods.

The amount due on acquisition of US$10.48 million relates to the net present value of the US$12 million due upon the earlier of either the first gold being produced or 24 months from the date of closing.

The property acquisition payment due by the Group at 30 June 2018 is roughly in line with the amount due as at 31 December 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 conformed its calculation of these performance measurements with the guidance notes released by the World Gold Council. The measures seek to capture all the important components of the Group's production and related costs. In addition, management utilises these and similar metrics as a valuable management tool to monitor cost performance of the Group's operations. These measures and similar measures, have no standardised meaning under IFRS and may not be comparable to similar measures presented by other companies. This measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

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

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

| | 6 Months Ended 30 June 2018 (US$) | 12 months Ended December 2017 (US$) | 6 Months Ended 30 June 2017 (US$) |
|---|---|---|---|
| Total operating costs (calculated on a sales basis) | 17,472,887 | 32,015,498 | 16,642,310 |
| **Add/(subtract)** | | | |
| Finished goods and WIP inventory stock adjustment | (739,386) | (347,562) | (941,485) |
| Grossing up of revenue for metal deductions | 207,317 | 555,476 | 318,056 |
| By-product credits | (795,846) | (2,663,981) | (1,271,905) |
| Total cash cost of production | 16,144,972 | 29,559,430 | 14,746,976 |
| Corporate G&A | 2,689,238 | 5,343,871 | 2,420,358 |
| Share-based remuneration | 155,571 | 381,362 | 178,032 |
| Capitalised cost for mine development | 2,030,489 | 4,362,192 | 1,964,320 |
| All-In Sustaining Cost of production | 21,020,270 | 39,646,855 | 19,309,686 |

| | 6 months ended 30 June 2018 (ounces) | 12 months ended 31 December 2016 (ounces) | 6 months ended 30 June 2017 (ounces) |
|---|---|---|---|
| Gold ounces produced | 18,751 | 37,004 | 18,009 |

| | 6 months ended 30 June 2018 (US$) | 12 months ended 31 December 2016 (US$) | 6 Months Ended 30 June 2017 (US$) |
|---|---|---|---|
| Total Cash Cost of production (per ounce) | US$861 | US$799 | US$819 |
| Total All-In Sustaining Cost of production | US$1,121 | US$1,071 | US$1,072 |

**Contractual commitments**

The Group has operating leases in respect of office premises in London, England and Belo Horizonte and Belem in Brazil.

The Group holds certain exploration prospects which require the Group to make certain payments under rental or purchase arrangements allowing the Group to retain the right to access and undertake exploration on these properties. Failure to meet these obligations could result in forfeiture of any affected prospects.

Management estimates that the cost over the next 12 months of fulfilling the current contracted commitments on these exploration properties in which the Group has an interest is US$0.11 million (June 2017: US$0.06 million). The increase in comparison to the previous year is due to the acquisition of Chapleau Resources.

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| **Contractual obligations** | **Total** | **Less than** | **1-3 years** | **4-5 years** | **After 5** |
| | **$** | **$** | **$** | **$** | **$** |
| Short term debt | 6,609,996 | 5,000,000 | 1,609,996 | — | — |
| Capital lease obligations | 850,830 | 774,122 | 76,708 | — | — |
| Operating leases | 180,934 | 155,196 | 25,738 | — | — |
| Purchase obligations | — | — | — | — | — |
| Other long term obligations | — | — | — | — | — |
| **Total contractual obligations** | **7,641,760** | **5,929,318** | **1,712,442** | **—** | **—** |

**Financial and other instruments**

The Group's and the Company's financial assets at 30 June 2018 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 June 2018, the Group carried inventory of finished goods and work-in-progress valued at US$3.06 million (31 December 2017: US$4.35 million) including US$0.56 million of copper/gold concentrate representing 132 tonnes of material awaiting sale (31 December 2017: US$0.66 million; 142

tonnes) and US$2.29 million of other material in process (31 December 2017: US$3.69 million). All inventory as at 30 June 2018, 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 June 2017 took out a US$5 million secured loan with Sprott which was increased to US$8.00 million in January 2018. As at 30 June 2018 2018 US$1.0 million of the total loan of US$8 million had been repaid.

***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 22 January 2018 increased a secured loan from US$5.00 million to US$8.00 million, of which US$7.0 million remained outstanding as at 30 June 2018.

As at 30 June 2018, in addition to the Sprott Facility the Group had obligations under fixed rate finance leases amounting to US$0.85 million (31 December 2017: US$1.12 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 available and appropriate, will use fixed rate finance arrangements for the purchase of certain items of capital equipment and use short term trade finance particularly in respect of its projected sales of copper/gold concentrate. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Group to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

The following table sets out the maturity profile of the financial liabilities as at 30 June 2018:

| | **30 June 2018 Group US$** | **31 December 2017 Group US$** |
|---|---|---|
| Due in less than one month | 1,623,653 | 1,082,671 |
| Due between one month and three months | 2,706,089 | 1,897,943 |
| Due between three months and one year | 6,494,612 | 5,213,062 |
| Total due within one year | 10,824,354 | 8,193,676 |
| Due more than one year | 1,686,704 | 2,749,412 |
| Total | 12,511,058 | 10,943,088 |

***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:

| | **Group** | |
|---|---|---|
| | **30 June 2018 US$** | **31 December 2017 US$** |
| US Dollar | 11,252,927 | 2,635,299 |
| Canadian Dollar | 65,527 | 44,578 |
| Sterling | 7,514,644 | 126,198 |
| Australian Dollar | 17,831 | 28,101 |
| Euro | 36,080 | 105,977 |
| Brazilian Real | 2,165,317 | 1,153,713 |
| Total | 21,052,325 | 4,093,866 |

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$26,047,504 (2017: US$8,608,420). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings.

The Group currently sells most of its gold bullion to a single customer. The Group seeks to receive full settlement by bank transfer on delivery of its product to the purchaser to minimise its exposure to any credit risk on that customer.

The Group currently sells most of its copper/gold concentrate production to a single customer, a publicly quoted trading group located in Japan having changed customer in the second half of 2016. Settlement terms are in accordance with industry norms. The customer has a strong reputation within the industry and has a good credit risk history. As at the balance sheet date there were no amounts owed to the Group that were overdue. Whilst the Group has made sales to other parties during the year all amounts due have been settled and therefore there is no credit risk associated with these sales.

**Subsequent events**

There has been no item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the continuing operation of the entity, the results of these operations, or the state of affairs of the entity in future financial periods.

**Changes in accounting policies**

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

As of 1 January 2018, lFRS 9 - Financial Instruments, and lFRS 15 - Revenue from Contracts, became effective and have been adopted. The effect of implementation has not had a material impact on the financial results of the Group.

As of the date of authorisation of these financial statements, IFRS 16 – Leases, was in issue but not effective and has not been applied to these financial statements.

IFRS 16 will require the recognition of an asset and liability with respect to the material operating lease commitments that the group have. Management are currently considering the impact that this will have on the financial statements. The Group does not at this time anticipate voluntary early adoption of IFRS 16.

**Off-balance sheet arrangements**

The Group has no off-balance sheet arrangements

**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***

An initial judgement is made as to whether the mining assets are impaired based on the matters identified for mining assets in the impairment policy in the Group's 2017 Annual Report at 1 h) relating to IAS 36 impairment. .

In the event that there is an indication of impairment, mining assets are assessed for impairment through 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 one single CGU. Management consider that there was an indicator of impairment. Details of the estimates used are included within note 21.

The value in use calculation will also be determined by the judgments made by management regarding the levels of Mineral Reserves and Mineral Resources that are included in the value in use calculations and judgments regarding any future changes in legislation or economic circumstances that might impact the operations.

As described in note 1(d) (iv) in the Group's 2017 Annual Report, 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 21 regarding the key assumptions made in assessing the value in use.

*Mineral resources*

Quantification of mineral resources requires a judgement on the reasonable prospects for eventual economic extraction. These judgements are based on assessments made in accordance with the provisions of Canadian National instrument 43-101. These factors are a source of uncertainty and changes could result in an increase or decrease in mineral resources and changes to the categorisation or mineral resources between Mineral Reserves, Measured and Indicated Mineral Resources and Inferred Mineral Resources. Only Mineral Reserves have been established to have economic viability and only at the time that such estimation is undertaken. Any change in the underlying factors under which the economic assessment was made may give rise to management making a judgment as to whether it is reasonable that such Mineral Reserves should be used for the purposes of forecasts. This would, in turn, affect certain amounts in the financial statements such as depreciation, which is 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 (see note 21 of the Group's 2017 Annual Report).

Mineral Resources have not been established to have economic viability and to the extent that management includes Mineral resources to calculate projected life of mine figures or in calculations of amortisation or depreciation, management will make judgements based on historical reports, future economic factors and other empirical measures to make estimates as the level of Mineral Resources that in incorporates into its assessments.

*Recoverability of deferred exploration expenditure (note 10)*

The recoverability of exploration expenditure capitalised within intangible assets is assessed based on a judgement about the potential of the project to become commercial viable and if there are any facts or circumstances that would suggest the costs should be impaired. In making this judgement management will consider the items noted in the impairment policy in respect of exploration assets as noted in accounting policy 1 h). Should an indicator of impairment be identified the value in use is estimated on a similar basis as the mining asset as detailed above. Management determined that there were no indicators of impairment in the year.

*Recoverability of debts including recoverable taxes*

In making its judgments over the recoverability of any amounts owed to the Group management will assess the creditworthiness of the debtor, the legal enforceability of the Groups rights and the practicalities and costs of obtaining and enforcing judgments relative to the debt outstanding. Based on these assessments it will estimate the likely recoverability of sums that are due to the Group, the likely time period over when such debts might be received and any provision that needs to be established against the future recoverability. Management have determined that the debts are recoverable and that no provision has been made.

*Acquisition of Chapleau*

Chapleau Resources Limited was acquired by the group in the year. An initial judgement is made as to whether to account for this as an asset acquisition or a business combination. If an acquisition is determined to be a business combination then it falls within the scope of IFRS 3, if it does not then it is treated as an asset of group of assets.

The judgement involves whether the acquired entity meets the definition of a business. Key components of a business consist of inputs, processes and outputs. Inputs and processes are the essential elements that have to be present in order to be classified as a business. A business does not have to have outputs to qualify as a business. The acquisition has been accounted for as an asset acquisition as Chapleau is judged not to have the required inputs and processes to qualify as a business and that a market participant would not be capable of conducting and managing the entity as a business.

Estimates are involved in determining the respective attributable value of the assets and liabilities over which the cost of the acquisition is attributed. Further details are included in note 22 of the Group's 2017 Annual Report.

The following are the critical estimates 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.

***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. The balance that is most subject to changes in estimates is the stockpile of mined ore which has been impaired in the year.

***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***

Management uses its judgement and experience to provide for and amortise the estimated mine closure and site rehabilitation over the life of the mine. Provisions are discounted at a risk-free rate and cost base inflated at an appropriate rate. The ultimate closure and site rehabilitation costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements or the emergence of new restoration techniques. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which could affect future financial results.

**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 2017, 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 2017.

**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 2017, 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 2017, 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 six month period ended 30 June 2018 that have materially affected, or are reasonably likely to materially affect, the Group's internal controls over financial reporting.

**Disclosure of outstanding share data**

The Company had the following Ordinary Shares, Stock Options and Warrants outstanding at 11 August 2018:

| | |
|---|---|
| Ordinary Shares | 58,764,072 |
| Stock Options | 3,436,750 |
| Fully diluted ordinary shares outstanding | 62,200,822 |

Fratelli Investments Limited ("Fratelli") holds 19,318,786 Ordinary Shares in the Group representing 32.88 per cent of the voting shares in issue.

Greenstone Resources II LP ("Greenstone"), holds 14,887,970 Ordinary Shares in the Group representing 25.34 per cent of the voting shares in issue.

**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 analysisare based upon what management believes to be reasonable assumptions, the Group cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this management's discussion and analysis, and the Group assumes no obligation to update or revise them to reflect new events or circumstances, except in accordance with applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.*

**Risks and uncertainties**

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

| *ECONOMIC RISKS* | | | |
|---|---|---|---|
| *Risk* | *Comment* | *Business Impact* | *Mitigation* |
| ***Changes in gold prices*** | The profitability of the Group's operations is dependent upon the market price of gold. Gold prices fluctuate widely and are affected by numerous factors beyond the control of the Group.<br><br>Reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Group's investment in mining properties and increased amortisation, reclamation and closure charges. | ***High*** | Management closely monitors commodity prices and economic and other events that may influence commodity prices.<br><br>The Board will use hedging instruments if and when it considers it appropriate. |
| ***Currency fluctuations may affect the costs of doing business and the results of operations*** | The Group's major products are traded in prices denominated in US dollars. The Group incurs most of its expenditures in Brazilian Reals although it has a reasonable level of expenses in US Dollars, UK Pounds and other currencies. | ***High*** | Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments. |
| ***Availability of working capital.*** | The Company is reliant on generating regular revenue and cash flow from its operations on a monthly basis to meet its monthly operating costs, meet debt repayment requirements and to fund capital investment and exploration programmes. It has no overdraft or stand–by credit facilities in place in the event of any operational difficulties or other events that may reduce or delay revenue receipts in the short-term. | | Management, in designing and planning the Group's operations, incorporates contingency planning. The Group has multiple mining faces to minimise geological and mining risk to operations, it has a modular plant to ensure gold processing can be maintained to the greatest extent possible at all times and deals with customers for its products who have good credit and standing in the industry. Management also manage the Group's commitments and obligations to maximise the level of cash holdings at any time and works closely with existing and potential lenders and other potential financing partners to ensure that, to the greatest extent possible, it can have access to additional cash resources or defer debt repayment obligations should any unexpected need arise. |

| OPERATIONAL RISKS | | | |
|---|---|---|---|
| *Risk* | *Comment* | *Business Impact* | *Mitigation* |
| ***Future exploration may not result in increased mineral resources*** | Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Group discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals. | ***Medium*** | Management undertakes exploration only following careful evaluation of opportunities and designs programmes that seek to ensure that expenditure is carefully controlled and can be ceased at any time that management considers that the exploration prospect is unlikely to be commercially viable and does not warrant further evaluation. |
| ***No guarantee that the Group's Applications for exploration licences and mining licences will be granted***<br><br>***Existing exploration licences may not be renewed or approved or converted into mining licences***<br><br>***Title to any of the Group's mineral properties may be challenged or disputed*** | There is no guarantee that any application for additional exploration licences will be granted by the Agência Nacional de Mineração ("ANM"). The ANM can refuse any application. Persons may object to the granting of any exploration licence and the ANH may take those objections into consideration when making any decision on whether or not to grant a licence.<br><br>The exploration licence for the Sao Chico property expired in March 2014. The Group applied for a full mining licence and the application and all supporting information and reports have been made in accordance with prescribed regulations. The Group has received no indications that the full mining licence will not be granted.<br><br>At the current time mining operations at the Sao Chico Mine are carried out under a trial mining licence which is renewable annually.<br><br>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.<br><br>The Group is in the process of applying for a mining licence in respect of the Coringa gold project. There can be no certainty that a mining licence will be issued or as to the time frame in which it will be issued. | ***High*** | Management maintains on-going dialogue with the ANM 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.<br><br>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. |
| ***The Group has declared commercial production effective as of 1 January 2016 at the Sao Chico gold mine located close to the Group's*** | Whilst the Group has published NI 43-101 compliant Reserves and Resources for the Sao Chico Mine the Group has never published an independent technical assessment into the commercial viability of this operation. | ***High*** | Management has made its own assessment of the Sao Chico Mine and whilst during 2015 the mine had been in a development phase it has now been operating successfully for over 30 months. Whilst management noted, during the course of the development mining undertaken in 2015, that the |

| *OPERATIONAL RISKS* | | | |
|---|---|---|---|
| ***Risk*** | ***Comment*** | ***Business Impact*** | ***Mitigation*** |
| ***Palito Mine. There is however no certainty that the Group will be able to maintain a commercially viable long term operation at Sao Chico*** | | | mineralisation is more complex that was initially envisaged, it has now put in place changes to the mine plans and mining methodology to address the issues that were encountered.<br><br>Management is confident, based on its experience and knowledge, that the Sao Chico Mine will continue to be commercially viable mining operation. |
| ***Other permits and licences required to conduct operations may not be renewed or may be revoked or suspended*** | The Group requires a number of permits and licences to be able to undertake its operations and these are issued by a variety of agencies and departments.<br><br>The Group is required to provide regular reports and may be subject to inspections to ensure that it is in compliance with its obligations in respect of any licence or permit. Failure to comply with the obligations can result in fines, obligations to undertake remedial action and in cases where a breach is deemed significant can result in suspension until remedied.<br><br>Permits and licences are issued for fixed periods and therefore subject to regular renewal. The renewal process may impose additional obligations on the Group that had not been imposed under previous licences and permits. | | Management maintains on-going dialogue with the all government bodies involved with the granting and control of mining operations s to ensure that such bodies are well informed of the Group's activities and plans and also to help ensure that the Group is informed at an early stage of any issues of concern that such bodies may have.<br><br>The Group employs personnel and consultants experienced in the various aspects of the licencing and permitting process to ensure that it maintains compliance with its obligations. |
| ***The Coringa gold project is an advanced stage development project requiring permitting and construction before production can commence*** | The Group acquired the Coringa gold project in December 2017.<br><br>The Group is at the early stages of obtaining all the necessary permits and licences (including a mining licence and operational licence) required to allow mine development and plant construction to commence and there can be no certainty that it will be granted all the necessary licences and permits or as to the time frame in which these will be issued. | | The Group has been operating the region for a number of years and in general is dealing with the same government agencies and bodies that have oversight of the operations in the Palito Mining Complex.<br><br>The Group considers that it has developed good relations and understanding with the government bodies and agencies who will grant these licences and these same bodies have been supportive of Serabi's acquisition of the project. |
| ***Exploration and development of the Group's other properties, including continuing exploration and development projects, and the*** | 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 | ***Low*** | Management of capital resources is a high priority for the Group and prior to taking any development decision the Group will seek to ensure, to the greatest extent possible, that the development is fully funded and will manage the development budgets and programmes to minimise and anticipate any potential budget over-runs. |

| OPERATIONAL RISKS | | | |
|---|---|---|---|
| *Risk* | *Comment* | *Business Impact* | *Mitigation* |
| ***construction of mining facilities and commencement of mining operations, will require substantial additional funding*** | indefinite postponement of exploration, development or production on any of the Group's other properties or even a loss of a property interest. | | |
| ***The Group may experience higher costs and lower revenues than estimated due to unexpected problems*** | Mining operations often experience unexpected problems during the life of the mine which may result from events of nature, unexpected geological features or mechanical issues that can result in substantial disruption to operations. Such disruption could increase operating costs, delay revenue growth and have implications for the working capital requirements of the business. | ***Medium*** | Management is experienced with similar mining operations and has gained valuable operational experience at both 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.<br><br>In this way it anticipates that short term operational issues should not be unduly disruptive and that any shortfall can be caught up quickly once the issue is resolved. |
| ***Environmental legislation*** | All phases of the Group's operations are subject to environmental regulation in Brazil. There is no assurance that existing or future environmental regulation will not materially adversely affect the Group's business, financial condition and results of operations. | ***Low*** | Environmental regulations are constantly changing and governed by both local and global concerns and initiatives. Management seeks to ensure that it adopts sound and compliant environmental principles. The operations of the Group are relatively small and management does not consider the scale of the operations to have a material environmental impact on its surroundings. |
| ***Exposure to mining hazards*** | The Group is exposed to a number of risks and hazards typically associated with mining operations including environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel.<br>These risks may result in: damage to, or destruction of, the Group's properties or production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability. | ***Medium*** | The Group's operational teams regularly monitor mining risks, and report to the CEO who, in consultation with the Board, is responsible, on behalf of the Board, for ensuring appropriate measures are in place for anticipating, and responding to, such matters. |
| ***If mineral resource estimates are not accurate, production may be*** | 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 | ***Medium*** | The Groups mineral resource estimates are prepared by either in-house staff or third party consultants who have considerable experience and as |

| *OPERATIONAL RISKS* | | | |
|---|---|---|---|
| ***Risk*** | ***Comment*** | ***Business Impact*** | ***Mitigation*** |
| ***less than estimated which would adversely affect the Group's financial condition and the results of operations*** | 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.<br>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. | | appropriate are certified in accordance with recognised international standards. |
| ***The Group is required to obtain and renew governmental permits and licences in order to conduct mining operations, which can be a costly and time-consuming process*** | In the ordinary course of business, the Group will be required to obtain and renew governmental permits and licences for the operations and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time consuming process. The duration and success of the Group's efforts to obtain and renew permits and licences are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licencing authority. The Group may not be able to obtain or renew permits and licences that are necessary to its operations or the cost to obtain or renew permits and licences may exceed what the Group expects. | ***Low*** | The Group maintains good relationships with the appropriate licencing authorities and management are responsible for ensuring that conditions are adhered to and that renewals are submitted in a timely and complete manner. |
| ***The mining industry is intensely competitive in all of its phases and the Group competes with many companies possessing greater financial and technical resources than itself*** | Competition in the precious metals mining industry is primarily for mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties.<br>Such competition may result in the Group being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. | ***Low*** | The Group anticipates that it will be in a position to generate positive cash flow and have re-paid debt by the end of 2016 increasing its relative strength to attract and retain employees and to acquire and develop new properties and projects. |

| *COUNTRY RISKS* | | | |
|---|---|---|---|
| ***Risk*** | ***Comment*** | ***Business Impact*** | ***Mitigation*** |
| ***The Group's operations are conducted in Brazil and, as such, the Group's operations are exposed to various levels of*** | The government of Brazil introduced a new Mining Code during 2017.<br><br>The new proposals were announced in July 2017 including the establishment of a new body to replace the Departamento Nacional de Produção Mineral ("DNPM") and have | ***Medium*** | The mining industry in Brazil is dominated by a small number of influential local companies and the interests and needs of smaller mining operations can be limited. The Group is affiliated with group's who help promote |

| *COUNTRY RISKS* | | | |
|---|---|---|---|
| ***Risk*** | ***Comment*** | ***Business Impact*** | ***Mitigation*** |
| ***political, economic and other risks and uncertainties*** | oversight of the mining industry. Whilst the new body the ANM has assumed all the functions of the DNPM, the process of transfer of management and responsibility remains incomplete leading to delay. | | and lobby for the needs of smaller mining enterprises. |

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