SERABI GOLD

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months periods ended 30 June 2014

14 August 2014

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Introduction

This Management's Discussion and Analysis ("MD&A") dated 14 August 2014 provides a review of the performance of Serabi Gold plc ("Serabi" or the "Company"). It includes financial information from, and should be read in conjunction with, the interim unaudited condensed financial statements of the Company for the three month and six month periods ended 30 June 2014 and also read in conjunction with the Company's annual report and audited consolidated financial statements and it's MD&A for the twelve month period ended 31 December 2013.

For further information on the Company, 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 Company's website www.serabigold.com.

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

The Company 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 Company's principal focus centres upon its gold projects in the Jardim do Ouro area of the Tapajos region of the State of Para in Brazil, which it holds through its wholly owned subsidiaries Serabi Mineraçăo S.A. and Gold Aura do Brasil Mineraçăo Ltda.

The Company's primary interests are the wholly owned Palito Gold Mine ("Palito") and the Sao Chico Gold Project ("Sao Chico") both of which are located in the Tapajos region of northern Brazil. These two properties lie within the larger Jardim do Ouro Gold Project ("JDO Project") which comprises a series of contiguous exploration licences of approximately 41,000 hectares, and lies on the 50km wide NW-SE trending Tocantinzinho Trend, which is the major controlling structural feature in the Tapajos region. The vast majority of the hard rock mineral resources discovered to date in the Tapajos region lie on this trend.

Work commenced at Palito in October 2012 to remediate and develop the existing underground mine and renovate the process plant with a view to commencing gold production by the end of 2013. The commissioning of the process plant started in December 2013 and during the first half of 2014 the planned production ramp-up has been on-going, with the first consignments of gold/copper concentrate transported from the mine in February 2014. On 23 July 2014, the Company declared Commercial Production at Palito with effect from 1 July 2014. The Palito Mine is fully permitted and has a mining licence covering 1,150 hectares which was issued in October 2007.

Sao Chico is a high-grade deposit located approximately 25 kilometres by existing road from Palito. The Company intends that ore mined from Sao Chico will be trucked to Palito and be processed using the existing gold recovery plant at Palito. Work commenced early in 2014 on earthworks to allow the company to expose the bedrock and install a mine portal. The Company anticipates being in the position to commence initial development mining during the fourth quarter of 2014.

The Company holds further exploration licences within the Tapajos region covering approximately 58,000 hectares. Exploration work undertaken by the company on these licences is at an early stage.

On 3 March 2014, the Company completed a placement of shares and warrants to raise gross proceeds of UK£10 million. These proceeds are being used in part to finance the next stage of evaluation and development of the Sao Chico project in advance of a decision to enter into commercial mining operations.

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.

Financial and Corporate Highlights – For three and six month periods ending 30 June 2014

- Commercial production at Palito declared with effect from 1 July 2014.
- Equity financing closed on 3 March 2014 raising gross proceeds of UK£10 million.
- Revenues of US$5.2 million recognised in the first six months from sales of approximately 3,900 ounces
- Cash holdings at 30 June 2014 of US$5.9 million.

Operational Highlights – For three and six month periods ending 30 June 2014

- Successful plant commissioning and production ramp-up at Palito has continued during the second quarter.
- Gold production of 3,242(1) ounces for the second quarter 2014 and 5,542(1) ounces for the year to date.
- Total mine ore production for second quarter of 15,808 tonnes @ 11.36 g/t Au.
- Total milled production for second quarter of 18,645 tonnes @ 8.08 g/t Au.
- Approximately 3,300 metres of underground horizontal development has been completed in the six months to 30 June 2014.
- Surface ore stockpile at 30 June 2014 of approximately 13,000 tonnes @ 5.4 g/t Au.
- At 30 June 2014 more than 32,500 tonnes of flotation tailings stockpiled and awaiting cyanidation treatment, with a grade in excess of 2.0 g/t Au, and contained gold of more than 2,100 ounces.

(1) Gold production figures are subject to amendment pending final agreed assays of the gold content of the copper/gold concentrate that is being sold to a refinery.

Post Period Highlights

- Carbon in Pulp leaching circuit completed during July 2014 and commissioning will commence during August 2014.
- A second ball mill has been installed and tested and has been operational since 20 July 2014.

Outlook and Strategy

The second quarter of 2014 built on the commissioning and testing phase of the process plant at Palito that was undertaken during the first quarter. The current gold recovery circuit comprises milling, flotation (producing a high grade copper/gold concentrate) and gravity separation (producing a high grade gold concentrate) of the flotation tailings. From January until July 2014, the tailings produced following flotation and gravity treatment ("Flotation Tailings") have been stockpiled for future cyanidation treatment. With the completion of the Carbon in Pulp ("CIP") cyanide leaching tanks at the end of July, these Flotation Tailings are now being prepared for re-treatment in the leaching tanks. It will take approximately 3 weeks until the first carbon is fully loaded with gold and at this point, the first batch of loaded carbon will be drawn off and fresh carbon introduced into the tanks to replace it. This loaded carbon is expected to have a grade of approximately 2,000-2,500g/t gold. Work on finalising the elution section of the plant is planned to be completed during August and therefore it is anticipated that as loaded carbon is drawn out of the CIP tanks, it will pass to the completed elution plant in time for a first gold pour in September. It is anticipated that this final stage of processing will increase the overall gold recovery to approximately 92%. Over the remainder of 2014 and into 2015 the Flotation Tailings that were produced during the first six months of the year, of which there is more than 32,500 tonnes with contained gold calculated at 2,100 ounces, will be processed through the CIP circuit to recover as much as possible of this residual gold that could not be recovered through the flotation and gravity processes.

A second ball mill was acquired during the second quarter and has been remediated and started operating in late July. Whilst primarily acquired to permit a second processing line to be established for ore from Sao Chico, in the short term it is being used to provide additional processing capacity for Palito ore in excess of the planned 7,500 tonnes per month and to allow the company to run down the surface stockpile of ore which at the end of June 2014 was approximately 13,000 tonnes of ore with a grade of 5.4g/t.

The Company anticipates a strong second half of 2014. The commissioning of the CIP plant is expected to increase gold recoveries to over 90% which combined with the implementation of the second ball mill and the treatment of the stockpiled flotation tailings accumulated over the past six months, will increase the plant throughput and production significantly. The Company remains on course to achieve its gold production forecast of 23,000-24,000 ounces of gold for 2014.

Development work at Sao Chico has been delayed by heavy rains earlier this year. Work commenced in February to clear approximately 20 metres of the deep unconsolidated saprolite material that overlies the bed-rock prior to being able to establish the mine portal. The Company anticipated clearance of the saprolite would take approximately 3 months based on the assumption that the rainy season would, as usual, end in late March. The rains however continued until early June making the excavation conditions extremely wet and significantly delaying work.

Work at Sao Chico is now progressing well, with the ground rapidly drying out. Ramp development was initially expected to commence in early July, but in light of the delay this is now expected to be before the end of September with a consequent delay in starting underground mine development. The decline ramp, once underway, will be driven at a 12% gradient and from it, two development levels, L1 and L2, will be established, at the 30 vertical metre and 60 vertical metre intervals respectively. The development levels will follow the principal structure, known as the Main Vein, to its strike extents to the East and West, currently estimated as 500 development metres per level.

The Company plans to generate an updated geological resource for Sao Chico in the first quarter of 2015. To facilitate this a surface drill programme is now planned for later in the third quarter of this year. This will replace the previously announced underground drill programme which, with the delays in ramp and mine development, could not be completed within the Company's desired time frame.

The Final Exploration Report ("FER") was completed and submitted to the Departamento Nacional de Produção Mineral ("DNPM") in February, representing the first part of the process of transforming the exploration licence into a mining licence. Work is now underway on the preparation of the Plano de Approveimento Economico ("PAE") which is required to be submitted once the DNPM has approved the FER.

In the longer term the Company plans to establish additional satellite high-grade gold mines in relatively close proximity to Palito which will be a centralised processing facility. In this way the company expects to be able to grow its production base at low capital cost, avoid the need for major infrastructure improvements to be in place for new operations to be commercially viable and have low environmental impact.

Palito Gold Mine – Para State, Brazil

History

The Palito gold mine is wholly owned by the Company, through its 100% owned subsidiary Serabi Mineração S.A. The Palito mine and infrastructure lies some 4.5km south of the village of Jardim do Ouro and approximately 15km via road. Jardim do Ouro lies on the Transgarimpeira Road some 30km WSW of the town of Moraes de Almeida, located on the junction of the Transgarimpeira and the BR 163 (the Cuiabá - Santarém Federal Highway). Moraes de Almeida is approximately 300km south-east by paved road of the city of Itaituba which is also the municipal capital.

It is a high-grade, narrow vein, underground mine which was operated by the Company from late 2003 until the end of 2008. Between the start of 2005 until the end of 2008 the Company processed a total of 480,000 tonnes of ore through the plant at an average gold head grade of 6.76 g/t. Average gold recovery during the period was 90%, with copper recovery around 93% providing total production over this period of 110,097 gold equivalent ounces.

In December 2010 the Company released a technical report (the NI 43-101 Technical Report for the Jardim do Ouro Project, Para State, Brazil) prepared by its consultants, NCL Brasil Ltda ("NCL"). The report estimated, in accordance with Canadian Securities Administrators National Instrument 43-101 ("NI 43-101"), a compliant Measured and Indicated mineral resource of 224,272 ounces (gold equivalent) and Inferred mineral resources of 443,956 ounces (gold equivalent).

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

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

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

(3) Addition errors arise through rounding differences.

Since placing the operation on care and maintenance in 2008, the Company kept as much of the infrastructure intact as possible. This included a process plant comprising flotation and carbon-in-pulp ("CIP") gold recovery circuits which had historically been treating up to 600 t/day (200,000 t/year) of ore and a camp that had housed over 200 employees and maintenance and workshop facilities. The site is supplied with mains power sourced from a 25 mW hydroelectric generating station located approximately 100 km north east of the town of Novo Progresso on the Curuá (Iriri) River.

In January 2012, the Company commissioned NCL to undertake a Preliminary Economic Assessment ("PEA") in compliance with Canadian Securities Administrators National Instrument 43-101 ("NI 43-101") into the viability of re-establishing underground mining operations at the Palito Mine. The results of the PEA were announced by the Company on 13 June 2012 and the complete NI 43-101 compliant technical report was issued on 29 June 2012. On 17 January 2013 a placement of new shares raising gross proceeds of UK£16.2 million was completed to finance the development of the project in line with the plans and scope outlined in the PEA.

Palito operational review for the first six months of 2014

By the end of December 2013 the Company had established a Run of Mine ("ROM") stockpile of ore of approximately 25,000 with an average grade of over 8.00 grams per ton ("g/t"). Initial commissioning of the gold process plant commenced on 13 December 2013. For the first quarter of 2014 the operation was in a planned ramp-up phase and during the second quarter the Company has built upon this successful start-up as it targets long-term plant throughput rates of 7,500 tonnes per month. The Company declared Commercial Production effective as of 1 July 2014. The total resource at Palito comprises 25 high grade, sub vertical, narrow vein ore-bodies, of which eight are in the current mine plan. These eight veins are split between the Palito Main zone and the Palito West sectors. The veins are accessed and developed by a series of lode drives on levels set 30 vertical metres apart. The highly competent ground conditions allow open stope mining to be used.

During the first quarter of 2014, ore production from stopes began with the mining of the first three stopes underway, and three more in preparation. During the second quarter the preparation of these additional three stopes was completed and ore production from stopes has been slowly increasing as the swell is being drawn off. In June over 3,500 tonnes of ore was produced from stoping and July has seen the tonnage broken in stopes exceed 7,000 tonnes, with 5,076 tonnes of stoped ore being hauled to surface, broadly in line with the planned stope production of approximately 6,000 tonnes per month.

For the first six months of 2014, as would be expected with a new operation, development ore generated over 70% of the mined ore tonnes whilst the second half of 2014 is expected to see a significant shift in the production balance with stoping forecast to contribute the majority of the mined ore tonnage.

Underground development mining has continued well with almost 3,300 metres of horizontal development completed year to date. Of this total, 1,200 metres has been ore development, with production activity now in eight mining areas, three sectors in the Palito West area and five sectors in the Palito Main Zone. The main ramp has continued to be deepened and has now reached the 54 metre relative level ("mRL").

In the plant, processing rates have continued to improve and having averaged approximately 4,700 tonnes per month during the first quarter have increased to an average of over 6,200 tonnes in the second quarter. The Company deliberately elected to process lower grade stockpiled material during the initial period of the first quarter of 2014 whilst the plant was being commissioned and from mid-March feed grades were increased. Feed grades for the second quarter averaged 8.08g/t an increase of 17% over the preceding quarter. Gold production for the second quarter was approximately 3,242oz(1) an increase of 41% over the preceding quarter. For the first six months of 2014 the gold recovery process has been limited to flotation and gravity concentration only. The tailings from flotation and gravity processing have been stockpiled for further processing through the CIP plant during 2014 and 2015 once this process circuit is fully operational later in the third quarter of 2014.

By the end of the second quarter, the surface stockpile of ore totalled approximately 13,000 tonnes, with a grade of 5.40 g/t. A second ball-mill was acquired in March 2014 and became operational during the second half of July 2014 It was purchased in anticipation of establishing a second process line for ore from a future Sao Chico operation, however, in the near term it will provide additional milling capacity to process some of this stockpiled material and maximise short-term production.

SUMMARY PRODUCTION STATISTICS FOR SIX MONTHS TO 30 JUNE 2014

		Quarter 1	Quarter 2	Year to date
Horizontal development	Metres	1,491	1,804	3,295
Mined ore	Tonnes	11,387	15,808	27,195
	Gold grade (g/t)	7.09	11.36	9.57
Milled ore	Tonnes	14,050	18,645	32,695
	Gold grade (g/t)	6.91	8.08	7.58
Gold production (1)	Ounces	2,300	3,242	5,542

(1) Gold production figures are subject to amendment pending final agreed assays of the gold content of the copper/gold concentrate that is being sold to a refinery.

As the first six months of 2014 has been the first period in which the plant has been operational there is no comparative information available for the equivalent period of 2013.

The mining fleet at Palito is relatively new and comprises three 20 tonne trucks, three underground drill rigs and three underground loaders. A fourth 20 tonne truck is deployed at Sao Chico on the preparatory works involved in the development of this deposit. The Company also owns various other mobile equipment including two front end loaders, a bulldozer and other smaller vehicles. Whilst additional equipment purchases are planned during the year these will primarily be dedicated to Sao Chico and from time to time the Company will transfer equipment between the two locations to supplement capacity as required.

Sao Chico Gold Project – Para State, Brazil

History

Sao Chico, acquired by the Company in July 2013 as part of the acquisition of Kenai Resources Ltd ("Kenai"), is represented by a single exploration licence area (AP 12836). Sao Chico is a small but very high grade gold deposit some 25km from Palito. The Sao Chico exploration licence was in force until 14 March 2014 and the Company, 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 which expired 22 April 2014, and the Company is also in the process of extending this licence for a further 12 month period.

Sao Chico is a historic garimpo mining operation but exploration over the area has been limited. Prior to the acquisition of the project by the Company, the most significant recent exploration was a 22 hole programme extending to about 3,300 metres of diamond drilling conducted by Kenai during 2011. Following this drilling programme, Kenai commissioned Exploration Alliance Limited to produce a NI 43-101 compliant technical report including a mineral resource statement.

The report issued on 15 October 2012 estimated a NI 43-101 compliant Measured and Indicated mineral resource of 25,275 ounces of gold and Inferred mineral resources of 71,385 ounces of gold. Since the acquisition of the property by Serabi, the Company has undertaken an infill and step out diamond drilling programme totalling 4,950 metres to enhance the existing resource in terms of both resource confidence and size. The drill programme was supplemented by ground geophysics, and a further 1,120 metre diamond drilling to test initial geophysical anomalies. The results from the ground geophysics have established other potential areas of interest within the Sao Chico exploration licence but the Company will undertake other confirmatory exploration work, including geochemistry, over these identified anomalies before embarking on any further drilling activity. The current Sao Chico gold resource which has grades in excess of 26 g/t considers only three vein structures, with a further ten more veins identified.

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

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

Sao Chico operational review for the first six months of 2014

Work commenced during February 2014 on the preparatory earth-works required to expose the bed-rock, and thereafter establish the mine portal. Whilst started during the rainy season it had been anticipated that these earth-works would take three months to complete, based on the assumption that the rainy season would, as usual, end in late March. Initial progress was good but the heavy rains continued until early June and as the ground became increasingly saturated, excavation conditions became extremely difficult and significantly worse than had been anticipated. With the onset of hot and dry conditions from early June, the ground has been rapidly drying out and work is now processing well again. Additional drainage and "water run off" areas are being constructed to maximise the long term stability of the cut-back that is being established and the roadway that will in time form the access point to the Sao Chico mine. These features should help to ensure that a similar period and level of prolonged rainfall will not affect movement around and access to the mine.

Development of the main ramp is now anticipated to be underway before the end of September 2014. In anticipation of the start of blasting operations, the Company has secured licensing arrangements and facilities for the secure storage of explosives. Once the portal is completed the decline ramp will then be driven at a 12% gradient and from which two development levels, L1 and L2, will be established, at the 30 vertical metre and 60 vertical metre interval from surface respectively. The development levels will follow the principal structure, known as the Main Vein, to its strike extents to the East and West, which is expected to represent approximately 500 development metres per level. This work will allow the Company to better evaluate the continuity and payability of the mineralisation. It is expected that any ore derived from development mining that can be undertaken during 2014 will be transported to the Palito plant for processing.

The Company had planned to undertake an underground drilling campaign from within these development drives to identify parallel structures and to supplement this with additional surface drilling. Given the delays encountered to date and the Company's desire to generate an updated geological resource in the first quarter of 2015, it is now planned to undertake all the required additional resource definition drilling from surface. This drill programme is planned to start during the latter part of the third quarter of 2014. The Company will use this updated mineral resource to develop a definitive and robust mine plan.

The Final Exploration Report ("FER") for Sao Chico was completed and submitted to the Departamento Nacional de Produção Mineral ("DNPM") in February and represents the first part of the process of transforming the Sao Chico exploration licence into a mining licence. Work is now underway on the preparation of the Plano de Approveimento Economico ("PAE") which is required to be submitted once the DNPM has approved the FER.

Jardim do Ouro Exploration

The Jardim do Ouro exploration area ("JDO Project") covers a total area of approximately 41,000 hectares, incorporating the Palito mining licence granted on 23 October 2007 covering an area of 1,150 hectares, with three exploration licences and five applications for exploration licences covering the remaining area. The JDO Project is located in the Tapajós Mineral Province in the south east part of the Itaituba Municipality in the west of Pará State in central north Brazil.

The recent focus of the Company has been on the identification and development of satellite ore deposits located in close proximity to Palito. The Company completed two air-borne electro-magnetic ("VTEM") surveys in 2008 and 2010 over a total area of 14,500 hectares. From these surveys the Company identified a number of geophysical anomalies which it considers worthy of further investigation. During 2010 and 2011 the Company undertook a 12,000 metre drilling campaign over nine of these anomalies which resulted in the discovery of the Palito South, Currutela and Piaui prospects.

<u>Palito – Near Mine Exploration</u>
The underground development of Palito is being driven towards the Palito South area but the Company has no plans during 2014 to undertake further exploration on either this or the Currutela and Piaui prospects or undertake further investigation of other anomalies. Once adequate cash-flow is being generated from production operations, the Company intends to use some of this cash flow to advance these exploration opportunities.

Sao Chico Exploration

Sao Chico is located in the South West corner of the JDO Project. During 2013 the Company completed a 6,000 metre drilling programme which more than doubled the known 150 metre strike extension of the principal mineralised structure ("the Main Vein") at Sao Chico and confirmed the presence of a number of parallel mineralised structures. The development work planned during 2014 will further evaluate the Main Vein and the immediate parallel structures. At this time no additional work is planned in the immediate area around Sao Chico although the Company has identified a number of other prospective zones. Once adequate cash-flow is being generated from production operations, the Company intends to use some of this cash flow to advance these exploration opportunities.

Other Exploration Prospects

The Company has two other project areas, although activity on both of these projects has been limited in recent periods.

The Sucuba Project is located in the state of Para, and the Company has submitted two applications for exploration permits covering an area of 10,815 hectares. The Pizon Project, located in the state of Amazonas, represents 44,712 hectares, in five exploration licences, one granted and four in application. The Company has not engaged in any exploration activity at the Sucuba or Pizon projects during the past 12 months, and has currently not budgeted for any exploration activity during the next 18 months.

SELECTED FINANCIAL INFORMATION

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

Results of Operations

Three month period ended 30 June 2014 compared to the three month period ended 30 June 2013

The loss from operations increased by US$699,749 from US$966,453 for the 3 months ended 30 June 2013 to US$1,666,202 for the three month period ended 30 June 2014. This increase is primarily due to an increase in administration expenses of US$676,407. This increase of US$676,407 can be accounted for as follows:

(i) An increase of US$126,786 in professional and legal fees which were incurred in connection with the share placement which took place during the first quarter of 2014 to raise gross proceeds of UK£10 million. This includes approximately US$57,500 in connection with the listing charges for these new shares levied by the Toronto Stock Exchange and AIM.

(ii) An increase of US$168,657 relating to administration costs incurred in Brazil. During the financial year ended 31 December 2013, whilst the mine site was in remediation and development, the Company treated as a capital cost of the mine certain administrative costs including accounting and IT related personnel costs. For the financial year 2014 and with the start of production operations the Company determined that all costs of administrative personnel not directly located at the Palito mine and acting in the functions of accounting, IT, personnel and including the local Country Manager would be treated as an administrative cost of the business. During the 3 month period to 30 June 2013, the level of administrative costs capitalised as part of the overall capital development costs of Palito was approximately US$146,000. During the six months to 30 June 2014, there has also been an increase in the level of administrative staffing and travel expenses required as the Company has commenced production operations at Palito. These personnel are principally involved in the accounting, information technology and personnel departments.

(iii) A one off structuring fee of US$50,000 in relation to a trade finance facility entered into by the Company to accelerate receipt of cash flow from the production of Copper/Gold concentrates.

(iv) The payment of performance bonuses to senior personnel amounting to US$204,000. Whilst performance bonuses were paid in the calendar year to 31 December 2013 the charge of approximately US$300,000 was incurred during the quarter ended 31 March 2103 whilst the calculations and settlements of these current bonuses were only finalised and incurred in the quarter ended 30 June 2014.

(v) Taxes incurred in the period have reduced by US$86,000 compared with the corresponding 3 month period in 2013. Provisions in respect of unpaid taxes from prior years have been recorded in the 3 month period to 30 June 2014 amounting to US$63,700 (3 months to 30 June 2013 - US$92,100). Taxes relating to the period including property and licence fees were US$7,200 (3 months to 30 June 2013 – US$64,000).

The increase in depreciation charges of US$27,348 between the two periods reflects the Company having purchased new plant and equipment during the year as it returned the Palito Mine to production. New underground mining fleet was delivered during the third quarter of 2013 and is being depreciated in accordance with normal practice. However, the depreciation charges for this particular equipment which amounted to approximately US$114,000 for the three months to 30 June 2014 are being capitalised as a pre-production cost whilst the mine was in a commissioning and ramp-up phase. Following the declaration of commercial production with effect from 1 July 2014 the depreciation charges in respect of this mining fleet will be expensed through the Income Statement. Depreciation charges in respect of all other assets are already being expensed through the Income Statement.

Share based payments decreased from US$47,846 for the three month period ended 30 June 2013 to US$43,840 for the three month period ended 30 June 2014. 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 2014 is in respect of options granted between 1 April 2011 and 30 June 2014.

The Company recorded a foreign exchange gain of US$18,794 in the 3 month period to 30 June 2014 which compares with a foreign exchange gain of US$23,400 recorded for the 3 months ended 30 June 2013. These foreign exchange gains and losses primarily occurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest charges for the 3 month period to 30 June 2014 were US$21,329 compared with US$14,462 for the same period of 2013. An analysis of the composition of these charges is set out in the table below:

	Quarter ended 30 June 2014 US$	**Quarter ended 30 June 2013 US$**
Interest expense on convertible loan stock	21,227	15,653
Re-classification of prior quarter charges	(25,000)	-
Other interest and finance expenses	29,575	5,100
	25,802	20,753
Interest income	(4,473)	(6,291)
	21,329	14,462

Six month period ended 30 June 2014 compared to the six month period ended 30 June 2013

The loss from operations increased by US$703,032 from a loss of US$2,030,719 for the six months to 30 June 2013 to US$2,733,751 for the six month period to 30 June 2014. The primary reason for this increase is due to an increase in administration costs from US$1,714,386 for the six months ended 30 June 2013 to US$2,394,018 for the six months ended 30 June 2014. The increase of US$679,632 can be accounted for as follows:

(i) An increase of US$284,040 in professional and legal fees reflecting, in the large part, costs incurred in connection with the share placement which took place during the first quarter of 2014 to raise gross proceeds of UK£10 million. This includes approximately US$57,500 representing the listing charges for these new shares levied by the Toronto Stock Exchange and AIM.

(ii) An increase of US$306,869 relating to administration costs incurred in Brazil. During the financial year ended 31 December 2013, whilst the mine site was in remediation and development, the Company treated as a capital cost of the mine certain administrative costs including accounting and IT related personnel costs. For the financial year 2014 and with the start of production operations the Company determined that all costs of administrative personnel not directly located at the Palito mine and acting in the functions of accounting, IT, personnel and including the local Country Manager would be treated as an administrative cost of the business. During the six month period to 30 June 2103, the level of administrative costs capitalised as part of the overall capital development costs of Palito was approximately US$277,000. During the six months to 30 June 2014, there has also been an increase in the level of administrative staffing and travel expenses required as the Company has commenced production operations at Palito. These personnel are principally involved in the accounting, information technology and personnel departments.

(iii) Bank fees and advancement charges increased by US$86,344 for the six month period to 30 June 2014 in comparison to the same period in 2013. This includes a one off structuring fee of US$50,000 in relation to a trade finance facility entered into by the Company to accelerate receipt of cash flow from the production of Copper/Gold concentrates.

(iv) Taxes incurred in the period have reduced by US$75,000 compared with the corresponding six month period in 2013. Provisions in respect of unpaid taxes from prior years have been recorded in the six month period to 30 June 2014 amounting to US$72,700 (six months to 30 June 2013 - US$100,200). Taxes relating to the period including property and licence fees were US$35,000 (six months to 30 June 2013 – US$82,000).

The increase in depreciation charges of US$45,664 between the two periods reflects the Company having purchased new plant and equipment during the year as it returned the Palito Mine to production. New underground mining fleet was delivered during the third quarter of 2013 and is being depreciated in accordance with normal practice. It should be noted that the depreciation charges for this particular equipment which amounted to approximately US$228,000 for the six months to 30 June 2014 are being capitalised as a pre-production cost whist the mine remained in a commissioning and ramp-up phase. Following the declaration of commercial production with effect from 1 July 2014 the depreciation charges in respect of this mining fleet will in future be expensed through the Income Statement. Depreciation charges in respect of all other assets are already being expensed through the Income Statement.

Share based payments decreased from US$95,692 for the six month period ended 30 June 2013 to US$73,427 for the six month period ended 30 June 2014. 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 2014 is in respect of options granted between 1 January 2011 and 30 June 2014.

The Company has incurred an expense in the six month period ended 30 June 2014 of US$230,702 in respect of bonus payments made to senior management personnel in respect of the preceding financial year's performance which is a decrease US$95,810 in comparison to the payment of US$326,512 made during the same period of 2013.

The Company recorded a foreign exchange gain of US$8,876 in the six month period to 30 June 2014 which compares with a foreign exchange loss of US$231,818 recorded for the six months ended 30 June 2013. These foreign exchange losses 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 2014 were US$201,483 compared with US$54,204 for the first six months of 2013. An analysis of the composition of these charges is set out in the table below:

	Quarter ended 30 June 2014 US$	**Quarter ended 30 June 2013 US$**
Interest on short term loan	154,744	26,630
Interest expense on convertible loan stock	41,473	31,292
Other interest and finance expenses	9,739	5,330
	205,956	63,252
Interest income	(4,473)	(9,048)
	201,483	54,204

Summary of quarterly results

	Quarter ended 30 June 2014 US$	Quarter ended 31 March 2014 US$	Quarter ended 31 December 2013 US$	Quarter ended 30 September 2013 US$
Revenues	–	–	–	–
Operating expenses	–	–	–	–
Gross loss	–	–	–	–
Administration expenses	(1,389,209)	(911,979)	(872,677)	(816,887)
Provision for indirect taxes	(92,831)	–	(213,220)	(263,250)
Option costs	(43,840)	(29,587)	(161,226)	(47,846)
Write-off of past exploration expenditures	-	-	(1,007,233)	–
Depreciation of plant and equipment	(140,322)	(125,983)	(186,000)	(127,850)
Operating loss	(1,666,202)	(1,067,549)	(2,440,356)	(1,255,833)
Exchange	18,794	(9,918)	(36,618)	98,078
Net finance costs	(21,329)	(180,154)	(268,589)	(44,174)
Loss before taxation	(1,668,737)	(1,257,621)	(2,745,563)	(1,201,929)
Loss per ordinary share (basic and diluted)	(0.25) cents	(0.24) cents	(0.60) cents	(0.27) cents
Deferred exploration costs	26,508,924	25,607,411	24,659,003	25,950,041
Property, plant and equipment	43,412,368	38,549,235	36,008,318	36,603,692
Total current assets	18,040,230	19,954,894	9,020,774	10,134,384
Total assets	87,961,522	84,111,540	69,688,095	72,688,117
Total liabilities	10,614,015	6,936,353	9,653,388	7,504,716
Shareholders' equity	77,347,507	77,175,187	60,034,707	65,183,401

	Quarter ended 30 June 2013 US$	Quarter ended 31 March 2013 US$	Quarter ended 31 December 2012 US$	Quarter ended 30 September 2012 US$
Revenues	–	–	–	–
Operating expenses	–	–	(296,017)	–
Gross loss	–	–	(296,017)	–
Administration expenses	(655,607)	(908,753)	(679,272)	(450,047)
Provision for indirect taxes	(150,026)	–	–	–
Option costs	(47,846)	–	(33,244)	(33,244)
Write-off of past exploration expenditures	–	(47,846)	(267,703)	–
Gain on asset disposals	–	–	9,857	–
Depreciation of plant and equipment	(112,974)	(107,667)	(83,110)	(223,150)
Operating loss	(966,453)	(1,064,266)	(1,349,489)	(706,441)
Exchange	23,400	(255,218)	(4,380)	9,434
Net finance costs	(14,462)	(39,742)	(498,343)	(18,541)
Loss before taxation	(957,515)	(1,359,226)	(1,852,212)	(715,548)
Loss per ordinary share (basic and diluted)	(0.27) cents	(0.43) cents	(2.03) cents	(0.78) cents
Deferred exploration costs	16,375,076	17,696,480	17,360,805	18,249,489
Property, plant and equipment	30,228,704	29,187,365	26,848,991	25,514,742
Total current assets	17,758,039	21,881,077	3,993,428	2,054,299
Total assets	64,361,819	68,764,922	48,203,224	45,818,530
Total liabilities	5,432,817	4,857,524	8,942,223	4,358,930
Shareholders' equity	58,929,002	63,907,398	39,261,001	41,459,600

Liquidity and Capital Resources

On 3 March 2014, the Company completed a placing of 200 million units at a price of UK£0.05 per unit raising gross proceeds of UK£10 million. The share placement was pursuant to a conditional subscription agreement entered into on 20 December 2013 between the Company and Fratelli Investments Limited (“Fratelli”) to subscribe for a minimum of 125 million units and a maximum of 162.5 million units to finance initial development and underground drilling at the Sao Chico project and to provide further working capital to the business during the start-up phase of gold production at Palito. The final form of the investment by Fratelli comprised of (a) a subscription for 125 million units at the Subscription Price of 5 pence per unit; and (b) a further subscription for 27.5 million units at a subscription price of 5 pence per unit. The company procured third party investment not deemed to be acting in concert with Fratelli for 47.5 million units.

Each unit comprises one new ordinary share and one half of a warrant. Each whole warrant entitles the holder to subscribe for one new ordinary share at a price of 6p for a period of two years from the date of issue.

Following completion of the share placement the Company repaid a short-term loan facility of US$7.5 million plus accrued interest that had been provided to the Company by Fratelli. At the time of repayment a total of US$5.5 million had been advanced under the loan facility. Interest due under the facility was US$104,877 as at the date of the repayment of the loan facility.

On 20 December 2013, the Company entered into a secured loan agreement for a total facility of US$7.5 million with Fratelli Investments Limited (“Fratelli”) and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 162.5 million units as part of a placement of up to 200 million units to raise up to UK£10 million. As at 31 December 2013, the Company had drawn down US$2.75 million of the US$7.5 million facility. Under the Loan Agreement Fratelli agreed to provide up to US$7.5 million, to be drawn down in three instalments commencing from the date of the agreement, to provide working capital to the Company and the Group during the start-up phase of gold production at Palito and to finance the initial development at the Sao Chico gold project. The loan was to be repaid by the earlier of 30 April 2014 and the date falling seven days after the funds due from Fratelli under the conditional subscription were received and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. The loan was secured against (i) the entire share capital of Serabi Mining Limited, a subsidiary of Serabi Gold plc, and the 99.99% shareholder of Serabi Mineração SA, which is the licence holder for the Palito Mine and (ii) the entire share capital of Kenai Resource Ltd a subsidiary of Serabi Gold plc and the 100 per cent shareholder of Gold Aura do Brasil Mineração Ltda, which is the licence holder for the Sao Chico project. In addition the Company also made a charge in favour of Fratelli over all current and future sums owed by Serabi Mineração SA to Serabi Gold plc. Following completion of the share placing on 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

On 30 June 2014 the Company’s net assets amounted to US$77.35 million which compares to US$60.03 million as reported at 31 December 2013. This increase reflects the issue of new shares competed in March 2014 which raised gross proceeds of UK£10.0 million (US$16.65 million).

Non-current assets totalling US$69.9 million at 30 June 2014 (31 December 2013: US$60.7 million), are comprised of property, plant and equipment, which as at 30 June 2014 totalled US$43.4 million (31 December 2013: US$36.0 million), and includes US$21.9 million (US$20.7 million as of 31 December 2013) attributable to the Palito Mine Property and US$15.2 million (US$10.8 million as of 31 December 2013) representing the current expenditure on Projects in Construction incurred on the rehabilitation programme. Deferred exploration costs as at 30 June 2014 totalled US$26.5 million (31 December 2013: US$24.7 million) of which US$15.7 million relates to past exploration expenditures around the Palito Mine and the wider Jardim Do Ouro project area (US$14.9 million as at 31 December 2013) and US$10.85 million (31 December 2013: US$9.8 million) relates to the past exploration costs relating to the Sao Chico gold project.

The Company had a working capital position of US$9,958,237 at 30 June 2014 compared to US$2,091,941 at 31 December 2013 as per the table below:

	Note	June 2014	December 2013	Variance
		US$	US$	US$
Current assets				
Cash at bank and in hand		5,920,963	3,789,263	2,131,700
Inventories	i	4,482,101	3,890,880	591,221
Prepayments	ii	2,358,282	1,264,654	1,093,628
Trade and other receivables	iii	5,278,884	75,977	5,202,907
Total current assets		**18,040,230**	**9,020,774**	**9,019,456**
Total current liabilities				
Trade and other payables	iv	3,675,731	2,871,546	804,185
Interest bearing liabilities	v	4,241,523	3,790,363	451,160
Accruals		137,739	266,924	(129,185)
Total current liabilities		**8,054,993**	**6,928,833**	**1,126,160**
				,
Working capital		**9,985,237**	**2,091,941**	**7,893,296**
Non-current liabilities				
Interest bearing liabilities	v	527,168	833,560	(306,392)
Provisions	vi	1,574,875	1,480,665	94,210
Trade and other payables		456,979	410,330	46,649
Total non-current liabilities		**2,559,022**	**2,724,555**	**165,533**

The increase in the cash balances of US$2,131,700 results from the placing of new shares which was completed on 3 March 2014 raising gross proceeds of UK£10 million. Part of these funds were applied to the repayment of a short term shareholder loan of US$5.5 million (excluding interest) of which US$2.75 million was included in working capital at 31 December 2013. Further funds have been used to meet the on-going capital development and working capital expenditures of Palito and the initial development activity for the Sao Chico project.

Whilst the Company has started to generate revenues from the sale of copper/gold concentrate that is produced from the floatation process at the Palito mine, it can only recognise these revenues in accordance with IFRS at such time as the ownership transfers to the Buyer. This is generally considered to be the date on which the copper/gold concentrate leaves Brazil on its way to the Company's designated refinery. In accordance with normal industry practice initial payments from the refinery only occur after specified contractual periods following the arrival of the material with the refinery. As at 30 June 2014 the company had produced 507 wet metric tonnes of copper/gold concentrate of which revenue has been recognised for 400 tonnes which were either en route to or had already been delivered to the refinery. Revenue accrued in respect of these sales was US$5.2 million all of which was outstanding as at 30 June 2014.

To minimise the effect of these settlement delays on the working capital of the Company, it has agreed a facility with a precious metals trading group whereby the Company can secure an advance payment for the copper/gold concentrate that has left Brazil secured against the debt due from the refinery. As at 30 June the amount advanced under this facility was US$3,188,179.

The increase in the Company's cash at bank position together with the amounts due for sales of copper/gold concentrate is the principal reason for the improvement in the working capital position of the company. Some of the other items which have had an impact on the Companies working capital position include the following.

(i) The levels of inventories have increased by US$0.6 million compared with 31 December 2013. Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 June 2014 being

US$1.12 million have increased by US$0.23 million compared the holdings at 31 December 2013 which had a value of US$0.89 million. The Company acquires stocks of certain materials including reagents and explosives and other consumables in quantities that are sufficient for up to 3 to 4 months consumption requirements to minimise freight and other logistics costs and improve pricing. Accordingly stock levels at any time will reflect variations potentially caused by the timing of delivery of items into inventory. In addition the Company is in the final stages of completing the remediation of the CIP plant and has been acquiring reagents and consumables in preparation for the commissioning and operation of this additional process circuit.

Inventories of work in progress comprising mined ore, material in the course of processing or product stocks awaiting sale, have increased by US$0.4 million between 31 December 2013 and 30 June 2014. At 31 December 2013, the Company valued the stockpile of ore that had been established on surface in preparation for processing at US$3.0 million. Whilst this stockpile has been depleted during the six months to 30 June 2014, from approximately 25,000 tonnes at 31 December 2013 to approximately 13,000 tonnes, at the same time the Company had on hand at 30 June 2014 an inventory of approximately 107 wet metric tonnes of copper/gold concentrate either at Palito or en-route to the port of Belem from where this material is shipped to a refinery in Europe. The valuation of US$1.63 million ascribed to this finished goods inventory accounts for most of the increase in inventory value at 30 June 2014, whilst the value of the ore stockpile has reduced by US$1.27 million over the same period.

(ii) The level of prepayments has increased by US1.09 million from US$1.26 million at 31 December 2013 to US$2.36 million at 30 June 2014. The prepayments represent:

a. Prepaid taxes in Brazil amounting to US1.62 million, (31 December 2013: US$1.10 million), of which the majority is federal and state sales taxes which the Company expects to recover either through off-set against other federal tax liabilities or through recovery directly. The amount recoverable has increased by approximately US$0.52 million in comparison to the prior year due to an increase in the level of social taxes the Company has prepaid at 30 June 2014.
b. Supplier down-payments reflecting the timing and level of development and construction activity currently being undertaken for the opening of the Palito Mine. The Company has made advances to suppliers in respect of goods purchased (including down payment on new machinery) or items being fabricated of US$653,104 (31 December 2013 : US$228,000).

(iii) Receivables of US$5.3 million as at 30 June 2014 have increased by US$5.2 million compared to the balance of US$76,000 at 31 December 2013. As noted already this is attributable to the amounts owed of US$5.2 million in respect of revenue due on shipments of copper/gold concentrate that have departed from Brazil during the first six months of 2014.

(iv) Trade and other payables amounting to US$3,675,731 at 30 June 2014 compare with an amount owed by the Company of US$2,871,546 at 31 December 2013, an increase of US$804,185. The items comprising this total balance are:

a. Trade Creditors have increased by US$886,276 in comparison to 31 December 2013 which is partly due to the increase in activity and operating equipment being utilised for mine development as well as the actual timing of settlement payments to trade creditors;
b. The standard wage accrual and social welfare accrual have decreased by US$79,931 from 31 December 2013 to 30 June 2014. This decrease results from the settlement during the first quarter of 2014 for a liability for the thirteenth salary which Brazilian employees are entitled to receive. The cost is accrued during the year and final settlement and taxes are paid in December and January;

(v) Interest bearing liabilities due within one year increased by US$451,160.

During the period the Company settled a short term shareholder loan of which US$2.75 million was outstanding at 31 December 2013. The loan including all accrued interest was repaid in March 2014.

It has received advances of US$3.19 million against revenue accrued for the sale of copper/gold concentrate production through a facility with a precious metals trading group.

The Company acquired certain assets during 2013 under finance leases. At 30 June 2014 the Company had liabilities under these financial leases of US$557,617 due within one year (31 December 2013: US$600,280), and a further US$527,168 due in more than one year. The leases are for a term of three years and carry interest at a rate of 6.45% per annum.

Also included within interest bearing liabilities is US$494,728 including accrued interest (December 2013: US$440,083) attributable to £300,000 of convertible loan stock which has a repayment date of 31 October 2014 subject to the right of the holder at any time, on one or more occasions, on or before the repayment date, to convert any of the outstanding amounts owed by the Company to Ordinary Shares at a price of 15 pence per Ordinary Share.

(vi) Non-current liabilities include the amount of US$1,574,875 (December 2013: US$1,480,665) in respect of provisions including US$1,214,000 (December 2013: US$1,141,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity. The increase in the liability of US$73,000 is due to a movement in the exchange rate. The Company undertook a review of the underlying cost assumptions during 2013.

The Company does not have any asset backed commercial paper investments. As the Company has during 2014 generated only limited revenue and has in recent years primarily supported its activities by the issue of further equity, the working capital position at any time reflects the timing of the most recent share placement completed by the Company.

On 3 March 2014, the Company completed a further placing of shares and share purchase warrants that raised gross proceeds of UK£10.0 million. These funds are to be used to provide working capital to the business during the start-up phase of the Palito operations and the next stage of development of the Sao Chico project. Commissioning of the process plant at Palito started on 13 December 2013 and the production rates have been increasing since that date. The final major stage of the remediation process will be the rehabilitation of the Carbon-In-Pulp circuit. The Company plans to start commissioning of this gold recovery process circuit during August 2014.

From the time that production operations commence at planned rates, management anticipates that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects.

There are, however, risks associated with the commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale.

Contractual commitments

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

The Company holds certain exploration prospects which require it to make certain payments under rental or purchase arrangements allowing the Company to retain the right to access and undertake exploration on these properties. Failure to meet these obligations could result in forfeiture of any affected prospects. Management estimates that the cost over the next twelve months of fulfilling the current contracted commitments on all the properties in which the Group has an interest will be US$180,000.

On 9 November 2009 (as further detailed in note 16 of the Company's 2013 annual financial statements) the Company entered into a Convertible Loan Stock agreement with Greenwood Investments Limited ("Greenwood") whereby Greenwood made available to the Company a loan of UK£300,000 repayable on 31 October 2014. The convertible loan stock and accrued interest may at any time be converted into ordinary shares at a conversion price of 15 pence per share. Interest accrues at the rate of 1 per cent per annum and is compounded. In January 2012 Greenwood assigned its interest in the Convertible Loan Stock to Anker Holding AG. Anker Holding AG is beneficially owned by the spouse of Mr. Christopher Kingsman, who between 15 December 2011 and 23 December 2013 served as a non-executive director of the Company. Mr Kingsman is a director of Anker Holding AG.

		Payments due by period			
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	$	**$**	**$**	**$**	**$**
Long term debt	495,728	495,728	—	—	—
Capital lease obligations	1,332,285	632,617	699,668	—	—
Operating leases	40,501	40,501	—	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	**1,868,514**	**1,168,846**	**699,668**	**—**	**—**

Transactions with related parties of the Company

On 20 December 2013, the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") to provide working capital to the Company and to enable the Company to commence initial development works at the Sao Chico project and at the same time entered into a conditional subscription agreement with Fratelli as part of an overall placement of shares and warrants to raise a minimum of UK£6.25 million and a maximum of UK£10.0 million. At that time Fratelli held a 40.5% interest in the issued share capital of the Company. Under the 2013 Loan Agreement Fratelli agreed to provide up to US$7.5 million to be drawn down in three instalments commencing from the date of the agreement to provide working capital to the Company and the Group during the start-up phase of gold production at Palito and to finance the initial development at the Sao Chico project. The loan was to be repaid by the earlier of 30 April 2014 and the date falling seven days after the funds due from Fratelli under the conditional subscription were received and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. The loan was secured against (i) the entire share capital of Serabi Mining Limited, a subsidiary of Serabi Gold plc, and the 99.99% shareholder of Serabi Mineraçăo SA, which is the licence holder for the Palito Mine and (ii) the entire share capital of Kenai Resource Ltd a subsidiary of Serabi Gold plc and the 100 per cent shareholder of Gold Aura do Brasil Mineraçăo Ltda, which is the licence holder for the Sao Chico project. In addition the Company also made a charge in favour of Fratelli over all current and future sums owed by Serabi Mineraçăo SA to Serabi Gold plc. Following completion of the share placing on 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

On 3 March 2014, the Company completed a placing of 200 million units at a price of UK£0.05 per unit raising gross proceeds of UK£10 million. The share placement was pursuant to a conditional subscription agreement entered into on 20 December 2013 between the Company and Fratelli Investments Limited ("Fratelli") to subscribe for a minimum of 125 million units and a maximum of 162.5 million units to finance initial development and underground drilling at the Sao Chico project and to provide further working capital to the business during the start-up phase of gold production at Palito. The final form of the investment by Fratelli comprised of (a) a subscription for 125 million units at the Subscription Price of 5 pence per unit; and (b) a further subscription for 27.5 million units at a subscription price of 5 pence per unit. The company procured third party investment not deemed to be acting in concert with Fratelli for 47.5 million units.

Each unit comprises one new ordinary share and one half of a warrant. Each whole warrant entitles the holder to subscribe for one new ordinary share at a price of 6p for a period of two years from the date of issue.

Following completion of the share placement the Company repaid a short-term loan facility of US$7.5 million plus accrued interest that had been provided to the Company by Fratelli. At the time of repayment a total of US$5.5 million had been advanced under the loan facility. Interest due under the facility was US$104,877 as at the date of the repayment of the loan facility.

As a result of their subscription, Fratelli acquired a direct interest of 51.4% in the share capital of the Company and became a controlling party.

Financial and other instruments

The Company's financial assets at 30 June 2014 which comprise trade and other receivables and cash, are classified as loans and receivables. All of the Company's financial liabilities which comprise trade and other payables, accruals and interest bearing liabilities, are classified as liabilities measured at amortised cost.

The Company has not entered into any derivative transactions and it is not currently the Company's policy to undertake trading in financial instruments.

The main financial risks arising from the Company'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 long term 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.

At the end of the six month period ended 30 June 2014 the Company had produced approximately 5,542 ounces of gold and had entered into contracts to sell 2,600 ounces at an average price of US$1,275 per ounce. The remaining production in the period, including copper production and silver production, remains subject to pricing for which the basis is contractually agreed but is subject to prevailing prices at a future date.

The Company has an agreement with Auramet Trading LLC for an advance payment facility (see *Interest rate risk*) through which it can fix the prices of metals that are subject to any advance payment during the advance payment period and thus manage its short term exposure to commodity price risk.

At the end of the financial year ended 31 December 2013, the Company had no unsold or part-paid production and accordingly the results for the year and the equity position of the Company at that time is not affected by any change in commodity prices subsequent to the end of the period.

Interest rate risk
The Group and Company currently finances its operations through equity financing and has a convertible loan of UK£300,000 which bears interest at the rate of 1% per annum compounded and has a repayment date of October 2014. It has during the year taken out fixed rate finance leases for the acquisition of some equipment and in 2014 will utilise floating rate short term trade finance in respect of sales of its copper/gold concentrate production.

At 1 January 2014 the Company had outstanding US$2.75 million plus accrued interest which formed part of a secured loan agreement for a total facility of US$7.5 million with Fratelli Investments Limited ("Fratelli"). A further amount of US$2.75 was drawn down during the first quarter of 2014. The loan carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. Following completion of the share placing on 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

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

There is not considered to be any material interest rate risk. The Company's policy is to retain surplus funds as short-term deposits, of up to 32 days duration, at prevailing market rates and to pay trade payables within their credit terms.

The fair value of all financial instruments is approximately equal to book value due to their short-term nature.

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

In 2009 the Group drew down on a convertible loan stock instrument for UK£300,000 which is repayable during 2014. On 23 December 2013 the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 200 million units, whereby Fratelli agreed to subscribe for a minimum of 125 million units and to subscribe for up to a further 37.5 million units by matching subscriptions received from third party investors. At that time Fratelli held a 40.5% interest in the issued share capital of the Company. On 3rd March 2014 the Company completed the placement, raising gross proceeds of £10m and the outstanding loan and accrued interest was repaid to Fratelli and all security released.

As at 30 June 2014, in addition to the convertible loan stock, the Company had obligations under fixed rate finance lease amounting to US$1,084,785.

The Group's objectives when managing its capital are to maintain financial flexibility to achieve its development plans, safeguard its ability to continue to operate as a going concern through management of its costs whilst optimising its access to capital markets by endeavouring to deliver increases in value of the Group for the benefit of shareholders. In establishing its capital requirements the Group will take account of the risks inherent in its plans and proposed activities and prevailing market conditions. Gold production operations at the Palito Mine commenced at the start of 2014 and during the first six months of 2014 the site was in a commissioning and ramp-up phase. On 23 July 2014 the Company declared that the Palito mine had achieved Commercial Production with effect from 1 July 2014. The cash flow generated from gold production operations is expected to be sufficient to allow the Company to meet its on-going operational obligations as and when they fall due and to provide working capital to develop other exploration projects that the Company controls. The Company, where appropriate, will use fixed rate finance arrangements for the purchase of certain items of capital equipment and use short term trade finance particularly in respect of its projected sales of copper/gold concentrate. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Company to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

Currency risk
Although the Parent Company is incorporated in the United Kingdom its financial statements and those of the Group are presented in US Dollar, which is also considered to be the functional currency of the Parent Company as funding of activities of its subsidiaries is generally made in US Dollars and future remittances of dividends, loans or repayments of capital are expected to be received in US Dollars.

Share issues have historically been priced solely in Sterling but an issue of Special Warrants undertaken in December 2010 and an 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 but the Group also incurs liabilities denominated in other currencies being primarily Sterling, Euros, US Dollars, and Australian Dollars.

The Company's main subsidiaries operate in Brazil with their expenditure being principally in Brazilian Real and their financial statements are maintained in that currency. The Company's policy for dealing with exchange differences is outlined in the statement of Significant Accounting Policies in its 2013 Annual Report and Accounts under the heading "Foreign currencies".

The Company 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 Company 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.

The Company considers book value to equal fair value.

The Company's cash holdings at the balance sheet date were held in the following currencies:

	30 June 2014 $	31 December 2013 $
US Dollar	2,771,229	2,577,709
Canadian Dollar	132,826	236,132
Sterling	1,875,053	579,904
Australian Dollar	10,132	7,554
Euro	632,153	62,686
Brazilian Real	499,570	325,278
Total	5,920,963	3,789,263

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

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$13,497,630 (2013: US$3,865,240). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings. The Group seeks to receive full settlement by bank transfer on delivery of its product to the purchaser to minimise its exposure to credit risk on its receivables and works with purchasers with good reputations within the industry and a good credit risk history and otherwise provides credit in respect of any other receivables only with parties that themselves have good credit history or otherwise to hold some form of lien pending settlement.

Subsequent events

Between the end of the financial period and the date of these financial statements, there has been no item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the continuing operations of the entity, the results of these operations, or the state of affairs of the entity in future financial periods.

Changes in accounting policies

The Company has not adopted any standards or interpretations in advance of the required implementation dates. There has been no significant measurement impact on the consolidated financial statements from new standards or interpretations effective in 2014.

It is not anticipated that the adoption in the future of the new or revised standards or interpretations that have been issued by the International Accounting Standards Board will have a material impact on the Company's earnings or shareholders' funds.

Off-balance sheet arrangements

As of the date of this Management's Discussion and Analysis, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Critical accounting estimates

The preparation of financial statements requires management to make judgements and assumptions about the future in the use of accounting estimates. These will, by definition, seldom equal the related actual results and adjustments will consequently be necessary. Estimates are continually evaluated, based on experience and reasonable expectations of future events.

Accounting estimates are applied in 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, apart from those involving estimations (see below), 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 property, plant and equipment

Determining whether the value of mining and related assets is impaired requires an estimation of the value in use of the cash-generating units to which costs has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Further disclosure is provided in note 19 of the financial statements for the year ended 31 December 2013, regarding the key assumptions made in arriving at the value in use.

Provisions

The Group reviews estimates of provisions for potential liabilities at the end of each reporting period where applicable taking into account the circumstances of the potential liability, the availability and confidence of information used to calculate the potential liability and where applicable past history regarding the actual liability incurred in similar situations.

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 Company 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 Company 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 2013, 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 Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as at 31 December 2013.

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 2013, 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 Company'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 2013, using the criteria, having taken account of the size and nature of the Company, put forward by the Financial Reporting Council in their revised guidance for directors on internal controls for UK listed companies (issued 2005).

The Company'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 Company's internal controls over financial reporting during the six month period ended 30 June 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Disclosure of outstanding share data

The Company had the following Ordinary Shares, Stock Options and Warrants outstanding at 14 August 2014:

Ordinary Shares	656,389,204
Stock Options	35,646,285
Other Warrants	108,135,035
Fully diluted ordinary shares outstanding	800,170,524

The above table does not include 2,100,123 Ordinary Shares being the maximum number of Ordinary Shares that the Company calculates it would be obliged to issue in satisfaction of the Convertible Loan, being the principal owed of UK£300,000 and the accumulated interest over the life of the Convertible Loan of UK£15,018.

The Company also has in issue 140,139,065 deferred shares of 9.5 pence each and 456,389,205 deferred shares of 4.5 pence each. These deferred shares were issued following re-organisations of the Company's share capital. The deferred shares carry no voting or dividend rights or any right to participate in the profits or assets of the Company and all the deferred shares may be purchased by the Company, in accordance with the Companies Act 2006, at any time for no consideration. In the event of a return of capital, after the holders of the ordinary shares have received in aggregate the amount paid up thereon plus £100 per ordinary share, the holders of deferred shares shall receive an amount equal to the nominal value of the deferred shares and thereafter any further surplus shall be distributed amongst the holders of ordinary shares.

Fratelli Investments Limited holds 343,613,082 Ordinary Shares in the Company and 84,385,135 Warrants. In anticipation of the placing of new Ordinary Shares which closed on 3 March 2014 and as a result of which Fratelli acquired 152,500,000 shares and 76,250,000 warrants, Fratelli entered into a relationship and orderly marketing agreement on 28 January 2014. Under the terms of this agreement

Fratelli has undertaken not to dispose of any of its shares in the Company (save in certain agreed circumstances) prior to 3 March 2015.

Qualified persons statement

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

Cautionary statement on forward-looking information

This management's discussion and analysis contains "forward-looking information" (also referred to as "forward-looking statements") which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company 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 Company'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 Company, information contained herein constitutes forward-looking statements, including any information as to the Company'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 Company 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 Company can be found in the section "Risks and uncertainties" in this management's discussion and analysis. Although the forward-looking statements contained in this management's discussion and analysis are based upon what management believes to be reasonable assumptions, the Company 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 Company 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 Company's business, financial condition and/or future results. These risks are not the only risks facing the Company. Additionally risks and uncertainties not currently known to the Company or that management currently deems to be immaterial, may also materially affect the Company's business, financial condition and/or future results.

Future exploration at the Company's projects or elsewhere 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 Company 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. There is no assurance that current or future exploration programs will result in any new economically viable mining operations or yield new resources to replace and expand current resources.

There is no guarantee that the Company's applications for exploration licences and mining licences will be granted on a timely basis or at all or that the existing exploration licences of the Company can be renewed or converted into mining licences. In addition, there can be no assurances that title to any of the Company's mineral properties will not be challenged or disputed.

There is no guarantee that any application for additional exploration licences may be granted by the Departamento Nacional do Produção Mineral ("DNPM"). The DNPM may refuse any application. Persons may object to the granting of any exploration licence and the DNPM may take those objections into consideration when making any decision on whether or not to grant a licence.

The government of Brazil sought to introduce a new Mining Code as a matter of some urgency during 2013. Whist no new legislation was introduced the matter remains under debate and it should be expected that a new Mining Code will be implemented in the future. The implications of the proposed legislation in respect of existing exploration licences and also the process for conversion of these to mining licences was unclear but any new legislation could result in all current applications being cancelled and requiring applicants to make new applications under the terms of and in compliance with the new Mining Code.

The exploration licence for the Sao Chico property expired March 2014. The Company has begun the process of applying for a full mining licence and has received no indication that provided that the content and form of the application is made in accordance with prescribed regulations that a mining licence would not be granted. However, under the proposed new Mining Code the application process may be amended and it is understood that the DNPM will be disbanded and a new body created taking over the responsibility for and having the authority to issue mining licences in the future.

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. Generally, the licences are granted for a term of three years and further renewal of an exploration licence is at the discretion of the DNPM and on such conditions as the DNPM may in its discretion impose. Renewal conditions may include increased expenditures and work commitments or compulsory relinquishment of areas of the licences comprising the Company's properties. The failure of the DNPM to renew the Company's exploration licences or the imposition of new conditions or the inability to meet those conditions may adversely affect the operations, financial position and/or performance of the Company.

Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired.

The Company has had negative cash-flow and during the first six months of 2014 has been continuing the process of development of the Palito Gold Mine with a view to generating cash-flow during 2014.

For the financial year ended 31 December 2013 the Company had negative cash flow from operations whist it was undertaking the development and rehabilitation of the Palito Mine and its associated gold processing plant and other supporting infrastructure. Processing of ore commenced at the start of 2014 and for the first six months of 2014 the plant has been in a ramp-up and commissioning phase. On 23 July 2014, the Company declared that Commercial Production at Palito had been achieved effective from 1 July 2014. Once commercial gold production operations are underway management anticipates that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects. There are, however, risks associated with the commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale but there can be no guarantee that such additional funds will be available. Failure to raise additional capital, if needed, could have a material adverse effect on the Company's business, financial condition and results of operations.

The exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional funding.

Whilst the Company anticipates generating its own cash-flow from 2014 onwards from the Palito Mine and to use this cash flow to finance further exploration and development activities on the Company's other properties, any cash flow that the Company generates may not be sufficient to meet these future exploration and development activities. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any of the Company's other properties or even a loss of a property interest. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. Failure to raise capital when needed could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company faces numerous exploration, development and operating risks.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Whilst the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries of commercial quantities of ore.

Although the Company generated revenue from mining operations in the past those operations were discontinued. The Company has completed most of its planned work for the redevelopment and rehabilitation of the Palito Gold Mine although this operation for the first six months of 2014 has been in a ramp-up and commissioning phase. Commercial Production at Palito was declared effective as of 1 July 2014 although certain elements of the gold process and recovery plant remain in construction and commissioning notably the CIP leaching, elution and gold-winning circuits. Whilst the Company commissioned a Preliminary Economic Assessment which supported the viability of placing the Palito

Gold Mine into production, there can be no assurance that the Company will be able to successfully generate consistent revenues or be able to operate profitably.

Whilst management will seek to take all practical precautions necessary and follow the plans and recommendations set out in the Preliminary Economic Assessment there can be no assurance that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may vary from those projected in the Preliminary Economic Assessment and may also increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and Commercial Production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing development, the results of consultants' analysis and recommendations, the rate at which operating losses may be incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of additional properties and other factors, some of which are beyond the Company's control.

A preliminary economic assessment is not required to be compiled to the same level of detail as a pre-feasibility study or a feasibility study. In addition a preliminary economic assessment is permitted to incorporate the mining of inferred mineral resources in calculating the economic results of the project. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as mineral reserves and there is no certainty that the preliminary economic assessment will be realised. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Company's financial condition and result of operations.

Mineral resource estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, and assumptions about operating costs and metal prices, all of which may prove unreliable. The Company cannot be certain that the resource estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals if Commercial Production is commenced. Future production could differ dramatically from such estimates for the following reasons: mineralisation or formations at the properties could be different from those predicted by drilling, sampling and similar examinations; declines in the market price of gold may render the mining of some or all of the resources uneconomic; and the grade of ore may vary significantly from time to time and the Company cannot give any assurances that any particular quantity of metal will be recovered from the resources.

The occurrence of any of these events may cause the Company to adjust the resource estimates or change its mining plans, which could negatively affect the Company's financial condition and results of operation.

The Company's exploration and development properties may not be successful and are highly speculative in nature.

Exploration for gold is highly speculative in nature. The Company's exploration activities in Brazil involves many risks, and success in exploration is dependent upon a number of factors including, but not limited to, quality of management, quality and availability of geological expertise and the availability of exploration capital. The Company cannot give any assurance that its current or future exploration efforts will result in the discovery of a mineral reserve or new or additional mineral resources, the expansion of current resources or the conversion of mineral resources to mineral reserves.

As well, mineral deposits, even though discovered, may be insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by additional factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets, processing equipment and other factors, which may make a mineral deposit unprofitable to exploit.

Excluding the Palito Gold Mine and the Sao Chico gold project, the Company's other mineral properties are in relatively early exploration stages and are without known bodies of mineral reserves or mineral resource. A mineral resource has been established at the Palito Gold Mine and at the Sao Chico gold project. The Company has no declared mineral reserves. Development of other properties will only follow upon obtaining satisfactory exploration results and the completion of feasibility or other economic studies.

The risks and hazards associated with mining and processing may increase costs and reduce profitability in the future.

Mining and processing operations involve many risks and hazards, including among others: environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel. These risks may result in: damage to, or destruction of, the Company'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.

The Company cannot be certain that any insurance it maintains will cover the risks associated with mining or that it will be able to obtain or maintain insurance to cover these risks at affordable premiums. The Company might also become subject to liability for pollution or other hazards against which it cannot insure or against which the Company may elect not to insure because of premium costs or other reasons. Losses from such events may increase costs and decrease profitability.

The Company may experience higher costs and lower revenues than estimated due to unexpected problems and delays.

New mining operations often experience unexpected problems during the development and start-up phases and such problems can result in substantial delays in reaching Commercial Production. Delays in construction or reaching Commercial Production in connection with the Company's development of its mines would increase its operating costs and delay revenue growth.

The Company's vulnerability to changes in metal prices may cause its share price to be volatile and may affect the Company's operations and financial results.

If the Company commences production, the profitability of the Company's operations will be dependent upon the market price of mineral commodities. Metal prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause Commercial Production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Company's investment in mining properties and increased amortisation, reclamation and closure charges. In addition to adversely affecting the Company's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

The Company is subject to extensive environmental legislation and the costs of complying with these regulations may be significant. Changes in environmental legislation could increase the costs of complying with applicable regulations and reduce levels of production.

All phases of the Company'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 Company's business, financial condition and results of operations.

Environmental legislation relating to land, air and water affects nearly all aspects of the Company's operations. This legislation requires the Company to obtain various operating licences and also imposes standards and controls on activities relating to exploration, development and production. The cost of obtaining operating licences and abiding by standards and controls on its activities may be significant. Further, if the Company fails to obtain or maintain such operating licences or breaches such standards or controls imposed on its activities, it may not be able to continue its operations in its usual manner, or at all, or the Company may be subject to fines or other claims for remediation which may have a material adverse impact on its operations or financial results. While the Company is unaware of any existing material environmental liabilities, it cannot guarantee that no such liabilities currently exist or will occur in the future.

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Company's financial condition and results of operations. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of further protecting human health and the environment. Some of the issues expected to be under future review by environmental agencies include reducing or stabilising air emissions, mine reclamation and restoration, and water quality. Other changes in environmental legislation could have a negative effect on production levels, product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Company to predict their impact. The Company anticipates capital expenditures and operating expenses will increase as a result of compliance with the introduction of new and more stringent environmental regulations. Failure to comply with environmental legislation may result in the issuance of clean up orders, imposition of penalties, liability for related damages and the loss of operating permits. While the Company believes it is now in material compliance with existing environmental legislation, it cannot give assurances that it will at all future times be in compliance with all federal and state environmental regulations or that steps to bring the Company into compliance would not have a negative effect on its financial condition and results of operations.

Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations. To the extent such approvals are required but are not granted, the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties.

Currency fluctuations may affect the costs of doing business and results of operations.

Currency fluctuations may affect the Company's costs and the Company has not entered into any derivative financial instruments to hedge such fluctuations. The Company pays for goods and services primarily in Canadian Dollars, US Dollars, British Pound Sterling, Euros and Brazilian Real and the Company has to date received the proceeds of equity financings in Canadian Dollars and British Pound Sterling, loan financings in US dollars and British Pounds Sterling and leasing arrangements in Euros. As a result of the use of these different currencies, the Company is subject to foreign currency fluctuations. Foreign currencies are affected by a number of factors that are beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. Adverse fluctuations in the relative value of these currencies could materially and adversely affect the Company's results of operation and financial position.

Compliance with current and future government regulations may cause the Company to incur significant costs and slow its growth.

The Company's activities are subject to extensive Brazilian laws and regulations governing matters relating to occupational health, labour standards, prospecting, exploration, production, exports and taxes. Compliance with these and other laws and regulations could require the Company to make significant capital outlays which may slow its growth by diverting its financial resources. The enactment of new adverse regulations or regulatory requirements or more stringent enforcement of current regulations or regulatory requirements may increase costs, which could have an adverse effect on the Company. The Company cannot give assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these regulations and regulatory requirements could lead to substantial fines, penalties or other sanctions.

There is currently only one known claim pending settlement. The total of current claim is R$7,100. It is not currently expected that there could be a material adverse impact on the financial condition of the Company if the current known labour claims are successful or are not settled on the basis anticipated by the Company.

The Company is required to obtain and renew governmental permits and licences in order to conduct mining operations, which is often a costly and time-consuming process.

In the ordinary course of business, the Company will be required to obtain and renew governmental permits and licences for the operation 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 Company'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 Company 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 Company expects. Any unexpected delays or costs associated with the permitting and licencing process could delay the development or impede the operation of the Company's projects, which could adversely affect the Company's revenues and future growth.

The Company's operations are conducted in Brazil and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties.

These risks and uncertainties vary from time to time and include, but are not limited to: terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income and other taxes, labour regulation and use of non-Brazilian labour for specialist activities, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

The Company is a holding company that conducts operations through foreign subsidiaries and substantially all of its assets are held in such entities.

Any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Company's valuation and stock price.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure.

Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

If the Company loses key personnel or is unable to attract and retain additional personnel, the Company's mining operations and prospects could be harmed.

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, additional key financial, administrative and mining personnel as well as additional operations staff will be required.

Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting, training and retaining qualified personnel, the efficiency of operations may be affected.

The mining industry is intensely competitive in all of its phases and the Company 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. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in the Company 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. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future.

On 18 July 2013, the Company completed the acquisition of Kenai Resources Ltd which also gives the Company control over the Sao Chico gold project located close to the Company's Palito Mine.

Whilst Sao Chico has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource and management are expecting that upon the receipt of a mining licence they will commence development mining activity and mine production operations to augment gold production levels for the Company, there is no NI 43-101 compliant technical report commissioned to date to demonstrate whether or not this resource can be mined on a commercial scale or that any mining activities that might be undertaken will be profitable in the future.