



SERABI GOLD

Annual Report 2015



High quality gold
mines in Brazil

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Welcome to Serabi Gold plc

Serabi Gold plc is a company engaged in the evaluation and development of gold projects in Brazil with two small high grade underground mines already in operation and targeting annual production of approximately 40,000 ounces per annum. Serabi completed the successful start-up of the Palito gold mine during 2014 and commercial production of the neighbouring Sao Chico gold mine was declared to be effective as of 1 January 2016. The two mines share a common gold process plant and Serabi produces gold in the form of bullion for export and from the Palito Mine a copper/gold concentrate that is shipped and sold to copper smelters outside of Brazil. Serabi achieved total gold production for 2015 of almost 33,000, a 77% increase on its 2014 output and is forecasting a further increase in 2016 to 37,000 ounces, now that Sao Chico has entered into commercial production.

Serabi's projects are located in the Tapajos region of northern Brazil. There has been little systematic exploration in the region which covers an area of approximately 100,000km² in the southwest of Para state. However, historic production in the region from alluvial and small scale surface mining operations by local garimpeiros has officially been estimated at up to 10 million ounces whilst actual production is believed to be two to three times higher.

The Palito Mine, with a Measured and Indicated Resource of 206,466 ounces of gold at a grade of over 7.5 g/t, is a narrow-vein underground mining operation and reflects Serabi's desire to concentrate on high quality projects with low capital costs and early repayment of capital. The Palito Mine is a small-scale, high-grade operation using selective mining techniques with a production target of around 25,000 to 28,000 ounces per annum.

In July 2013 Serabi acquired the Sao Chico gold project located some 25 kilometres by road from the Palito Mine and embarked on a successful drilling campaign at the Sao Chico project during 2013. Management took the decision at the end of 2013 to start the development of the Sao Chico Mine as a satellite deposit providing supplemental high grade gold ore to the Palito processing plant to increase Serabi's overall gold production. Average resource grades at the Sao Chico Mine are in excess of 25 g/t and whilst the current NI43-101 compliant resource is small, management is confident of the potential for this to be expanded. The underground mine has been in development for much of 2015 with the first development ore trucked to, and processed through, the Palito gold plant during the second quarter of 2015 and 2016 will be its maiden year of commercial production.

Cash flow from production activities will be used to fund further exploration, focused on further expansion of the Sao Chico Mine and three discoveries made by Serabi during 2011 located within three kilometres of the existing Palito deposit. If this exploration is successful it is Serabi's objective to expand production further through the future development of these opportunities.

In addition to the Palito Mine and the Sao Chico Mine, Serabi holds, or has in application, exploration licences over a surrounding 42,800 hectares of highly prospective exploration tenements and holds, or is seeking, additional exploration holdings in the Tapajos region.

OVERVIEW

Why Brazil?

Brazil has a well-developed mining culture. The Tapajós has seen significant artisanal gold production but little systematic exploration of the underlying hard-rock resources.



Brazil's current mining industry traces its roots to the 1670s, when the first alluvial gold discoveries were made in streams not far from present day city of Belo Horizonte. The country is now host to a number of world class deposits across a range of minerals and Brazil today is amongst the largest producers of iron ore, tantalite, manganese and niobium, and a significant producer of several other minerals, such as bauxite, magnesite, copper, tin and zinc, as well as gold. The mining sector in Brazil accounts for about 5% of the country's GDP.

Whilst a major player and having a long mining history, significant potential still exists for new projects as the country has not experienced the same levels of exploration activity relative to other parts of the world; a consequence of restricted access for international mining companies until recent times.

With its history in mining and having been a major beneficiary of the recent commodity boom, the country boasts a well-developed mining culture providing an experienced work force to draw from, and a diverse and established range of support services across all aspects of mining related activity and technological development.

A second major gold rush occurred in the 1970s and 1980s when new hard rock mines were established and artisanal production by garimpeiros was widespread. During this time the northern state of Pará and the Tapajós region, which covers an area of approximately 100,000km² in the southwest of Pará and where Serabi's current projects are located, became one of the major centres of this garimpeiro activity. Historic production in the region from alluvial and small scale surface mining operations by these garimpeiros has officially been estimated at up to 10 million ounces whilst actual production is believed to be two to three times higher. The garimpeiros were, however, only able to exploit the relatively shallow oxidised zones and there has been little systematic exploration of the underlying hard-rock resources which remain untouched. Serabi's management believes that significant potential exists within the Tapajós region. With two mines now in production, it remains the only company with a mining licence in the region and considers that it is now well placed to build further on its current production success.

STRATEGIC REPORT

Overview – At a Glance

Our Goal

Serabi's objective is to become a pre-eminent junior gold mining company in Brazil, securing future growth through expansion of its existing projects and, taking advantage of its position as a gold producer, to become involved with and successfully develop, other carefully selected opportunities within the country.



How we measure our performance

Metres of development completed

Tonnage of ore mined

Grade of ore mined

Tonnage of ore processed

Gold recovered

Levels and usage of cash

Monthly costs compared with forecasts

Capital development expenditure compared with plans

Cash Cost

All-In Sustaining Cost

See **page 10** to read more on our KPIs »

What we have done

Completed over 9,500 metres of development at Palito during the year

Completed development to access and start development in 2016 of the Senna and Chico da Santa zones

Completed over 2,800 metres of development at Sao Chico

Development completed or in progress over six levels at Sao Chico

Processed over 132,000 tonnes at an average grade of 8.43 g/t

Produced almost 33,000 ounces of gold, a 77% increase over 2014 production

Achieved All-In Sustaining Cost of US\$892 per ounce and Cash Costs of US\$677

Completed all planned capital programmes within budgets

Acquired third ball mill and initiated plant expansion to increase processing capacity

See **page 14** for our Operational Review of 2015 »

What we plan to do

Progress development and stoping of the Senna and Chico da Santa areas at the Palito Mine providing improved flexibility for mine planning by increasing the working areas

Develop the ramp at the Sao Chico Mine to the 96mRL to establish access for evaluation of the down-dip extensions by underground drilling

Use underground drilling at the Palito Mine to evaluate parallel vein structures and identify additional mineable resources

Complete installation of third ball mill and other plant expansion projects by the end of April

Optimise process plant to increase gold recoveries

Produce 37,000 ounces of gold at an All-In Sustaining Cost of between US\$840 to US\$870 per ounce

See **page 15** for more on our Outlook and Strategy »

Our risk management

See **page 11** to read more on our key risks »

STRATEGIC REPORT

Our Year in Review

2015 Highlights

32,629 ounces

Total gold production

135,827 tonnes

Tonnes mined

9.80 g/t

Grade mined

US\$1,151 per ounce

Average gold price achieved

US\$677 per ounce

Cash Cost of production⁽¹⁾

US\$892 per ounce

All-In Sustaining Cost⁽¹⁾



JANUARY

Underground development at the Sao Chico Mine intersected the Main Vein



MARCH

7,000 metre surface drilling programme started at the Sao Chico Mine

(1) Relates only to operations at the Palito Mine as the Sao Chico Mine was not in commercial production during the year.



STRATEGIC REPORT

Chairman's Statement

Serabi has enjoyed another very successful year in 2015 and continues to make strides towards its objective of becoming a gold producer with its All-In Sustaining Cost ("AISC") in the first quartile. The Palito Mine exceeded our production expectations for 2015 and tonnage and grades have been in excess of the estimates within the original 2012 Preliminary Economic Assessment. I fully expect that this success will continue. Commercial production has also now been declared for the Sao Chico Mine and as a consequence 2016 promises to be another year of production growth.

2016 Plans

Key Objectives

- Gold production of 37,000 ounces.
- AISC of US\$840 to US\$870.
- Repay borrowings from Sprott.



Sao Chico

- Mine production for next 18 months already developed.
- Underground drilling programme, planned for second quarter 2016, to evaluate the down dip extension for medium term production growth.
- Evaluate lateral strike extensions for longer term production opportunities and growth.
- Initiate exploration and evaluation of other production opportunities in the tenement area.

- Continue development of the Senna and Chico da Santa zones.
- Underground drilling programme to identify other parallel vein structures for mining.
- Complete plant expansion by end of April 2016.
- Use additional process capacity to run-down surface stockpiles.
- Use cash flow to fund further evaluation of existing mine site discoveries for future production growth.



Palito

The year was dominated for Serabi by a falling gold price but as with many emerging market producers the effects were mitigated by the weakness of the local currency. It has been a difficult balancing act in what is our first full calendar year of operations to ensure continuity and consistency of operations whilst at the same time seeking to make cost reductions to optimise margins and safeguard the long-term profitability of the business. Management acknowledges the need to attain a cost base that gives the Group the best chance of dealing with the possibility of an extended period of low gold prices.

Whilst there has been a rally in the gold price in the early part of 2016, we have in recent years seen similar trends in the first quarter with a subsequent retrenchment over the rest of the year. We are therefore far from complacent and will use this “windfall” as a buffer against the possibility of potential weakening later in the year. The euphoria of the highs of 2011 and 2012 are well behind us and we should be grateful that gold’s traditional place as a safe haven has protected it against the quantum of the price declines seen in many other commodities. The pain is however affecting us all and I believe that 2016 will mark a turning point that will see capitulation on the supply side. This follows a lack of any new significant projects in the last two years, few on the horizon and a period where some existing producers need to defer capital and resort to high-grading their operations to maintain their short-term viability.

This supply shortfall should lead to an inevitable adjustment in prices. By doing all we can to establish now a long-term viable operation with the lowest costs possible, I anticipate us being well positioned when this correction takes place. Even if it takes longer to manifest itself the Group will be well protected against any further down turn in the market.

Serabi enjoys the benefit of an experienced management team that has been together for several years. The extensive collective operational experience that they have has been a key factor in the ability to bring two mines into production, on budget and within a short time frame. Serabi’s management sets it apart from many other junior mining companies and the proven record of efficiently turning projects into cash flow is attracting support for the Group as it seeks further growth opportunities. In recent years it has been difficult for mining companies to justify undertaking exploration when it has generally been a cheaper alternative to simply add additional ounces through a corporate acquisition.

Management has been active in assessing a number of opportunities as it is clearly an excellent time for Serabi to take advantage of the opportunities created by the market weakness. However, it remains difficult to find the blend of project and price that makes an acquisition compelling. Whilst we consider that Serabi needs to grow and make a step change that will be reflected in its valuation, the Board will not allow management to pursue opportunities that will not bring strong long-term returns to our existing shareholders. Of course Serabi has the added advantage of being in a highly prospective area and therefore has numerous organic growth opportunities. Whilst it may be difficult to match the resource growth that an acquisition can bring on a cost per ounce basis, success with our own exploration land holdings has the benefit of seeing in-situ resources quickly transformed onto cash flow. Pursuing such organic growth creates the opportunity to build around the Palito Mine a significant hub and spoke operation bringing into play a number of small but highly profitable mines with low capital requirements in light of the leverage available from the existing operations.

This ability to generate production quickly with a low capital outlay is another factor which separates Serabi from many other junior exploration and development peers.

Whilst we are very pleased with the development of Serabi over the last three years the Board is far from complacent. We have each experienced the pitfalls associated with mining and the inherent risks that exist in the sector and know that despite all the best planning we can never mitigate all of these. Management is constantly challenged to ensure that its plans have flexibility and that it is always seeking to mitigate risks, whether geological, mechanical, social, economic or political. Only by doing this can we ensure that we have a robust, profitable and sustainable business.

The next twelve months will bring their challenges but also their rewards. I am optimistic on the outlook for gold and believe that we have now positioned Serabi to benefit from and grow on the back of it. I am confident that the Group will meet or even exceed its targets for the next twelve months and in so doing build a strong financial foundation from which to realise the growth potential that it has.

On behalf of the Board of Directors I would like to extend my appreciation to the employees and management of Serabi for a job well done during difficult times in 2015. Their hard work and determination to succeed has your company well positioned to reap the benefits of the higher gold price environment we expect during 2016 and beyond. Finally, thank you to our shareholders, large and small, for your patience during the last few years. I believe the future is extremely bright for Serabi.

T Sean Harvey
Chairman
29 March 2016

STRATEGIC REPORT

The Gold Market and Brazil

Brazil continues to be one of the leading mineral producing countries. It is the world's largest producer of niobium, second largest producer of iron ore and manganese and among the largest producers of bauxite and tin. Whilst iron ore is the major contributor to the Brazilian mineral market, accounting for nearly 80% of the country's minerals exports, the country produces nearly 80 mineral commodities. Within the gold market, Brazil is the twelfth largest gold producer accounting for approximately 2.3% of current world mine production and holding reserves of about 2,400 metric tonnes out of the estimated global reserve of 55,000 metric tonnes.



Gold pour at Palito.

The country has established a well-diversified middle-income economy, with developed and significant mining, manufacturing, and service sectors. Based on the latest available World Bank data Brazil is the world's seventh largest economy. It was one of the first emerging markets to experience a recovery following the 2008 financial crisis with a strong improvement in GDP in 2010. However, in recent years GDP has been in decline and 2015 has seen negative growth with the OECD anticipating a further 4% fall in 2016. The economic potential of Brazil remains hindered by an inefficient public sector, poor infrastructure and shortages of skilled labour along with weakened Chinese demand, in particular, for Brazil's mineral output. With slower than expected credit growth and a currency that has significantly reduced purchasing power in the global markets, consumer confidence and demand is expected to remain weak and the jobless count is expected to continue to rise in the near term.

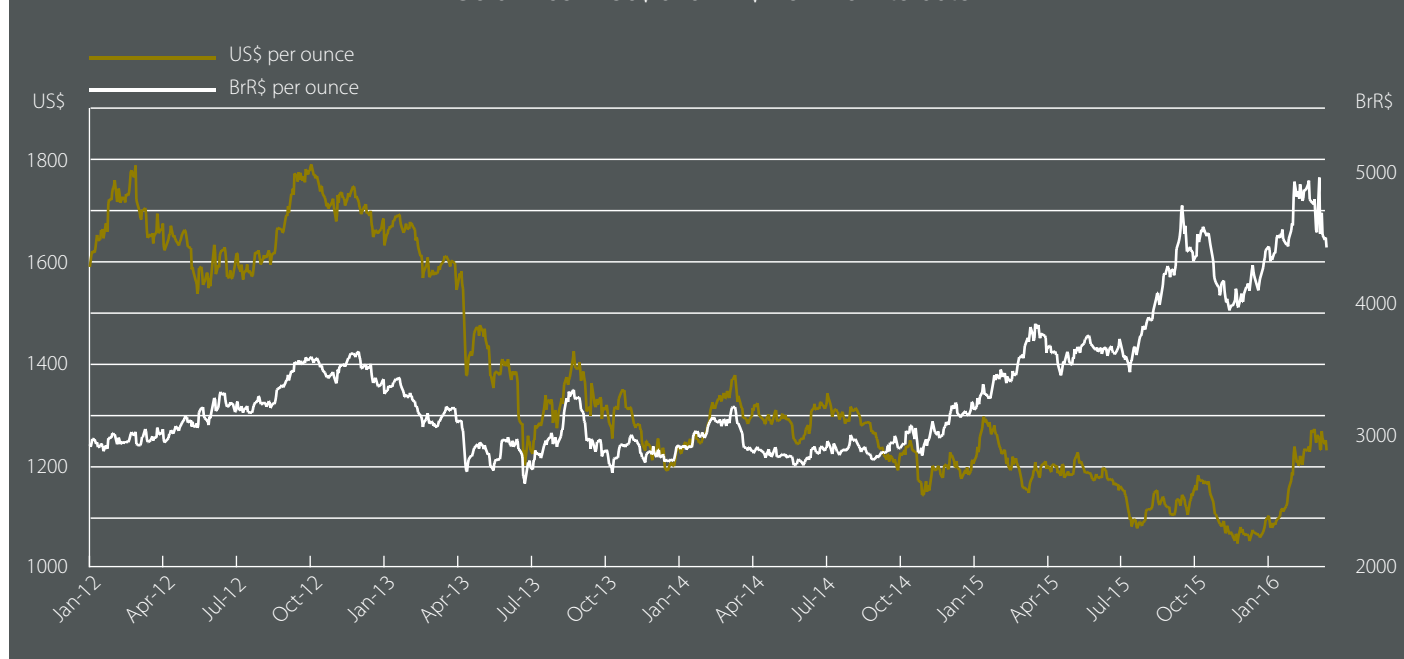
Interest rates, with the overnight (SELIC) rate currently at 14.25%, will continue to be a barrier to any credit stimulated growth and reflect an inflation rate (IPCA) currently running at 10.48% per annum. Concerns about external conditions and retreating investment may mean that the Banco Central do Brasil (BCB) will want to defer increasing interest rates but it is widely predicted that action will be needed to try to keep inflation under control. In part, inflationary pressure may be assisted by subdued domestic demand, but it is considered unlikely that inflation can be contained within the BCB's target of 6.2% over 2016. In establishing its target the BCB uses a base case which assumes a constant exchange rate over the forecast horizon at BrR\$3.90/US\$ and a target for the SELIC interest rate at 14.25% per annum.

Continuing investor concerns around the ability to bring the country's public finances under control, in the face of declining revenue associated with economic recession, has led to a weakening of the currency over the past 18 months although during the earlier part of March 2016 we have seen a somewhat unexpected strengthening, coinciding somewhat with the rise in gold price. It is also perhaps reflective of the decision by the BCB at the end of January not to raise the SELIC rate for what has now been five consecutive meetings since July 2015. This rally is however expected to be short lived with a continuing weakness of domestic dollar supply.

The early part of 2016 has seen a welcome improvement in gold prices. The final LBMA closing gold price of 2015 was at US\$1,063 per ounce with an average price during the last quarter of 2015 of US\$1,106 per ounce compared with the average for the whole of 2015 of US\$1,160 per ounce. The average LBMA price for the first quarter of 2016 has been US\$1,178 (up to 24 March 2016) with a trading high for the year to date of US\$1,277 per ounce. However, there has been a tendency in recent years for prices in the first quarter to be strong with a tapering off over the remainder of the year and this first quarter surge may, in part, only reflect this general trend.

Some market observers are of the view that gold prices are set for a gradual recovery in 2016, probably more keenly felt in the second half of the year and driven, in part, by further contraction on global mine production but also stimulated by increased demand from Asia following a period where appetite has been suppressed by other concerns.

Gold Price in US\$ and BrR\$ from 2012 to date

**51%**

Increase in gold price in BrR\$ terms since January 2012

1%

Increase in global mine production in 2015

33%

Increase in Central Bank purchases in second half of 2015

Gold supply in the final quarter of 2015 dropped by 7%, with global mine output falling 3% in the same quarter and the rolling four quarter mine production statistic experienced a fall for the first time in seven years. At the same time physical demand increased by 2% during the same quarter with strong official sector purchases. Central Banks purchased 336.2 tonnes of gold in the second half of 2015, a 33% increase compared with the first half of 2015 and a 9% increase compared the second half of 2014.

Annual mine production during 2015 increased by just 1% to 3,176 tonnes in itself the lowest level of increase in annual growth since 2008. The decline in production was seen across most countries with Papua New Guinea, stimulated by expanded process capacity and Brazil, driven by increased small scale production, being amongst only a handful that experienced any significant year-on-year growth.

It is notable that reductions in output were reported from some of the world's largest operations and given the trend for cost cutting and managing margins this should perhaps not be surprising. Concurrent with tighter cost management of production operations, companies have also reduced exploration activity and expenditure. This will manifest itself in a smaller pipeline of projects but can also result in lower production from existing operations as annual resource replenishment requirements are affected. With this background it could be expected that global mine output will continue to decline during 2016, placing pressure on the supply side of the gold market. The fourth quarter of 2015 also saw supply from recycling at its lowest quarterly levels since 2007, which is an indicator that either prices have fallen below levels that will tempt sellers into large scale transactions or that the initial surge of material that has been helping drive supply in this market is beginning to dry up.

Demand for gold during 2015, at 4,212 tonnes, remained broadly consistent with 2014 levels, with a strengthening and steadying demand seen in the second half of the year. Early weakness in global investment demand reflected increase appetite for risk and a positive outlook for the US economy and the prospect of rising interest rates. Demand in India and China, the two major markets, was subdued and in China's case reflected the economic downturn and general financial market turbulence in the country. Falling oil prices and regional conflicts influenced demand in the Middle East. However in the second half of the year and reflecting a sharp price fall in July triggered by investor selling, consumer demand increased. In many emerging markets the continued weakness of their respective currencies has resulted in strong demand for gold which has continued to rise in price in local terms though, in time, the attraction of taking profit could also become a trigger for selling.

Falling mine supply and economic pressures in China which could affect the outlook for the Yuan are positive indicators for the price outlook for 2016. Key, however, is likely to be the scale and frequency of the anticipated interest rates rises in the US. It seems that markets are moving towards a view that these will be smaller and less frequent that originally thought reflecting the weaker global economic recovery and the monetary policy solutions being followed by many governments.

STRATEGIC REPORT

Performance Review and KPIs

Performance review

The Group's principal objectives for 2015 were to build on the success of the maiden year of production at the Palito Mine, progress the development of the Sao Chico Mine to be able to bring it into production and seek to almost double gold production compared with levels attained in 2014. At the Sao Chico Mine it would be necessary to complete the initial mine and ramp development in preparation for moving to full production during 2016.

Target production for Palito was set at between 26,000 to 27,000 ounces for the calendar year whilst the planned production from Sao Chico was initially set at 8,000 to 9,000 ounces. In combination with the mining and process metrics that are required to achieve these gold production levels on a consistent and sustainable level into the future, these represented the major non-financial key performance indicators ("KPIs") for management.

During 2015, the Palito Mine has continued to perform very well with the level of mine output in terms of both tonnage and grade exceeding the Group's internal plans. Tonnage of Palito ore processed through the gold recovery plant exceeded internal plans by 9% and the total contained gold processed exceeded plans by 14%. Gold production from the run of mine ("ROM") ore from the Palito Mine exceeded Serabi's internal plan by 10%. The increase in the level of ROM processed did however reduce the ability of the Group to process stockpiled material both coarse ore and flotation tailings. The stockpile of coarse ore that the Group had hoped to run down during 2015 remained at approximately 10,000 tonnes at 31 December 2015 whilst only approximately 18,500 tonnes of flotation tailings were processed out of the total volume as at 31 December 2014 of approximately 56,000 tonnes.

Performance at the Sao Chico Mine was below the Group's internal plans for 2015. Whilst the Group remains optimistic about the long-term potential for the Sao Chico Mine, the orebody has, to date, been more complex than the surface drilling results had suggested, and the implications for mining methodology and grade control only became apparent once access through underground development had been established at the start of the second quarter of 2015. As management has assimilated the results of further evaluation undertaken through a combination of surface and underground drilling as well as underground development it has been able to establish the controls required for a viable longer term mining operation. However, gold production from Sao Chico during 2015 was approximately 3,150 ounces representing less than 40% of the initial targets. Commercial production at Sao Chico was declared to be effective as of 1 January 2016 reflecting mine outputs having been achieved and sustained over a period of time, at levels agreed as being necessary to consider that a viable long term operation had been established.

Reflecting the higher volumes of ore that the Group expects to produce and process, a third ball mill was acquired in the fourth quarter of 2015 and will become operational during the second quarter of 2016. During 2015, the Group has also acquired and commissioned an In-Line Leach Reactor ("ILR") for processing the high grade gravity concentrate that is produced from the processing of the Sao Chico ores. This will help improve overall gold recovery levels and increase the processing capacity of the Group's Carbon-In Pulp ("CIP") process circuit. The Group has also been introducing further improvements to its process plant targeted to increase process capacity and overall gold recoveries which during 2015 averaged 90%.

Further details regarding the operational performance during 2015 are set out in the Operational Review on pages 14 to 21.

Financial performance review

The Board adopts a variety of metrics to evaluate the financial performance of the Group and considers on a regular basis the level of cash holdings of the Group compared with monthly forecasts, management's control of capital expenditure programmes compared with an annually approved plan, the level of operational costs compared with annually approved plans and headcount and staffing levels. In assessing operational efficiency the Group has adopted and reports industry standard metrics such as Cash Cost and AISC to review the performance of the operations on a monthly basis.

The gold price at the start of 2015 was US\$1,172 per ounce. However after peaking in January at around US\$1,300 per ounce and despite periodic rallies, it fell back steadily during the year to around US\$1,060. The average gold price for 2015 was approximately US\$1,160. The slower start-up of the Sao Chico Mine which necessitated an increased level and longer period of financial support for this new operation placed pressure on the Group's ability to generate positive cash flow from operations. To compensate for falling gold prices during the year and subsequent to the end of the year the Group was able to renegotiate the repayment terms of its financing arrangements with the Sprott Resource Lending Partnership. This has assisted the Group in maintaining cash balances at levels that the Board feels allow the Group adequate liquidity to deal any short-term operational issues that could give rise to a delay in receipt of revenue or a short-term reduction on production.

At an operational level the Cash Cost and AISC achieved by the Group for 2015 have both been below the levels originally indicated by the Group and during 2015 the Group completed its capital expenditure programmes for an overall outlay that was below the forecast levels of expenditure.

Further details regarding the financial performance during 2015 are set out in the Financial Review on pages 22 to 29.

STRATEGIC REPORT

Principal Risks and Uncertainties

Risk	Comment	Business Impact	Mitigation
Economic Risk			
Changes in gold prices.	<p>The profitability of the Group's operations is dependent upon the market price of gold.</p> <p>Gold prices fluctuate widely and are affected by numerous factors beyond the control of the Group.</p> <p>Reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Group's investment in mining properties and increased amortisation, reclamation and closure charges.</p>	High	<p>Management closely monitors commodity prices and economic and other events that may influence commodity prices.</p> <p>The Board will use hedging instruments if and when it considers it appropriate.</p>
Currency fluctuations may affect the costs of doing business and results of operations.	The Group's major products are traded in prices denominated in US Dollars. The Group incurs most of its expenditures in Brazilian Reais although it has a reasonable level of expenses in US Dollars, UK Pounds and other currencies. 2015 has been a period of significant weakening of the Brazilian Real against the US Dollar.	High	Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.
Operational Risks			
Future exploration may not result in increased mineral resources.	Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Group discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals.	Medium	Management undertakes exploration only following careful evaluation of opportunities and designs programmes that seek to ensure that expenditure is carefully controlled and can be ceased at any time that management considers that the exploration prospect is unlikely to be commercially viable and does not warrant further evaluation.
No guarantee that the Group's Applications for exploration licences and mining licences will be granted.	There is no guarantee that any application for additional exploration licences will be granted by the Departamento Nacional do Produção Mineral ("DNPM"). The DNPM can refuse any application. Persons may object to the granting of any exploration licence and the DNPM may take those objections into consideration when making any decision on whether or not to grant a licence.	High	Management maintains on-going dialogue with the DNPM and other relevant government bodies regarding its operations to ensure that such bodies are well informed and also to help ensure that the Group is informed at an early stage of any issues of concern that such bodies may have.
Existing exploration licences may not be renewed or approved or converted into mining licences.	The exploration licence for the Sao Chico property expired March 2014. The Group has begun the process of applying for a full mining licence and has received no indication that, provided that the content and form of the application is made in accordance with prescribed regulations, a mining licence would not be granted.		The Group employs staff and consultants who are experienced in Brazilian mining legislation to ensure that the Group is in compliance with legislation at all times.
Title to any of the Group's mineral properties may be challenged or disputed.	<p>At the current time mining operations at the Sao Chico Mine are carried out under a trial mining licence which is renewable annually.</p> <p>If and when exploration licences are granted, they will be subject to various standard conditions including, but not limited to, prescribed licence conditions. Any failure to comply with the expenditure conditions or with any other conditions, on which the licences are held, can result in licence forfeiture.</p>		
The Group has declared commercial production effective as of 1 January 2016 at the Sao Chico gold mine located close to the Group's Palito Mine. There is however no certainty that the Group will be able to establish a commercially viable long-term operation at Sao Chico.	The Sao Chico Mine has a small NI 43-101 compliant Measured and Indicated Resource and Inferred Resource and the Group has declared that commercial production has been attained effective as of 1 January 2016. There is however no NI 43-101 compliant technical report commissioned to date to demonstrate whether or not this resource can be mined on a commercial scale or that any mining activities that might be undertaken will be profitable in the future.	High	<p>Management has made its own assessment of the Sao Chico Mine and during 2015 the mine has been in a development phase. Whilst management has noted, during the course of the development mining undertaken in 2015, that the mineralisation is more complex than was initially envisaged, it has now put in place changes to the mine plans and mining methodology to address the issues that were encountered.</p> <p>Management is now confident, based on its experience and knowledge, that the Sao Chico Mine will be a commercially viable mining operation.</p>

STRATEGIC REPORT

Principal Risks and Uncertainties continued

Risk	Comment	Business Impact	Mitigation
Operational Risks continued			
Exploration and development of the Group's other properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional funding.	Whilst the Group anticipates that it will use cash flow generated from operations at the Palito and Sao Chico Mines to finance further exploration and development activities at the Group's other properties, any cash flow that the Group generates may not be sufficient to meet these future exploration and development activities. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any of the Group's other properties or even a loss of a property interest.	Low	Management of capital resources is a high priority for the Group and prior to taking any development decision the Group will seek to ensure, to the greatest extent possible, that the development is fully funded and will manage the development budgets and programmes to minimise and anticipate any potential budget over-runs.
The Group may experience higher costs and lower revenues than estimated due to unexpected problems.	Mining operations often experience unexpected problems during the life of the mine which may result from events of nature, unexpected geological features or mechanical issues that can result in substantial disruption to operations. Such disruption could increase operating costs, delay revenue growth and have implications for the working capital requirements of the business.	Medium	<p>Management is experienced with similar mining operations and has gained valuable operational experience at both Palito and Sao Chico. Management has during 2015 increased the number of mining areas that can be active at any time at Palito and established increased process capacity levels which it does not intend to be fully utilised at all times.</p> <p>In this way it anticipates that short-term operational issues should not be unduly disruptive and that any shortfall can be caught up quickly once the issue is resolved.</p>
Environmental legislation.	All phases of the Group's operations are subject to environmental regulation in Brazil. There is no assurance that existing or future environmental regulation will not materially adversely affect the Group's business, financial condition and results of operations.	Low	<p>Environmental regulations are constantly changing and governed by both local and global concerns and initiatives.</p> <p>Management seeks to ensure that it adopts sound and compliant environmental principles. The operations of the Group are relatively small and management does not consider the scale of the operations to have a material environmental impact on its surroundings.</p>
Exposure to mining hazards.	<p>The Group is exposed to a number of risks and hazards typically associated with mining operations including environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel.</p> <p>These risks may result in: damage to, or destruction of, the Group's properties or production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability.</p>	Medium	The Group's operational teams regularly monitor mining risks, and report to the CEO who in consultation with the Board is responsible, on behalf of the Board, for ensuring appropriate measures are in place for anticipating, and responding to, such matters.
If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Group's financial condition and the results of operations.	<p>Mineral resource estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, and assumptions about operating costs and metal prices, all of which may prove unreliable. The Group cannot be certain that the resource estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals.</p> <p>Future production could differ dramatically from such estimates if mineralisation or formations at the properties were different from those predicted by drilling, sampling and similar examinations.</p>	Medium	The Group's mineral resource estimates are prepared by either in-house staff or third party consultants who have considerable experience and as appropriate are certified in accordance with recognised international standards.

Risk	Comment	Business Impact	Mitigation
Operational Risks continued			
The Group is required to obtain and renew governmental permits and licences in order to conduct mining operations, which can be a costly and time-consuming.	In the ordinary course of business, the Group will be required to obtain and renew governmental permits and licences for the operations and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time consuming process. The duration and success of the Group's efforts to obtain and renew permits and licences are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licensing authority. The Group may not be able to obtain or renew permits and licences that are necessary to its operations or the cost to obtain or renew permits and licences may exceed what the Group expects.	Low	The Group maintains good relationships with the appropriate licensing authorities and management is responsible for ensuring that conditions are adhered to and that renewals are submitted in a timely and complete manner.
The mining industry is intensely competitive in all of its phases and the Group competes with many companies possessing greater financial and technical resources than itself.	<p>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.</p> <p>Such competition may result in the Group being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties.</p>	Low	The Group anticipates that it will be in a position to generate positive cash flow and have re-paid debt by the end of 2016 increasing its relative strength to attract and retain employees and to acquire and develop new properties and projects.
Country Risks			
The Group's operations are conducted in Brazil and, as such, the Group's operations are exposed to various levels of political, economic and other risks and uncertainties.	<p>The government of Brazil has been seeking to introduce a new Mining Code for some time and the matter continues to be area of debate. Any new legislation could result in all current applications being cancelled and require applicants to make new applications under the terms of and in compliance with the new Mining Code.</p> <p>Whilst only being re-elected in October 2014, the current government is losing support, the country is struggling economically and the Brazilian Real has devalued significantly against the US Dollar since May 2013.</p> <p>Against this backdrop the government may seek to reduce state subsidies on certain goods or, increase taxes and or royalties to boost state income.</p>	Medium	The mining industry in Brazil is dominated by a small number of influential local companies and the interests and needs of smaller mining operations can be limited. The Group is affiliated with groups who help promote and lobby for the needs of smaller mining enterprises.
Other Risks			
Finance risk.	Many of the Group's assets at the Palito and Sao Chico mines have been pledged as security to the Sprott Resource Lending Partnership, with whom the Group signed a US\$8 million credit arrangement during 2014. The Group is therefore reliant on meeting its loan obligations with Sprott in order to avoid the potential loss of these assets which could arise from the enforcement of this security.	Low	The Group is in compliance with its obligations under the loan agreements with Sprott and at the current time anticipates meeting the on-going debt servicing obligations.
Portfolio risk of having two relatively small interdependent operating assets.	The Group is reliant on two relatively small revenue-generating assets (the Palito Mine and the satellite operation at the Sao Chico Mine). Whilst any mining issues that affect production at one site should not impact production at the other site, the two mining operations share a single process plant and consequently certain issues affecting the operation of this process plant could have a significant impact on the Group's results.	Low	Whilst the Group is reliant on a single process plant the design is such that it is not generally reliant on a single element of the process plant to maintain a level of throughput and therefore gold production. Additionally the two ore sources, Sao Chico and Palito, do not share exactly the same process requirements and therefore management considers that a level of gold processing and gold production could be maintained other than in what it considers to be the most exceptional situations.

By order of the Board

Clive Line
Company Secretary
29 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review

Palito is now in a steady operational state and with Sao Chico now in commercial production, forecast gold production for the Group for 2016 is 37,000 ounces. Production for January and February of 6,500 ounces indicates the Group is on course to achieve this forecast rate.

At Sao Chico the priority is to secure production for the next 12 to 18 months and ramp development will be progressed to pursue the down-dip extension of the ore-body.

Highlights

32,629⁽¹⁾ ounces

An 80% improvement compared with 2014

37,000 ounces

Forecast for gold production in 2016

Post Year End Highlights

Approximately 6,500⁽¹⁾ ounces of gold produced during the first two months of 2016.

Testing of third ball mill underway.

Other plant expansion programmes proceeding on schedule.

Increased plant processing capacity expected to be operational from 1 May 2016.

A carbon regeneration kiln is also being acquired which will assist in enhancing gold recoveries once the kiln is operational in the second half of the year.

Operational Highlights

Total year end gold production of 32,629⁽¹⁾ ounces.

Combined mill throughput, for both Palito and Sao Chico ore, totalled 130,299 tonnes of ore for the year.

A total of 9,598 metres of horizontal development across both mining operation was achieved for the year.

At the end of the fourth quarter, surface stockpiles at Palito and Sao Chico totalled approximately 16,000 tonnes at a grade of 4.7 g/t of gold.

November saw the commissioning of the Gekko intensive leach reactor ("ILR"), which works in tandem with the Falcon gravity centrifugal concentrator. This equipment is working exclusively on the Sao Chico feed to recover gravity gold.

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

Outlook and Strategy

Palito

The Palito Mine has now reached a relatively steady operational state with mining activities in a balanced cycle of development and production that generated approximately 111,751 tonnes of ore at a grade of 10.05 g/t of gold during 2015. Management anticipates that mine output for 2016 will be between 105,000 and 110,000 tonnes at an average grade of between 8.50 g/t and 8.90 g/t of gold. The gold production for 2016 will be supplemented by the processing of surface stockpiles of ROM ore and approximately 37,500 tonnes of flotation tailings generated in 2014. The 2014 flotation tailings are a result of the plant not having the Carbon in Pulp ("CIP") recovery circuit operational until October 2014. Tailings produced from the flotation process were stockpiled during the first three quarters of 2014. The Group had planned to run down these existing stockpiles during 2015, but there has been limited plant capacity to process these tailings. The introduction of gravity concentration into the Sao Chico process flowsheet, together with other plant improvements, has increased effective capacity of the CIP plant and as a result management anticipates processing these remaining tailings during 2016. The introduction of a third ball mill increases milling capacity and will also allow the Group to run down surface stockpiles of run of mine ("ROM") ore during 2016. The new ball mill is anticipated to be commissioned and operational by May 2016.

The Group has focussed during 2015 on ramp development and has now reached and is developing on the -19 metre relative level ("mRL"). Towards the end of 2015 increased priority was given to accessing and developing drilled, parallel vein structures on production levels above the 24mRL. These include the Chico da Santa zone which lies to the north east of the primary G1, G2 and G3 veins and the Senna zone which is located to the south west of the Palito West vein complex and which during 2008 and 2009 produced oxide material in excess of 3.0 g/t. The cross cut to the Chico da Santa zone was completed in October 2015 and the cross cut to the Senna zone was completed during December. The opening up of these new sectors allows the Group to establish more ore faces and stoping areas especially on the upper levels in these zones. In the case of the Senna zone there has never been any previous underground development of the ore zones. Based on the ore grades recovered from the previous limited open

pit operation, management is hopeful of the potential within the Senna zone where the Group has recorded a drill intersection in hole PDD289 of 0.55 metres at a grade of 50.99 g/t at approximately 300 metres below surface. Previous exploration activity at Senna highlighted up to four mineralised zones, with structural continuity for three zones of up to 900 metres in strike length and 300 metres vertical depth, of which the most prominent zone was confirmed on surface by trenches for over 600 metres.

The Group, during 2015, continued mine development on G3 towards the Palito South area primarily on the 114mRL, which has been driven some 700 metres further south than any other underground working at Palito. Having intersected numerous high-grade pay shoots, the Group is testing the down-dip continuity of these pay shoots for future development of the mine at depth, as well as incorporating the up-dip extensions of these pay shoots in the upper levels into its future mine plans. These are as yet undeveloped and represent an excellent potential source of additional ore.

In light of the higher levels of ore production being achieved at the Palito Mine and an expectation of ore volumes at the Sao Chico Mine increasing, the Group acquired and is currently installing an additional ball mill. In the fourth quarter of 2015 it also implemented additional improvements within the Palito gold process plant that in conjunction with the additional mill will increase the current throughputs rates from 400 tonnes per day ("tpd") to at least 500 tpd. These improvements, whilst increasing gold production potential, are also intended to create excess plant capacity that will give much needed contingency when unplanned stoppages occur. These improvements include the installation of an additional flotation cell, the installation of the ILR to allow initial processing of Sao Chico ore by gravity concentration and new screens within the CIP tanks to improve inter-tank flow rates. These upgrades are expected to be completed early in the second quarter of 2016 at a cost of approximately US\$1.2 million and are being funded from the cash flow of the current operations.

Sao Chico

At the Sao Chico Mine, the fourth quarter of 2014 saw underground development commence. During 2015 approximately 2,800 metres of development had been achieved with three levels now in development and a fourth level shortly expected to be reached and in ore development. During January 2015, the ramp development intersected the principal vein, the Main Vein, approximately 30 vertical metres below the portal entrance. The initial sampling confirmed a payable intersection with a true width of 3.6 metres and a gold grade of 42 g/t.

During the remainder of 2015, the Main Vein continued to be developed and evaluated with the continuation of 'on-lode' development and surface and underground drilling. The vein is sampled with each advance in the gallery. The development of the main ramp which is being driven at a 12% gradient is continuing, with ore development ongoing on four levels at 186mRL, 17mRL, 156mRL and 14mRL.

The immediate priority is to evaluate and define stoping blocks on these first four levels to secure mine production for the next 12 to 18 months. Further ramp development will therefore be progressed to pursue the down-dip extension of the current areas that are in development. The rates of lateral development on existing levels will be increased when the Group, through a combination of its current drilling programmes and on-lode development, has greater confidence in the distribution of the high grade mineralisation within the lateral strike extensions.

The Group has reported that the high grade mineralisation is dominantly hosted in a consistent alteration zone that can be anything from two to ten metres wide. The alteration zone itself is readily identifiable, however, the high grade gold zones within this alteration zone are much less so, and as result the mining operations will require on-lode development at regular vertical intervals, with regular channel sampling and in-fill drilling between these levels to best define the high grade gold mineralisation. This approach will allow the Group's mining personnel to readily identify stoping blocks and optimise mining the high gold grade zones.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review continued

With the notification of the approval of the Final Exploration Report ("FER") being issued in November 2014, the Group is continuing to progress the conversion of the Exploration Licence at Sao Chico to a Mining Licence. As the next major step in the conversion procedure, the Group submitted, in September 2015, the Plano Aprovimientio Economico, a form of economic assessment prepared in accordance with Brazilian legislation. However, with the Guia de Utilização (a trial mining licence) already in place, all mining operations can continue in parallel. A submission for a further extension of the Guia de Utilização for a period of one additional year was also submitted in September 2015. The issuing of the mining licence also requires the submission of a risk assessment and management plan, safety assessments, environmental and social impact studies, closure and remediation plans. These additional reports have also either been submitted or, when requested, are being submitted to the relevant government bodies.

The Sao Chico Mine, whilst contributing to the Group's gold production was primarily in development during 2015. Commercial production has been declared effective as of 1 January 2016 and the mine is expected to achieve full production during 2016. A 7,000 metre diamond drilling programme completed during 2015, together with on-lode development, significantly enhanced the Group's understanding of the orebody and facilitated the mine planning for 2016. The programme was extended beyond its original planned 5,000 metre level to allow the Group to undertake closer spaced in-fill drilling. The surface programme was complemented by evaluation drilling being undertaken from within the existing underground developments.

The drilling programme which has built on the results and understanding gained from the 2011 and 2013 drilling campaigns continued to report numerous high grade intersections with gold grades in excess of 100 g/t and indications that the grade and resource potential continues at depth. Further details are set out in a news release issued by the Group on 21 October 2015 which is available on the Group's website www.serabigold.com and has been filed on SEDAR.



Palito Mine – processing plant in the foreground with mine buildings, ore stockpiles and mine entrance in the distance.

PALITO MINE MINERAL RESOURCES

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.

2016 Production Guidance

The Group is currently forecasting gold production for 2016 of approximately 37,000 ounces with All-In Sustaining Cost expected to be between US\$840 to US\$870 per ounce.

Longer Term Growth Opportunities

As well as the potential that exists to grow resources at Sao Chico, the Palito South, Currutela and Piaui prospects still provide excellent opportunities for identifying additional resources which could both enhance current production levels as well as extend the mine life. At this time no surface drilling or other surface exploration activities are currently planned on the Group's properties. However, once adequate cash flow is being generated, the Group will step up its exploration activity and will be looking to add to its resource base and production potential by establishing additional satellite high-grade gold mines in relatively close proximity to the current Palito operation which would be a centralised processing facility. In this way the Group expects to be able to grow its production base at low capital cost, avoid the need for major infrastructure

improvements to be in place for new operations to be commercially viable and have low environmental impact.

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

Palito Gold Mine – Para State, Brazil History

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

SAO CHICO MINE MINERAL RESOURCES

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.



A 7,000 metre diamond drilling programme was completed at Sao Chico during 2015.

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

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

The operation was placed on care and maintenance in 2008, but the Group kept as much of the infrastructure intact as possible. This included a process plant comprising flotation and 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 100km north east of the town of Novo Progresso on the Curuá (Irirí) River.

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

The PEA estimated that the Palito Mine could be placed back into production for a capital cost of US\$17.8 million and would produce at an average annual production rate of 24,400 ounces per annum through the processing of 90,000 tonnes of ore at an average grade of 8.98 g/t. The Group calculates that total expenditure incurred on the rehabilitation and start-up of the Palito Mine was US\$18.2 million. During 2015 the operation processed approximately 114,000 tonnes of Palito ore with an average mill feed grade of 8.65 g/t. Management anticipates that mine output for 2016 will be between 105,000 and 110,000 tonnes at an average grade of between 8.50 g/t and 8.90 g/t of gold.

Sao Chico Gold Project – Para State, Brazil History

The Sao Chico property, acquired by the Group in July 2013 as part of the acquisition of Kenai Resources Ltd ("Kenai"), was initially represented by a single exploration licence area (AP 12836). The Sao Chico Mine is a small but very high grade gold deposit some 25km to the south west, along the Transgarimpeira Highway, from the Palito

Mine. The Sao Chico exploration licence was in force until 14 March 2014 and the Group, prior to its expiry, commenced the process of converting the concession to a full mining licence. A trial mining licence has also been issued for the property valid to 20 November 2015 but automatically extended until a new licence is received or a formal notice of revocation is issued. An application to renew the trial mining licence for a further twelve month period was submitted in September 2015. In July 2015, the Group was also awarded exploration licences adjoining AP12836 to the south, east and west of AP12836, covering approximately 6,400 hectares, which the Group considers have excellent prospects for hosting extensions of the gold mineralisation identified at the Sao Chico Mine.

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

The report, issued on 15 October 2012, estimated a NI 43-101 compliant Measured and Indicated mineral resource of 25,275 ounces of gold and Inferred mineral resources of 71,385 ounces of gold. During 2013 the Group completed an infill and step out diamond drilling programme totalling 4,950 metres to enhance the existing resource in terms of both resource confidence and size.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review continued

The drill programme was supplemented by ground geophysics, and a further 1,120 metre diamond drilling to test initial geophysical anomalies. The Group has not, to date, commissioned any new independent technical report taking into account this additional drilling. The results from the ground geophysics have established other potential areas of interest within the Sao Chico exploration licence but the Group will undertake other confirmatory exploration work, including geochemistry, over these identified anomalies before embarking on any further drilling activity of these anomalies. The current Sao Chico gold resource which has grades in excess of 26 g/t considers only three vein structures, with a further ten more veins identified.

Operational review for the twelve months of 2015

Management considers that Palito is now in a steady state of operation. Total gold production by the Group was 32,629 ounces. The third quarter and fourth quarters saw increases in the volume of Sao Chico ore being processed at the Palito plant rising from 4,134 tonnes at the end of June 2015 to a total of 10,306 tonnes at the end of September and a further 6,057 tonnes for the final three month period of 2015. Average feed grade improved from 6.68 g/t for the six month period to the end of June 2015 to an average of 6.90 g/t for the year as a whole. Gold production is now being derived from four ore sources being Palito Mine ROM ore, the coarse ore stockpiles at Palito, the Sao Chico ROM ore and the flotation tailings produced at the Palito Mine during 2014.

Mining operations

Performance of the combined mining operations of both the Palito and Sao Chico Mines has resulted in approximately 135,900 tonnes of ore being extracted during 2015 with approximately 33,959 tonnes (25%) being produced in the final quarter to 31 December 2015. The reported gold grade of the ore being mined during the year has averaged 9.86 g/t. At the Palito Mine the Group has adopted selective mining (re-suing) in some of the development drives which has reduced dilution and resulted in higher grades of development ore being extracted from development mining activities. The production in the final quarter of 2015 was adversely affected by power generation problems at the Sao Chico Mine which delayed mining activities. The shortfall in what was supposed to be high grade Sao Chico development ore feed was replaced by

surface stockpiled ore from the Palito Mine, albeit at lower grade. By December, the problems were resolved and the Sao Chico Mine turned in its best month of the year with over 4,000 tonnes mined at grades in excess of 11.5 g/t gold.

These mined production figures represent an increase of 34% compared with the fourth quarter of 2014 when 25,308 tonnes were produced, although all of this production was derived from mining operations at the Palito Mine as the Sao Chico mine portal was still in development at that time. With approximately 7,000 tonnes of ore mined from the Sao Chico Mine during the fourth quarter of 2015, ore production from the Palito Mine at 26,950 tonnes was approximately 1,600 tonnes better than that for the same quarter in 2014. With long-term planned ore production rates from the Palito Mine expected to average around 105,000 to 110,000 tonnes per annum, this would equate to approximately 26,250 tonnes to 27,500 tonnes per quarter.

A total of 9,598 metres of horizontal development was completed during the twelve months to 31 December 2015 with 2,688 metres (28%) of this being completed during the three month period to 31 December 2015. This compares with an average of 1,471 per quarter for the last two quarters of 2014 of which 1,348 was completed in the three month period ended 31 December 2014. During 2014, there was minimal horizontal development undertaken at the Sao Chico Mine whereas during the three months to 31 December 2015, a total of 729 metres was completed. Management remains focused on ensuring that development mining rates are maintained to ensure that adequate stopes are generated each quarter to maintain ore production rates.

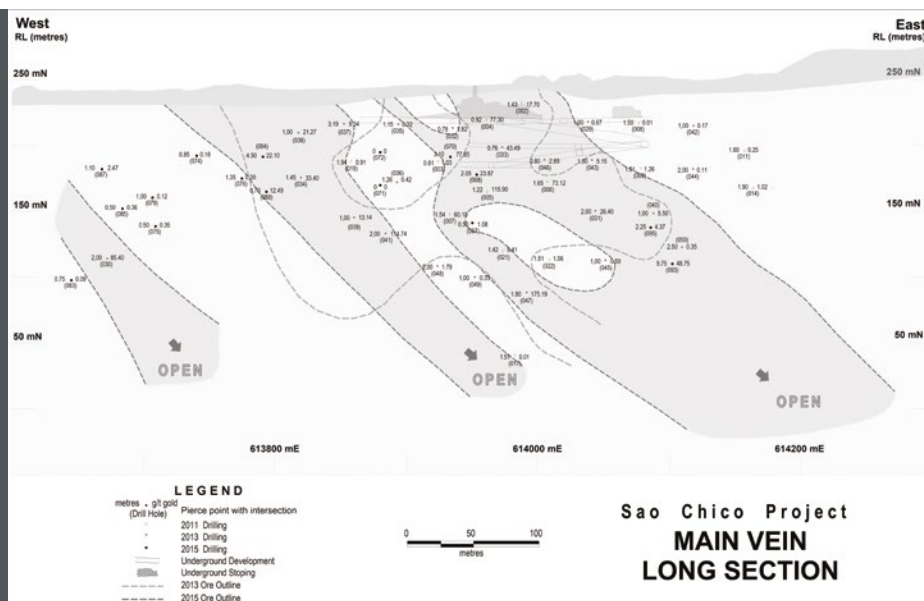
At the Palito Mine the Group has to date focused its efforts on the veins within the Palito Main Zone and the Palito West areas. During the third and fourth quarters of 2015, significant development was undertaken to access the Chico da Santa and Senna zones to the north east and south west respectively. Parts of the Chico da Santa zone were mined to a limited degree during previous underground mining activities in the last decade but the Senna zone has never been accessed from underground until now. The cross cut to the Chico da Santa sector was completed during October 2015 whilst development to the Senna sector was completed in December 2015.

The Sao Chico Mine remained in a development phase for 2015 and is only expected to achieve full production during 2016. Nonetheless the level of mine development for 2016 will remain high. As a consequence it can be expected that the levels of both horizontal and vertical development as a result of deepening the ramp to access the highest confidence ore zones will remain relatively high in the near term.

The better than forecast mining performance at the Palito Mine has resulted in the surface ore stockpiles not being run down as quickly as management forecast and by the end of December 2015 the surface stockpile of Palito ore was measured at approximately 10,200 tonnes with an estimated average grade of 5.48 g/t of gold. At 31 December 2014, the stockpile of ore from the Palito Mine was estimated at approximately 10,200 tonnes with a grade of 4.55 g/t. In the first six months of the intervening period the Group was able to draw on the higher grade portion of the stockpile to make full use of the processing capability of the Palito gold plant but as the Group has, from the second quarter of 2015, also been processing material mined from the Sao Chico Mine, the level of stockpiled material has started to increase again. Over the intervening period the stockpile of Palito ore has been supplemented with stockpiled ore from the Sao Chico Mine which, as at the end of December 2015, has been measured at approximately 6,500 tonnes with an estimated average grade of 4.99 g/t.

At the Sao Chico Mine, where initial mine development only began in the fourth quarter of 2014, approximately 2,800 metres of development had been completed by the end of the fourth quarter 2015. In January 2015, the 216mRL access from the main ramp intersected the Main Vein, the principal structure at the Sao Chico Mine, approximately 30 vertical metres below the portal entrance, in a four metre high and four metre wide gallery, crossing the ore perpendicular to its strike. The initial sampling confirmed a payable intersection with a true width of 3.6 metres and a gold grade of 42 g/t gold. The Group immediately commenced lateral development of this 216mRL following the Main Vein to the east and west and at the same time has continued the development of the ramp.

The Sao Chico deposit comprises three ore zones over a cumulative strike length of 300 metres. The resource remains open at depth.



During 2015, the mine decline ramp was deepened to the 156mRL level accessing 85 vertical metres of the Main Zone ore lode. Mine development was undertaken on three levels during 2015. The 216mRL was developed along a 400 metre strike, the 186mRL level along a 370 metre strike and the 156mRL level along a 150 metre strike length.

On-lode development ore continued to feed the Palito plant throughout 2015. The first stope production on the 216mRL level commenced in June, with subsequent stopes on the 186mRL commencing later in the year. The Sao Chico Mine continues to provide ore from both development and stope sources.

In February 2016, the ramp intersected the Main Zone lode on the 141mRL level and sub level access has intersected the ore lode on the 199mRL and 171mRL. On-lode development on these two levels continues in preparation for stope development.

Stope mining has focussed on four moderate-steep, east plunging pay chutes on the 216mRL and 186mRL, the largest being a 110 metre strike on the 216mRL.

Total mine production from the Sao Chico Mine as of December 2015 was over 22,000 tonnes, grading 8.86 g/t gold. In January 2016 the Sao Chico Mine was declared to have achieved commercial production.

The Group had initially planned to have development levels spaced at approximately 30 metre vertical intervals. However, in light of the geological complexity and need for greater geological understanding, at least in these initial months, the closer spaced 199mRL and 186mRL were introduced. This allows, in the near term, for better control over the identification of the high grade gold zones with the wider mineralised zones. The next development levels that are in progress are at the 171mRL, 156mRL and 141mRL. Development of levels 126mRL, 111mRL and 96mRL are planned for 2016.

Since the end of the second quarter of 2015, the Group has been building up a better picture of the geometry of the mineralisation at the Sao Chico Mine. A 7,000 metre diamond drilling programme completed during 2015, together with on-lode development has significantly enhanced the Group's understanding of the orebody and facilitated the mine planning for 2016. The programme was extended beyond its original planned 5,000 metres level to allow the Group to undertake closer spaced in-fill drilling. The surface programme was complemented by evaluation drilling being undertaken from within the existing underground developments.

The drilling programme which has built on the results and understanding gained from the 2011 and 2013 drilling campaigns continued to report numerous high grade intersections with gold grades in excess of 100 g/t and indications that the grade and resource potential continues at depth. Further details are set out in a news release issued by Serabi on 21 October 2015 which is available on Serabi's website www.serabigold.com and has been filed on SEDAR.

The original interpretation using surface drill holes suggested a single ore shoot, easterly plunging and covering a strike length of some 250 metres. The combination of further drilling and underground development now suggests not a single ore shoot, but an ore zone divided into three sub-zones, with low grade areas between each ore zone. Each sub-zone maintains the easterly plunge, and together they cover a cumulative strike length of 300 metres.

With the development ongoing, the ore zones clearly display locations where the ore can be mined both by selective and more mechanised methods, and over the coming quarter the Group will be optimising its mine plan for 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review continued

SUMMARY PRODUCTION STATISTICS FOR THE FOUR QUARTERS ENDING 31 DECEMBER 2015 (Palito & Sao Chico)

		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year to Date
Horizontal development	Metres	1,825	2,380	2,705	2,688	9,598
Mined ore	Tonnes	32,504	31,488	37,876	33,959	135,827
	Gold grade (g/t)	10.51	9.16	10.43	9.03	9.80
Milled ore	Tonnes	30,384	33,278	31,789	34,848	130,299
	Gold grade (g/t)	8.52	8.22	9.52	7.55	8.43
Gold production ⁽¹⁾	Ounces	7,389	8,237	9,078	7,925	32,629

(1) The Sao Chico Mine was only declared to have achieved Commercial Production as of 1 January 2016. Therefore all costs and revenues relating to this mine during 2015 were capitalised. The Income Statements therefore only reflect the revenues and costs arising from the gold produced from the Palito Mine and the Cash Cost and AISC therefore also only reflect the activities from the Palito Mine.

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

The mining fleets at the Palito and Sao Chico Mines are relatively new. In total the Group now operates both mines with a combined fleet of seven 20 tonne trucks, five underground drilling jumbo rigs and four underground scooptrams/loaders. The Group also owns various other mobile equipment including four front end loaders, a bulldozer and other smaller vehicles. Whilst further equipment purchases are planned during 2016, both mining operations are now well equipped. From time to time the Group will transfer equipment between the two locations to supplement capacity as required and a low loader is used to transport equipment between the two mines. Transportation of the ore from the Sao Chico Mine to the Palito processing plant is undertaken by a contractor and began in February 2015.

Plant operations

Total volume processed of both Palito and Sao Chico ore during 2015 was 130,299 tonnes equivalent to an average daily rate of approximately 360 tonnes per day. Milling performance at the start of the first quarter was affected by power stoppages resulting from an inconsistent electricity supply from CELPA, the regional power supply company. The reliability of the power supplied by CELPA has remained subject to fluctuation and interruption which is particularly detrimental to the performance of the gold process plant. As a consequence during the second quarter, the Group took the decision to commit to the use of diesel generated power for the operation of the plant. Management expects that the benefits of increased plant availability will significantly outweigh the increased operational costs.

The power requirements of mining operations together with the day to day needs of the mine-site, camp and other operations continue to be met by power supplied by CELPA except in exceptional circumstances.

During 2015, the Group has been processing the flotation tailings that were produced during the first three quarters of 2014 through the CIP plant. This material is being used as top-up feed for the CIP plant as and when the opportunity arises. The process plant is however often at capacity and as a result, the Group has not been as successful as hoped at running down surface stockpiles. At the beginning of January 2015 a stockpile of approximately 56,000 tonnes of flotation tailings with an average grade of approximately 2.5 g/t had been established. The Group has processed approximately 18,350 tonnes of these tailings in the year to 31 December 2015 but in the last quarter the volume processed was only 3,335 tonnes (18%). Priority will always be given to higher grade material and in particular the treatment through the CIP plant of Sao Chico ore, so processing of these flotation tailings remains a secondary priority.

To enable processing of ore from the Sao Chico Mine through the Palito gold recovery plant, a separate process line was established with a dedicated feed hopper which can feed one of the two mills that have been in operation during 2015 with a dedicated feed of Sao Chico ore. The construction of the hopper was completed at the end of the first quarter of 2015 and after an initial commissioning period using ore from the Palito Mine, the processing of the Sao Chico ore commenced in the last two weeks of April 2015. In the short term, the crushed and milled Sao Chico ore has passed directly to the CIP plant. During

the third quarter of 2015, the Group acquired and installed an ILR which was commissioned during November 2015. With this now fully operational the milled Sao Chico ore can be passed initially through a gravity concentrator, with the recovered gravity concentrate containing "free-gold" passing through the ILR where in a small closed circuit it is leached with high concentrations of cyanide, dissolving the gold. The gold in solution is then recovered by conventional electro-winning and smelting. With some of the gold recovered through gravity the Sao Chico ore will then, as it does today, be passed directly to the existing CIP plant. This use of the gravity concentrator enhances gold recovery for the Sao Chico ore, and creates efficiencies in the CIP plant and the ability to increase flow rates.

By the end of December 2015, approximately 16,300 tonnes of Sao Chico ore had been processed through the gold recovery plant located at Palito.

Exploration and Licensing matters

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

In February 2014, the Final Exploration Report ("FER") for the Sao Chico gold project was completed and submitted to the Departamento Nacional de Produção Mineral ("DNPM") who issued notification of their approval of this report in November 2014. This represented the first part of the process of transforming the Sao Chico exploration licence into a mining licence. As the next major step in the conversion procedure, Serabi submitted, in September 2015, the Plano Aprovimientto Economico, a form of economic assessment prepared in accordance with Brazilian legislation. However, with the Guia de Utilização (a trial mining license) already in place, all mining operations can continue in parallel. A submission for a further extension of the Guia de Utilização for a period of one additional year was also submitted in September 2015. The issuing of the mining licence also requires the submission of a risk assessment and management plan, safety assessments, environmental and social impact studies, closure and remediation plans. These additional reports have also either been submitted or will be submitted when requested, to the relevant government bodies.

Jardim do Ouro Exploration

The Jardim do Ouro exploration area ("JDO Project") covers a total area of approximately 45,000 hectares, incorporating the Palito mining licence granted on 23 October 2007 covering an area of 1,150 hectares. The exploration licence covering the Sao Chico Mine is in the process of being converted to a full mining licence and there are a further nine exploration licences and four applications for exploration licences covering the remaining area. The JDO Project is located in the Tapajos Mineral Province in the south east part of the Itaituba Municipality in the west of Para State in central north Brazil.

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

Palito – Near Mine Exploration

The underground development of the Palito Mine is being driven towards the Palito South area but the Group has no immediate plans during 2016 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 Group intends to use some of this cash flow to advance these exploration opportunities.

Sao Chico Exploration

The Sao Chico Mine is located in the South West corner of the JDO Project area. During 2013 the Group completed a 6,000 metre drilling programme which more than doubled the known 150 metre strike extension of the principal mineralised structure ("the Main Vein") at Sao Chico and confirmed the presence of a number of parallel mineralised structures. The development mining activities being undertaken during 2015 in conjunction with a 7,000 metre surface drilling programme are providing essential data for the further evaluation of the Main Vein and the immediate parallel structures. At this time no additional work is planned in the wider area around the Sao Chico Mine, although the Group has identified a number of other prospective zones. Once adequate cash-flow is being generated from production operations, the Group intends to use some of this cash flow to advance these exploration opportunities.

Other Exploration Prospects

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

The Sucuba Project is located in the state of Para, and the Group holds two exploration permits covering an area of 10,449 hectares. The Pizon Project, located in the state of Amazonas, represents 4,733 hectares, in one exploration licence and the Modelo Project, also in Amazonas, represents 2,971 hectares in one exploration licence. The Group has not engaged in any exploration activity at any of these projects during the past twelve months and has currently not budgeted for any exploration activity during the next 18 months.

Mike Hodgson
Chief Executive
29 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

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The devaluation of the Brazilian Real has provided a hedge against falling gold prices and the price of gold in Brazilian Real terms is higher now than at the beginning of 2013.

Increased production levels in 2016, when Sao Chico starts to achieve its full production potential, are expected to result in further reductions in unit production costs.

The Group is projecting an All-In Sustaining Cost of between US\$840 to US\$870 per ounce for 2016.

Highlights

US\$892

All-In Sustaining Cost for 2015, a 14% improvement compared with 2014

US\$5.66 million

Gross profit from operations

US\$1,151 per ounce

Average gold price received

Financial Highlights

All-In Sustaining Cost of US\$892 for the year with Cash Cost of US\$677.

Gross profit from operations of US\$5.66 million compared with a profit of US\$0.3 million for 2014.

Operating profit before finance costs of US\$0.88 million compared with a loss of US\$1.33 million for 2014.

Cash holdings of US\$2.2 million at 31 December 2015.

Average gold price of US\$1,151 received on gold sales for the year.

The Group has secured an additional US\$5 million working capital facility.

At 31 December 2015, the Brazilian Real to US Dollar exchange rate had weakened by approximately 47% compared against 31 December 2014.

Annual inflation in Brazil for January 2016 was 10.48% the highest rate since November 2003. The local Central Bank overnight (SELIC) interest rate was set at 14.25% in January 2016.

Results of Operations

Twelve month period ended 31 December 2015 compared to the twelve month period ended 31 December 2014

The Group has recognised a gross profit for the twelve month period ended 31 December 2015 of US\$5,660,281 (twelve months to 31 December 2014: US\$296,541 as 2014 results only reflected six months of commercial production from 1 July 2014 to 31 December 2014) and an operating profit of US\$876,436 (twelve months to 31 December 2014, operating loss of: US\$1,330,977).

The Group recognised a profit before taxation for the twelve month period ended 31 December 2015 of US\$476,294 in comparison to a loss of US\$174,401 for the twelve months ended 31 December 2014.

The gross profit of US\$5,660,281 for the period ended 31 December 2015 can be analysed as follows:

During the twelve month period ending 31 December 2015 the Group recognised total sales of US\$35,086,113 (twelve month period ending 31 December 2014: US\$12,627,784 as 2014 only had six months of commercial production from 1 July 2014 to 31 December 2014). The sales can be separated between sales of copper/gold concentrate of US\$25,453,418 (twelve month period ending 31 December 2014: US\$11,019,197 as 2014 only had six months of commercial production from 1 July 2014 to 31 December 2014) and sales of gold bullion of US\$9,632,695 (twelve month period ending 31 December: US\$1,608,587 as the Group only sold its first gold bullion during September 2014 and therefore only recorded approximately four months' worth of sales during 2014).

During the twelve months to 31 December 2015 the Group produced 2,188 wet tonnes of copper/gold concentrate, (containing an estimated 20,984 ounces of gold). Revenue has been recognised for sales of 2,200 tonnes, (containing an estimated 20,702 ounces) which had been delivered to the end purchaser during the twelve months ended 31 December 2015. During the twelve months ended 31 December 2014 the Group produced 1,467 wet tonnes of copper/gold concentrate, (containing an estimated 12,751 ounces of gold). However sales was only recognised on 780 tonnes sold containing 3,474 ounces as commercial production began on 1 July 2014 and all sales and costs relating to the Palito Mine prior to this date were capitalised. The sale of 320 tonnes of concentrate sold prior to 30 June 2014 generating revenue of US\$4,079,663 was considered as part of development operations and credited against the development costs relating to the Palito Mine. All unsold material is held as inventory.

The Group also recognised revenue for 8,284 ounces of gold bullion earning total revenue of US\$9,632,695 during 2015, (2014: US\$1,608,587 1,236 ounces as the Group only sold its first gold bullion during September 2014 and as a result only recorded approximately four months of sales during 2014). However, this does not include revenue of US\$3,337,071 earned from the sale of 2,955 ounces of bullion from ore produced from the Sao Chico Mine, twelve months to 31 December 2014: US\$Nil). This income has been treated as capitalised income and offset against capitalised costs of the Sao Chico Mine development as the Sao Chico Mine had not attained commercial production until 1 January 2016.

Operating costs of US\$20.1 million relate to all mining and plant processing costs, (twelve month period to 31 December 2014: US\$8.18 million as 2014 only reported six months of commercial production from 1 July 2014 to 31 December 2014, therefore all costs incurred before this period were capitalised as development costs), as well as all general site costs incurred at Palito during the period.

Labour costs for the twelve month period to 31 December 2015 amounted to approximately US\$10.02 million (twelve month period to 31 December 2014: US\$9.75 million, comprising six months prior to commercial production being declared of US\$4.30 million and six months of post the declaration of commercial production of

	Full Year 2015 US\$	Full Year 2014 US\$*	Variance US\$
Concentrate sold (Ounces)	20,702	9,601	11,101
Bullion Sold (Ounces)	8,284	1,236	7,048
Total Ounces	28,986	10,837	18,149
Revenue from Ordinary Activity			
Gold Concentrate	22,970,460	9,835,709	13,134,751
Gold Bullion	9,632,695	1,608,587	8,024,108
Copper	2,340,609	1,128,885	1,211,724
Silver	142,349	54,603	87,746
Total Sales	35,086,113	12,627,784	22,458,329
Costs of sales			
Operational costs	(20,053,318)	(8,181,598)	(11,871,720)
Shipping costs	(2,054,896)	(993,071)	(1,061,825)
Treatment charges	(1,074,428)	(382,161)	(692,267)
Royalties	(402,421)	(140,834)	(2,205,569)
Amortisation of Mine Property	(4,540,432)	(2,334,863)	(2,505,569)
Depreciation of Plant & Equipment	(1,300,337)	(298,716)	(1,001,621)
Total Operating costs	(29,425,832)	(12,331,243)	(17,094,589)
Gross profit	5,660,281	296,541	5,363,740

* Commercial production at the Palito Mine was only effective from 1 July 2014. Comparative data for 2014 therefore relates only to the six month period 1 July 2014 to 31 December 2014.

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US\$5.45 million), an increase of 3%. Labour costs actually increased by approximately 46% in Brazilian Reais between the two twelve month periods due to an increase in the average number of staff employed at the mine site (including third party contractors) by approximately 25% (340 staff on average during 2015 in comparison to 272 staff during 2014), due to increased activity, as well as each member of staff receiving an increase on their base salary of 8% in May 2015 as part of a national collective agreement which all workers in Brazil have a right to receive. Therefore, this reduction in labour costs is as a result of the movement in the exchange rate between the two periods. The average exchange rate for the twelve month period ended 31 December 2014 was approximately US\$1.00 to BrR\$2.348 in comparison to an average exchange rate of US\$1.00 to BrR\$3.337 during the same period in 2015.

The cost of mining consumables of US\$3.78 million for the twelve month period ended 31 December 2015 is an increase of 3% in comparison to the costs incurred during the same period in the prior year. However, in Brazilian Reais, costs have actually increased by 47% as a result of increased activity when looked at on a unit cost basis. For the twelve month period ended 31 December 2015 the cost of mining consumables per tonne mined was approximately US\$39 per tonne in comparison to US\$47 per tonne during the same period in the previous year, a reduction of 17%.

Maintenance costs of US\$1.23 million have decreased by 14% for the twelve month period ended 31 December 2015 in comparison to the same twelve month period in the previous year, however in Brazilian Reais maintenance costs have actually increased by 23%. This is because the mining fleet has expanded in size as the Company purchased new vehicles during the year totalling US\$1.09 million, as well as new support equipment for the mine and processing plant of US\$2.34 million. Also, each machine which was used during 2014 is now a year older and requires more maintenance work to continue operating at an efficient level.

Plant operating costs of US\$3.38 million for the twelve month period ended 31 December 2015 have increased by 82% in comparison to the same period of the previous year due to an increase in productivity. The plant production costs per tonne milled have decreased by 15% from US\$35 per tonne milled during 2014 to US\$30 per tonne milled

during 2015. Plant operating costs for the twelve months to 31 December 2015 also include twelve months of operation of the CIP plant, elution and gold room facilities. These elements of the production process only became operational on 1 October 2014 and therefore there was only three months of comparative costs incurred during 2014.

Site costs have decreased from US\$2.02 million during the twelve month period ended 31 December 2014 to US\$1.6 million during the same period in 2015 a decrease of 18%, however in Brazilian Reais the costs have actually increased by 16%. This is as a result of the increased mining, production and administration staff working on the Palito site as detailed above as well as the increased support costs such as electrical distribution and fuel to power generators to support the increased activity.

Shipping costs of US\$2,054,896 (2014: US\$993,071 as 2014 only had six months of commercial production from 1 July 2014 to 31 December 2014) includes all domestic road and river freight in Brazil from the Palito Mine to the international port at Belem and also international sea freight. The shipping charges are incurred as soon as the goods they relate to depart from the port of Belem. During the twelve month period ended 31 December 2015 2,220 tonnes departed from the port of Belem, in comparison to the 1,100 tonnes which departed from Belem in the previous year, (however only 780 tonnes are included in the cost of US\$993,071 as the other 320 tonnes departed from Belem prior to 30 June 2014, therefore the costs were capitalised). The cost per tonne shipped during 2015 has decreased by approximately 27% as a result of the Group renegotiating improved freight terms.

Treatment Charges of US\$1,074,428 (twelve months to 31 December 2014: US\$382,161 as 2014 only had six months of commercial production from 1 July 2014 to 31 December 2014) predominantly relate to the charges for the processing of copper/gold concentrate and include US\$991,363 of charges levied by the refinery, (twelve months to 31 December 2014: US\$345,579 as 2014 only had six months of commercial production from 1 July 2014 to 31 December 2014), and US\$83,065 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group, six months to 31 December 2014: US\$36,582). The treatment charges of copper concentrate levied by the refinery are a best estimate based on volume and values

of sales achieved during the period. The final invoiced treatment charges are usually agreed approximately three months after the arrival of the goods. Therefore for the twelve month period ended 31 December 2015 the treatment charges for sales up until 31 October 2015 have been finalised whilst the charges for the fourth quarter represent a best estimate. The cost per tonne for the twelve month period ended 31 December 2015 was US\$484 per tonne in comparison to US\$490 per tonne for the same period in the previous year.

Royalty payments of US\$402,421 (twelve months to 31 December 2014: US\$140,834) comprise statutory levies payable in Brazil on both copper/gold concentrate sales as well as bullion sales. Rates are uniform across all mining operations and currently comprise a 1% royalty on gold production and a 2% royalty on copper production. Royalty charges on shipments of copper/gold concentrate are incurred as soon as the goods they relate to depart from the port of Belem. During the twelve month period ended 31 December 2015 the royalty charge on copper/gold concentrate was US\$274,410 in comparison to US\$124,771 for the six months of commercialised production in 2014. Royalties on bullion sales totalled US\$115,009 for the twelve month period to 31 December 2015 in comparison to US\$16,063 for the four months of bullion production in 2014.

Following the commencement of commercial production on 1 July 2014, the Group has begun to amortise the capitalised value of the Palito Mine property. The cost base for the Mine Property includes a provision for future mine development of US\$4.50m (31 December 2014: US\$6.39 million). This has given rise to an amortisation charge for the twelve month period of US\$4,540,432 (twelve months to 31 December 2014: US\$2,334,863 as 2014 only included six months of commercial production from 1 July 2014 to 31 December 2014). This charge is calculated by reference to the number of mined ounces during the period compared with the total expected recoverable ounces during the currently anticipated life of the Palito Mine.

There was also a depreciation charge of US\$1,300,337 charged during 2015 on mining plant and equipment (2014: US\$298,716). The Group purchased new mine and production equipment totalling US\$2.34 million as well as purchasing US\$1.09 million of new mobile equipment during 2015. It is the Group's policy to charge depreciation to profit or

loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment beginning in the month subsequent to the month that the item of plant and equipment is purchased.

The Group has recognised an operating profit before interest and other income of US\$876,436 (2014: loss of US\$1,330,977), after incurring US\$4,379,770 in administrative expenses (2014: US\$4,257,540), as well as a charge of US\$404,075 on share based payments, (2014: US\$258,598). 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 2015 is in respect of options granted between January 2012 and 31 December 2015.

During the fourth quarter of 2014 the impairment provision of US\$2,590,532, which was first established in 2009, was reversed. The impairment provision was made up of a provision against Mining Property of US\$2,123,814 and US\$466,718 against Plant and Equipment. This was a one-off event and no similar write-back took place in 2015.

There was also a write-back of a provision for contingencies of US\$298,088 during the fourth quarter of 2014 relating to a provision which was held at 31 December 2013 for potential labour settlements which the Group considered was no longer required. This was a one-off event and no similar write-back took place in 2015.

Administration expenses have increased by US\$122,230 from US\$4,257,540 in 2014 to US\$4,379,770 for 2015, while the cost of share based payments have increased by US\$145,477 from US\$258,598 to US\$404,075.

This increase in administration expenses for the twelve month period of US\$122,230 can be accounted for as follows:

- (i) A decrease of US\$257,414 in corporate administration costs in Brazil reflecting the benefit of a weaker exchange rate between the Brazilian Real and the US Dollar. In local currency administration costs in Brazil have increased by 20% between the twelve month period ending 31 December 2014 and the same period in 2015, however, when converted into US Dollars the Brazilian administrative costs show a reduction of 15%.

- (ii) An increase in London based Corporate costs between the two periods of US\$379,644 is primarily due to three reasons:
- Effective interest rate charge of the legal and arrangement fees relating to the negotiation and documentation for the Sprott loan facility. These costs which were initially incurred during the third quarter of 2014 have been amortised over the life of the loan. Therefore approximately twenty percent of the total charge was incurred in 2014 and the remainder was charged in 2015. The total cost incurred in 2015 was US\$394,106 in comparison to US\$91,310 incurred in 2014.
 - There was an increase in corporate wages and salaries of US\$289,438 from the twelve month period ended 31 December 2014 to the same period of 2015 reflecting a provision of US\$270,000 for bonus payments in respect of the 2015 calendar year.
 - A decrease in other professional fees totalling US\$212,591 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. Costs included in this decrease of US\$212,591 include Nomad fees, register fees, broker fees as well as legal and professional fees.

The Group recorded a foreign exchange loss of US\$71,280 in the twelve month period to 31 December 2015 which compares with a foreign exchange loss of US\$33,742 recorded for the same period in 2014. These foreign exchange gains and losses primarily relate to the settlement of foreign currency liabilities

from Brazil reflecting the devaluation of the Brazilian Real and the revaluation of the cash holdings of the Group in currencies other than US Dollars as at the period end. The exchange movements on cash holdings do not necessarily reflect actual realised profits or losses. The Group holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest charges for the twelve month period to 31 December 2015 were US\$328,862 compared with a net gain of US\$1,190,318 for 2014. An analysis of the composition of these charges is set out in the table below.

The interest on the Sprott loan of US\$586,667 is the cost of twelve months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership.

The interest on trade finance loans of US\$364,656 is the interest charged by Auramet Trading LLC who provide a working capital and gold trading facility secured against the debts due to the Group in respect of the sale of copper/gold concentrates.

The charge for arrangement fees comprises US\$526,500 relating to the effective interest rate charge of the fair value ascribed to the call option granted to Sprott over 4,812 ounces of gold at a price of US\$1,285 per ounce and the effective interest rate charge for the twelve months to 31 December 2015 of the arrangement fees relating to the US\$8 million Sprott loan facility.

	Twelve Months Ended December 2015 US\$	Twelve Months Ended December 2014 US\$
Interest on Sprott loan	586,667	79,726
Interest on trade finance facility	364,656	228,510
Arrangement fees on finance facilities	526,500	120,000
Interest on short-term loan	-	101,782
Interest expense on convertible loan stock	22,797	75,763
Asset finance charges	32,388	81,501
	1,533,008	687,282
Finance income	(674,520)	(366,962)
Gain on revaluation of warrants	(332,173)	(1,350,827)
Gain on revaluation of derivative	(196,330)	(123,670)
Interest income	(1,123)	(36,141)
Net finance expense	328,862	(1,190,318)

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

The finance income receivable of US\$674,520 relates to the income due to the Group arising from short-term movements in the gold price between the contractual pricing arrangements with the designated refinery and the price ruling when the Group draws down on the trade finance arrangement that it has in place.

As part of the share placing completed by the Group on 3 March 2014, the Group issued 100,000,000 warrants at an exercise price of 6 pence. At the date of issue the Group valued these warrants using a Black-Scholes model at US\$1.68 million. Warrants are normally considered as part of equity but in this instance because the exercise price of the warrant is denominated in UK Sterling and the functional currency of the Group is US Dollars, under IAS 32 the warrants are not considered to be equity but instead a liability of the Group at the time of issue. At 31 December 2014, the value of these warrants was US\$332,173. At 31 December 2015, the Group has revalued the warrants in accordance with fair value accounting principles to US\$0 and the gain on this revaluation of the warrants amounting to US\$332,173 has been recorded as a finance income and the derivative provision liability increased by the same value.

The gain on the revaluation of the derivative of US\$196,330 relates to the gain on the period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership.

Liquidity and Capital Resources**Non-current assets**

On 31 December 2015, the Group's net assets amounted to US\$46.78 million which compares to US\$66.92 million as reported at 31 December 2014. This decrease primarily reflects the effect of a weakening of the Brazilian Real between 31 December 2014 when the rate was BrR\$2.6556 to US\$1.00, and 31 December 2015, when the rate was BrR\$3.9042 to US\$1.00. Whilst the Group has reported a small loss after taxation, it has incurred a loss of US\$20.49 million on the

re-translation of the results of its Brazilian operations in the twelve month period since 31 December 2014.

Non-current assets totalling US\$48.83 million at 31 December 2015 (31 December 2014: US\$65.90 million), are primarily comprised of property, plant and equipment, which as at 31 December 2015 totalled US\$40.15 million (31 December 2014: US\$54.10 million) of which US\$21.47 million (31 December 2014 : US\$33.58 million) is attributable to the mining properties in production and US\$11.23 million (31 December 2014 : US\$13.17 million) is attributable to Mining Properties in development and other assets in construction.

The Group owns land, buildings, plant and equipment with a net book value of US\$7.45 million (31 December 2014: US\$7.36 million). During 2015 the Group has acquired additional plant and machinery to the value of US\$3.53 million in the period and capitalised expenditure of US\$1.54 million for on-going capital development of the Palito Mines.

Capitalised operating and development costs in relation to activities of the Sao Chico Mine during 2015 were US\$5.42 million against which revenue of US\$3.34 million generated from the sale of 2,955 ounces of gold production derived from the Sao Chico Mine during the twelve month period to 31 December 2015 has been offset.

The gross value ascribed to the Palito Mining Property is now being amortised over the expected recoverable ounces, a figure derived from the Preliminary Economic Assessment issued in September 2012. An amortisation charge totalling US\$4.4 million has been recorded for the twelve month period to 31 December 2015. The net book value of Property, Plant and Equipment has been reduced by US\$15.68 million as a result of the retranslation of the underlying values from Brazilian Reals to US Dollars.

During the twelve month period ended 31 December 2015 there was no amortisation charge in relation to the Sao Chico Mine, however following the announcement by the Group that commercial production has been achieved on 1 January 2016, going forward the capitalised costs incurred in the redevelopment of the Sao Chico Mine will be amortised on a unit of production basis.

Deferred exploration costs as at 31 December 2015 totalled US\$8.68 million (31 December 2014: US\$11.80 million) which relates to

capitalised exploration expenditures around the Palito Mine, Sao Chico Mine and the wider Jardim do Ouro project area. The carrying value has been reduced by US\$3.12 million as a result of the variation in the exchange rates since the start of the year.

Finance and debt

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

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

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

	December 2015 US\$	December 2014 US\$	Variance US\$
Current assets			
Inventories	6,908,790	8,070,215	(1,161,425)
Trade and other receivables	6,133,284	6,772,046	(638,762)
Prepayments	2,429,506	2,503,877	(74,371)
Cash and cash equivalents	2,191,759	9,813,602	(7,621,843)
Total current assets	17,663,339	27,159,740	(9,496,401)
Current liabilities			
Trade and other payables	4,212,803	4,601,337	(388,534)
Interest bearing liabilities	11,385,155	16,228,220	(4,843,065)
Derivative financial liabilities	–	528,503	(528,503)
Accruals	226,197	167,377	58,820
Total current liabilities	15,824,155	21,525,437	(5,701,282)
Working capital	1,839,184	5,634,303	(3,795,119)
Non-current liabilities			
Trade and other payables	1,857,914	1,424,798	433,116
Provisions	1,898,714	2,829,468	(930,754)
Interest bearing liabilities	128,641	364,655	(236,014)
Total non-current liabilities	3,885,269	4,618,921	(733,652)

Ordinary Share at any time. The Group announced on 6 January 2016 that it had made an initial draw down of US\$2 million in respect of the 2015 Convertible Loan.

Working capital

The Group had a working capital position of US\$1.84 million at 31 December 2015 compared to US\$5.63 million at 31 December 2014, the reduction of US\$3.79 million being detailed in the table above.

Inventories

In accordance with IFRS, revenues are only recognised at such time as the risks and rewards of ownership transfers to the buyer. In relation to the copper/gold concentrate produced by the Group from its operation at the Palito Mine, this is considered to be the date on which the copper/gold concentrate contractually passes to the purchaser. In accordance with normal industry practice, initial payments from the smelter only occur after specified contractual periods following the arrival of the material at the smelter. Unsold production is held as inventory at the lower of attributable production costs and net realisable value.

The levels of inventory held by the Group have decreased by US\$1.16 million compared

with 31 December 2014. The inventory is calculated in Brazilian Reais and converted into US Dollars using the exchange rate at the balance sheet date. Whilst in Brazilian Real terms the value of inventory of goods in progress and finished goods has increased by some 26% between 31 December 2014 and 31 December 2015, this increase has been offset by the effect of the weakening of the Brazilian Real, so that in US Dollar terms there has been a 14% decrease in value. The increase in product inventories results from increased levels of production and also the establishment of a stockpile of coarse ore from the Sao Chico Mine which at 31 December 2015 was valued at US\$0.44 million, (31 December 2014: US\$Nil).

At 31 December 2014 the surface stockpile of coarse ore from the Palito Mine had been valued at US\$1.05 million. At the 31 December 2015 this coarse ore stockpile was valued at approximately US\$0.99 million. The valuation of the ore is calculated by reference to the most recent months of activity and unit cost variances from one period to the next will therefore reflect the mix between production ore, development ore and development waste and also the relative rates of productivity. The mine is now considered to have settled into a steady pattern and it is expected that unit

costs of stockpile inventory should remain relatively constant going forward, subject to exchange rate effects. The inventory valuation in Brazilian Reais has increased from BrR\$2,801,914 to BrR\$3,884,522 a 39% increase reflecting the increased operational costs that are being experienced during 2015 compared to those incurred at the outset of the mine life and reflects, in particular, higher levels of labour costs and increased costs of maintenance. Costs per unit in Brazilian Reais are BrR\$382 per tonne compared with BrR\$275 per tonne at 31 December 2014. The devaluation of the Brazilian Real compared with the US Dollar however means that in US Dollar terms the cost per unit has reduced from US\$103 per tonne to US\$98 per tonne.

During 2014 the Group had established a 54,000 tonne stockpile of material that had passed through the flotation processing circuit but retained a gold grade of approximately 2.5 g/t. The Group has during 2015 commenced the processing of these flotation tailings through the CIP plant and will continue to process this stockpiled material as capacity is available during 2016. The value ascribed to this stockpile as at 31 December 2015 is US\$1.07 million which compares to the valuation at 31 December 2014 of US\$2.34 million. The reduction reflects the volume of material that has been processed during the twelve months to 31 December 2015 as well as exchange rate movements.

At 31 December 2015, the Group had on hand an inventory of approximately 363 wet metric tonnes (31 December 2014: 367 wet metric tonnes) of copper/gold concentrate of which 63 tonnes was located at the Palito Mine (31 December 2014: 87 tonnes), 160 tonnes was en route to the port of Belem (31 December 2014: 120 tonnes) and the remaining 120 tonnes was en route to the refinery (31 December 2014: 160 tonnes). The value of this inventory of copper/gold concentrate awaiting sale was approximately US\$1.95 million (31 December 2014: US\$3.59 million), representing a unit cost of US\$5,369 per tonne compared with a unit cost of US\$9,787 per tonne at 31 December 2014. During the second quarter of 2015, the Group revised the basis on which it calculates the value of inventories of work in progress and finished products in particular the allocation of site overhead costs to each stage of production. The overall effect was to reduce the value ascribed to each unit of inventory of copper/concentrate which comprises 38% of the Palito inventory valuations at 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review continued

The valuation attributable to gold locked up within the processing plant, waiting to be smelted or in the process of being sold has increased to US\$1.09 million as at 31 December 2015, (31 December 2014: US\$0.17 million), whilst the Company has also ascribed a valuation to the stockpile of coarse ore extracted from the Sao Chico Mine of US\$0.44 million (31 December 2014: US\$Nil).

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 31 December 2015 of US\$1.36 million have increased by approximately US\$0.45 million or 49% in comparison with the same inventory of consumables at 31 December 2014 (US\$0.91 million). The Group acquires stocks of certain materials including reagents and explosives and other consumables in quantities that are sufficient for up to three to four months consumption requirements to minimise freight and other logistics costs and improve pricing. The levels of inventory will also reflect the increased activity at the Sao Chico Mine which entered into commercial production with effect from 1 January 2016. As all consumable stock is valued in Brazilian Reais, the valuation is also subject to exchange rate fluctuations. As such, the level of inventory in Brazilian Reais increased by BrR\$2,892,921, or 120%, from BrR\$2,420,516 to BrR\$5,313,437.

Debtors

Trade and other receivables at 31 December 2015 of US\$6.13 million has decreased by US\$0.64 million from US\$6.77 million at 31 December 2014. As at 31 December 2015, the Group was owed US\$5.99 million (2014: US\$6.40 million) in respect of shipments of concentrate that had been made to the refinery but in accordance with the contractual payment terms remained outstanding at that date. Under the terms of the contract the Group receives instalments against the total value of each shipment on pre-determined dates with the final settlement only being made once the final metal content has been agreed between the Group and the refinery which may be up to 120 days after the date of arrival.

Monthly shipments of copper/gold concentrate which account for the bulk of the trade receivables vary according to the timing of collections from site and sailing dates, as well as reflecting normal production fluctuations resulting in varying tonnages and grades of material being produced and shipped. The variation in volumes shipped in each month will therefore result in fluctuations in the level of gold and copper recognised as revenue each month and the corresponding debtor balance in addition to prevailing metal prices. As at 31 December 2015 the Group was awaiting settlement for approximately 5,065 ounces of gold compared with a settlement outstanding at the end of December 2014 of almost 5,000 ounces.

Also included within trade and other receivables are other some trade advances for freight and insurance which have been reduced by US\$235,147 from US\$371,840 at 31 December 2014 to US\$136,693 at 31 December 2015.

Cash

From 31 December 2014 to 31 December 2015 cash balances have reduced by approximately US\$7.62 million reflecting the repayment of financing arrangements of approximately US\$5.87 million and capital and development expenditure in the period of a further US\$5.93 million. Of the financing arrangements that have been settled the Group has repaid US\$4.0 million of the loan received from Sprott during the twelve months ended 31 December 2015, experienced a reduction in the liability due under the short-term trade finance facility of US\$1,111,116 and settled finance lease arrangements of US\$757,596.

Liabilities

Current liabilities have decreased by US\$5.7 million from US\$21.52 million at 31 December 2014 to US\$15.82 million at 31 December 2015.

A significant element behind the decrease in current liabilities of US\$5.7 million relates to the fair value provision for a property acquisition payment that is due to a past owner of the Sao Chico property. This is currently valued at US\$1.75 million (31 December 2014: US\$2.26 million) and the Group expects that under the contractual terms the first instalment will become payable in the second quarter of 2017, (originally forecast as June 2015). With further instalment payments due thereafter. As the payment terms have been deferred all of the provision is included in non-current liabilities whereas

at 31 December 2014 the valuation of the initial instalment was included as a current liability. At 31 December 2014, US\$1.09 million was due within one year and the remainder of the payment valued at US\$1.17 million due to be paid in instalments commencing in 2016.

Trade and other payables amounting to US\$4.21 million at 31 December 2015 compare with an amount owed by the Group of US\$4.60 million at 31 December 2014. Of this decrease of US\$388,534, US\$1.09 million results from a reclassification of the property acquisition payment from being a current liability to one falling due after more than twelve months. This has been offset by an increase in trade creditors as a result of increased activity at both the Palito and Sao Chico Mines.

Long-term Trade Creditors have increased by approximately US\$433,116 from US\$1.40 million at 31 December 2014 to US\$1.86 million principally reflecting the reclassification of the property acquisition payment.

Interest-bearing liabilities due within one year have decreased by US\$4.8 million from US\$16.23 million at 31 December 2014 to US\$11.38 million at 31 December 2015. The primary component of this decrease is the repayment of US\$4.0 million to Sprott during the year. The Group has continued to pay down liabilities under finance lease obligations during the year. Also, the amount due under the financing facility for copper/gold concentrate sales has decreased by US\$1.11 million, reflecting the timing of sales and fluctuations in the prevailing prices of gold and copper.

There is no longer a liability for derivatives as all derivatives have expired. The liability for derivatives was valued at US\$528,503 at 31 December 2014 and all derivative provisions have been released to the income statement during 2015.

To minimise the effect on the working capital of the Group caused by the delay between production of copper/gold concentrate and payments for the material from the refinery, the Group has entered into a facility with a precious metals trading group whereby the Group can obtain an advance payment for the copper/gold concentrate once it has left the port in Belem, Brazil, secured against the debt due from the refinery. During the twelve months ended 31 December 2015 the total funds received by the Group under this facility were US\$21.78 million with US\$22.89 million

having been repaid out of the receipts from the sale of copper and gold following refining. As at 31 December 2015 an amount of US\$6.65 million is owed by the Group (31 December 2014: US\$7.76 million) and will be repaid from the sale of the copper and gold extracted from the concentrate when the refining of the unprocessed material is completed.

The Group acquires some mobile equipment under finance leases, the most recent being during the second quarter of 2015. At 31 December 2015 the Group had liabilities under these financial leases of US\$0.73 million due within one year (31 December 2014: US\$0.72 million). The lease terms range from a twenty two month period to a thirty month period and bear interest at a rate between 6.7% and 6.85% per annum (see below for further details on the amounts owed in more than one year).

Non-current liabilities have decreased by US\$733,652 from US\$4.62 million at 31 December 2014 to US\$3.88 million at 31 December 2015. In Brazilian Real terms, non-current liabilities have increased reflecting the reclassification of the current liability portion of the property acquisition payment 31 December 2014: US\$1.09 million from current liabilities to long-term. However the devaluation of the Brazilian Real versus the dollar from BrR\$2.6556 to US\$1.00 at 31 December 2014 to BrR\$3.9042 to US\$1.00 at 31 December 2015 has offset the impact in US Dollar terms.

Liabilities under lease finance arrangements have reduced by US\$0.24 million as the lease agreements continue to mature.

The Group makes provision for the future estimated rehabilitation costs for its mine sites at Palito and Sao Chico. The value of the provision carried by the Group at 31 December 2014 was US\$2.79 million. The value at 31 December 2015 is US\$1.87 million the reduction primarily representing exchange rate movements during the period. The Group carried out a review of the underlying cost assumptions as at 31 December 2015.

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

Non-IFRS Financial Measures

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

Total Cash Cost and All-In Sustaining Cost

The following table provides a reconciliation between non-IFRS Cash Cost and non-IFRS All-In Sustaining Cost to production costs included in cost of sales as disclosed in the consolidated statement of comprehensive income. Comparative data is only provided for the period since the declaration of commercial production at the Palito Mine which was effective as of 1 July 2014.

Clive Line
Finance Director

29 March 2016

	Twelve Months Ended 31 December 2015 (US\$)	Six month period July to December 2014 (US\$)
Cost of sales	23,585,063	9,697,665
Add/(subtract)		
Finished goods and WIP inventory stock adjustment	(1,780,142)	1,738,765
Grossing up of revenue for metal deductions	880,331	424,654
Adjustment for refining, treatment, shipping and royalties on a production basis ⁽¹⁾	–	178,324
By-product credits	(2,482,958)	(1,465,252)
Total Cash Cost of production	20,202,294	10,574,156
Corporate G&A	4,379,770	2,391,759
Share-based remuneration	404,075	185,172
Capitalised cost for mine development	1,637,135	632,587
All-In Sustaining Cost of production	26,623,274	13,783,674
<small>(1) No adjustment has been calculated for the twelve month period ended 31 December 2015 as the timing effects between the recognition of costs on a production basis and on a sales basis are not considered material. A calculation was made for 2014 to reflect the timing effect of recognition following the start-up of commercial production.</small>		
	Total to December 2015 (ounces)	Total to December 2014 (ounces)
Gold ounces produced	32,629	13,334
Gold production from Sao Chico	(2,788)	–
Gold production for Cash Cost and AISC purposes	29,841	13,334
	Twelve Months Ended 31 December 2015 (US\$)	Six month Ended 31 December 2014 (US\$)
Total Cash Cost of production (per ounce)	US\$677	US\$793
Total All-In Sustaining Cost of production (per ounce)	US\$892	US\$1,034

COMMUNITY AND SOCIAL RESPONSIBILITY

Social and Environmental Activities

Serabi has been active in the Tapajos region and the area around the towns of Jardim do Ouro and Moraes d'Almeida, in particular, for over ten years, during which time it has established strong relationships with these local communities.

The town of Jardim do Ouro was a centre of support for garimpo operations in the past but with declining garimpeiro numbers, the presence of Serabi's operations in the region has provided employment and service opportunities to this community.

Moraes d'Almeida, a larger town at the junction of the BR163 (the main north south highway through the State of Para) and the Transgarimpeira Highway to the west, is a source of key services as well as personnel. Serabi seeks to maximise the use of service businesses (particularly engineering, construction and fabrication) located here and in the towns of Itaituba to the north and Novo Progresso to the south to maximise the economic benefits to local businesses and individuals and to the State of Para.

Environmental regulation in Brazil is well developed and whilst overall responsibility for federal regulation and enforcement rests with the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis ("IBAMA"), each state also has its own environmental bodies which issue and regulate environmental permits. Serabi seeks to work closely and transparently with Secretaria de Estado de Meio Ambiente ("SEMA"), the environmental agency for the State of Para, to ensure that its operations are run in compliance with and above the requirements of prevailing legislation. In addition to Serabi's on-going environmental monitoring procedures, it agrees annual plans for the remediation of areas of the Palito and Sao Chico Mines with SEMA. Some of this work will include remediation of damage caused by activities prior to Serabi's involvement. Whilst Serabi does not have legal responsibility for these past activities it considers it good practice to recuperate those areas that were subject to past garimpo operations.

Serabi provides further support to the welfare and development of its neighbouring communities through assistance with education and health facilities. It assisted with the building of a school at Jardim do Ouro and continues to provide support to this school through the provision of computers and books.

Serabi has also established its own small farm at Palito which produces salads and vegetables for consumption in its own cafeterias therefore reducing the need to transport some foodstuffs. This farm also acts as a nursery for the cultivation of plants and trees that are planted as part of Serabi's remediation activities, ensuring that indigenous species are used as areas are returned to their native form. During 2015 this nursery produced 6,950 production seedlings of native Amazonian trees and plants.



Serabi provides support to the welfare and development of its neighbouring communities. It has constructed schools at Jardim do Ouro and Sao Chico and provides health and dental care at its own medical facility.





Serabi Gold is committed to achieving the highest standards of safety and health for all its employees and stakeholders associated with all of its operating activities.

Site rehabilitation works completed in 2015

During 2015 one of the main priorities at the Palito Mine was the restoration of some old open pit mine workings in the Senna area. Whilst still ongoing this work to date has involved moving approximately 10,000 m³ of waste material to fill in and contour the old workings. The restored area has then been overlain with a layer of top soil in preparation for planting. Between January and November 2015, a total of 500 native seedling trees were planted at Palito and, to coincide with the rainy season, this activity has been increased with a further 1,200 seedlings having been planted across Serabi's two operations at the Palito and Sao Chico Mines between December 2015 and February 2016.

At the Sao Chico Mine, following the completion of the mine portal and the related ground excavations towards the end of 2014, Serabi's environmental team initiated the vegetation of all the areas that had been affected by the excavation. Using approximately 10,000 m² of natural coconut fibre matting as a base, all the slopes and other areas around the mine entrance were then seeded with a mixture of native grasses and flora.

Serabi has also been very active in the restoration of areas at Sao Chico that had been damaged by historical artisanal activity. As a result an area of approximately 30,000 m² that had been damaged and exposed was also rehabilitated and contoured using material taken from the portal excavations. A cover of top soil has then been applied in preparation for planting, using a mixture of native grasses, shrubs and other plants in addition to planting 600 seedlings of indigenous trees to return the area to its native appearance.

Social development programme – 2015

During 2015 the main investment made by Serabi in support of its local communities was the construction of a primary and secondary school in the community of Sao Chico. The old school was in poor condition and the community struggled to attract any teachers. Having worked closely with the Ministry of Education to establish the specific needs and requirements, Serabi financed and organised the construction of a new school building which has two classrooms, a cafeteria, an office and an annex which provides housing for teachers. The municipality of Itaituba has now been able to hire a teacher to provide lessons to students between 13 and 18 years who in the past needed to leave the village in order to be able to continue their high school education. As a result of this initiative the community of Sao Chico now has a proper school building and available human and material resources that allow all of the children in the community to complete their elementary and secondary education.

The community of Sao Chico receives further benefit from Serabi's presence as it is also now provided with electricity from Serabi's generators and improved sanitation and water through the work that Serabi has undertaken in the construction of its own housing and office facilities at the mine site.

In addition to this investment in education, Serabi has continued to support its community medical and dental programmes during the year. More than 500 dental consultations were carried out mainly for the children from the village of Jardim do Ouro and a further 400 medical consultations were undertaken. The medical programme gives priority to the women and children of the local community and in particular healthcare for babies and mothers. The weekly clinics which use Serabi's own medical clinic and doctor dispense general healthcare, allow for the diagnosis and treatment of illness and disease, in particular tropical diseases such as malaria and dengue, and provide prenatal and post-natal care. Serabi intends to replicate this type of community support at Sao Chico by establishing a similar clinic there.

Serabi has also been active during the year on carrying out restoration and improvements to sections of the Transgarimpeira Highway which runs from Moraes de Almeida past Palito and Sao Chico and continues south west towards village of Creporzinho. The works undertaken by Serabi, principally between the villages of Jardim do Ouro and Sao Chico, include resurfacing, rebuilding of bridges and improvements to the layout of particular sections that were accident blackspots.

Including the costs of its own personnel, Serabi has committed approximately Br\$1 million to its social and environmental programmes during 2015.

CORPORATE GOVERNANCE

Board of Directors and Senior Management

T Sean Harvey

Non-Executive Chairman

Appointed: March 2011

Experience: Sean spent ten years working in investment and merchant banking, primarily focused on the basic industry (mining) sector and for the last 15 years has held senior executive and board positions with various mining companies. Sean was President and CEO of Orvana Minerals Corp. from 2005 to 2006. Previously, he was President and CEO of TVX Gold at the time of its sale to Kinross Gold in 2003 and, subsequent to that, was President and CEO of Atlantico Gold, a private company involved in the development of the Amapari Project in Brazil that was sold to Wheaton River Minerals Ltd. (presently Goldcorp Inc.). Sean also currently sits on the board of directors of several other mining companies.

Qualifications: Sean has an Honours B.A. in economics and geography and an M.A. in economics, both from Carleton University. He also has an L.L.B from the University of Western Ontario and an M.B.A. from the University of Toronto. He is a member of the Law Society of Upper Canada.

Mike Hodgson

Chief Executive

Appointed: February 2007

Experience: Mike has worked in the mining industry for over 25 years and has extensive international experience. Most recently he worked as chief operating officer and vice president technical services for Canadian-based Orvana Minerals Corporation. Prior to that, he provided consulting services to a number of mining companies in Europe and South America. Previous appointments include manager of technical services and operations for TVX Gold Inc., mining technical consultant at ACA Howe International Ltd and similar roles at Rio Tinto plc and Zambia Consolidated Copper Mines Ltd. He has, during his career, acquired extensive experience in narrow vein underground mining operations.

Qualifications: Originally qualified in mining geology, Mike is a Fellow of the Institute of Materials, Minerals and Mining, a Chartered Engineer of the Engineering Council of UK and a "Qualified Person" in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

Clive Line

Finance Director and Company Secretary

Appointed: March 2005

Experience: Clive is a Chartered Accountant and has been involved in mining and natural resources companies since 1987, overseeing financial and legal affairs of exploration and development projects and producing operations in Africa, Europe and the former Soviet Union. Having worked with Price Waterhouse in both the UK and Australia, he joined Cluff Resources plc in 1987, where he was finance director prior to joining the privately owned Quest Petroleum Group in a similar position in 1993. Following the successful sale of this group he became involved with both Eurasia Mining plc and Northern Petroleum plc, both of which were admitted to AIM in 1996. Between 1999 and 2005 he worked as a divisional finance director within the Interpublic Group, one of the world's largest marketing services groups prior to joining Serabi in 2005.

Qualifications: Clive has an Honours degree in Accounting and Finance and is a member of the Institute of Chartered Accountants of England and Wales.

Aquiles Alegria

Non-Executive

Appointed: July 2014

Experience: Aquiles has more than 20 years of experience in the mining industry and has acted as exploration manager in a number of mining companies, most recently as Deputy Manager at Antofagasta Minerals.

Qualifications: Aquiles holds a degree in geology from the Universidad de Chile.

Nicolas Bañados

Non-Executive

Appointed: May 2013

Experience: Nicolas is Managing Director of Private Equity and attorney-in-fact at Megeve Investments, a non-discretionary portfolio manager of Fratelli Investments. Formerly, he held the position of VP and Portfolio Manager at Megeve Investments, and research analyst at Consorcio Life Insurance in Chile. He has more than 14 years of experience investing in Latin America and serves as Director for several companies including two private mining companies in Chile, Haldeman Mining Company and Minera Las Cenizas, and Colgener, a power company in Colombia.

Qualifications: Nicolas has an MBA from The Wharton School at the University of Pennsylvania and also received a Master degree in Financial Economics from Universidad Católica de Chile.

Eduardo Rosselot

Non-Executive

Appointed: October 2012

Experience: Eduardo is a mining engineer with over 25 years' experience in the mining industry, having worked extensively in the Americas and Europe. Currently he works as an independent consultant for various mining companies and mining funds mainly in South America, and is a partner of the privately owned mining company HMC Gold SCM, with development projects in Chile. Eduardo is also a director of Haldeman Mining Company, a Chilean private copper and gold producer. Prior to that, he worked as VP business development and special projects for Orvana Minerals Corp. Previous appointments include senior positions with European Goldfields Ltd. and TVX Gold Inc. Prior to that he was a partner of the South American based mining consultancy firm NCL Ingeniería y Construcción Ltd.

Qualifications: Eduardo has a Mining Engineer degree from Universidad de Chile, and is a member of the Institute of Materials, Minerals and Mining, a Chartered Engineer of the Engineering Council of UK and a "Qualified Person" in accordance with the Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

Felipe Swett

Non-Executive

Appointed: September 2014

Experience: Felipe is a Partner and heads the asset management team at Asset Chile, a Chilean-based investment bank. Mr. Swett joined Asset Chile in 2003 as an Analyst and as part of the corporate finance team and has led the Asset Management division since 2010.

Qualifications: Felipe holds a degree in Civil Engineering with a Diploma in Environmental Engineering from the Pontificia Universidad Católica de Chile and an MBA from the Kellogg School of Management, Northwestern University.

Melvyn Williams

Non-Executive

Appointed: March 2011

Experience: Mel Williams was, until June 2011, the Chief Financial Officer (CFO) and Senior Vice President of Finance and Corporate Development of Brigus Gold. Mr. Williams has over 40 years of financial experience, much of that time spent within the mining industry. From November 2003 through January 2004, Mr. Williams served as Chief Financial Officer of Atlantico Gold, a private Brazilian mining company which held the Amapari gold project, and was sold to Wheaton River Minerals Ltd. in January 2004. From 2000 to November 2003, he served as Chief Financial Officer of TVX Gold Inc., a gold mining company with five operating mines and an advanced development project in Greece. His background also includes services with Star Mining Corporation, LAC North America, Riominas LSDA and Rossing Uranium, (both of which are Rio Tinto subsidiaries). Mel is also a director of Western Troy Capital Resources.

Qualifications: Mel is a Chartered Certified Accountant and received an MBA from Cranfield in the United Kingdom.

Senior Management in Brazil

Ulisses Melo

General Manager

Experience: Ulisses, who was previously the Chief Financial Officer of Serabi Mineração Limitada in Brazil, took over the role of General Manager in April 2009. He has overall responsibility for the day-to-day affairs of Serabi in Brazil. Prior to joining Serabi he spent five years working with the international accounting firm Arthur Andersen and a further ten years working with Samarco Mineração, Companhia de Fomento Mineral and Rio Capim Caulim S/A as controller and finance director.

Qualifications: Ulisses is a graduate in Economics and Business Administration from the University of PUC Minas Gerais and holds a MBA from the University of Fundação Dom Cabral.

CORPORATE GOVERNANCE

Report on Corporate Governance

The Directors give due regard to the principles set out in The UK Corporate Governance Code published in September 2014 by the Financial Reporting Council (the "Code") and the Quoted Companies Alliance (QCA) published Corporate Governance Guidelines. Under the AIM rules compliance with the Code is voluntary. Although the Board has not formally adopted the Code, throughout the year ended 31 December 2015 it has sought adopt procedures to institute good governance insofar as is practical and appropriate for a group of its size while retaining its primary focus on the success of the business.

Board of Directors

The Board of Directors is responsible for the management of the Group on behalf of the shareholders. The objective of the Group is to create long-term value for shareholders, and the Board is responsible for delivering that objective by governing the Company and its subsidiaries. The Board is responsible for approving the Group strategy and policies, for safeguarding the assets of the Group, and is the ultimate decision-making body of the Group in all matters except those that are reserved for specific shareholder approval. Matters that are specifically reserved for the Board's decision include business acquisitions or disposals, authorisation of major capital expenditure and material contractual arrangements, changes to the Group's capital structure, setting policies for the conduct of business, approval of budgets, remuneration policy of Directors and senior management, and taking on debt and approval of financial statements. Other matters are delegated to the Committees of the Board and Executive Directors, supported by policies for reporting to the Board.

The Board consists of two Executive Directors who hold the key operational positions in the Group and six Non-Executive Directors (including a Non-Executive Chairman), who bring a breadth of experience and knowledge.

The Board as a matter of practice meets at least every two to three months and is supplied with appropriate and timely information. Other meetings will be, and are, called by executive management or by any Board member when there is any matter which according to the terms of reference of the Board and the powers delegated to the Executive Directors is required to be discussed with, and considered by, the Board. In 2015, the Board met sixteen times. Where appropriate, the Board invites external advisers and/or senior management to attend meetings to discuss matters where their expertise may be beneficial.

The responsibilities of T Sean Harvey as Chairman includes providing leadership to the Board, ensuring its effectiveness in all aspects of its role and setting its agenda; ensuring that adequate time is available for discussion of all agenda items; ensuring that the Directors receive accurate, timely and clear information; ensuring effective communication with shareholders; promoting a culture of openness and debate by facilitating the effective contribution to the Board of Non-Executive Directors in particular; and ensuring constructive relationships between the Executive and Non-Executive Directors.

The Company provides independent professional and legal advice to all Directors where necessary, to ensure they are able to discharge their duties. In addition, all Board members have access to the services of the Company Secretary, who is responsible for ensuring all Board procedures are complied with.

The articles of association provide that any Director who was not appointed or re-appointed at one of the preceding two annual general meetings retire and stand for re-election. All new Directors appointed since the previous Annual General Meeting need to stand for election at the following Annual General Meeting.

Board Independence

	Position	Appointed	Status	Audit Committee	Remuneration Committee
T Sean Harvey	Non-Executive Chairman	30 March 2011	Independent	Member	Member
Melvyn Williams	Non-Executive Director	30 March 2011	Independent	Chair	Chair
Nicolas Bañados	Non-Executive Director	13 May 2013	Not independent ⁽¹⁾	–	Member
Felipe Swett	Non-Executive Director	30 September 2014	Independent	Member	–
Eduardo Rosselot	Non-Executive Director	20 October 2012	Not independent ⁽²⁾	–	–
Aquiles Alegria	Non-Executive Director	7 July 2014	Independent	–	–
Michael Hodgson	Chief Executive	1 February 2007	Executive	–	–
Clive Line	Financial Director	14 March 2005	Executive	–	–

(1) Mr Bañados is appointed as a representative of Fratelli Investments and holds the position of Managing Director of Private Equity. He is therefore not considered to be fully independent by virtue of his relationship with the Company's major shareholder. He has never held an executive position with the Group.

(2) Mr Rosselot is appointed as a representative of Fratelli Investments and acts for Fratelli as a consultant on mining matters and investments. He is therefore not considered to be fully independent by virtue of his relationship with the Company's major shareholder. He has never held an executive position with the Group.

Board and Committee meetings

The Board has established an Audit Committee and a Remuneration Committee. A formal technical committee has not been established at this time. Mr Eduardo Rosselot, a mining engineer and Non-Executive Director undertakes visits to the Group's operations every two to three months and will report to the Board on any issues that he considers require attention that are not already being addressed by management. Mr Aquiles Alegria, a geologist, undertakes annual visits to the Group's operations and will report to the Board on his findings and is also involved in reviewing proposed exploration programmes and providing expertise, from a geological perspective, for any new projects being considered. The Board has not had reason given the stability of management to establish a Nomination Committee but anticipates that were such a Committee to be established it would be drawn from the members of the Remuneration Committee.

Attendance at the meetings of the Board and sub-committee meetings, by the relevant Board members, is set out below:

	Board	Audit Committee	Remuneration Committee
T Sean Harvey	16/16	5/5	2/2
Michael Hodgson	13/16	n/a	n/a
Clive Line	16/16	n/a	n/a
Aquiles Alegria	13/16	n/a	n/a
Nicolas Bañados	13/16	n/a	2/2
Eduardo Rosselot	16/16	n/a	n/a
Felipe Swett	15/16	5/5	n/a
Mel Williams	15/16	4/5	2/2

n/a – indicates that a Director was not a member of the committee at any time during the year.

Additionally the Board has appointed an Executive Committee to oversee and coordinate the day-to-day running of the Group. It is empowered to make decisions over a number of areas without reference to the full Board and specifically to deal with all matters relating to the daily operation of the Group.

The Executive Committee comprises the Chief Executive and the Finance Director. The Executive Committee is responsible for the daily operation of the Group and for making recommendations to the Board regarding short and medium-term budgets, targets and overall objectives and strategies for the Group.

Audit Committee

Purpose

The Audit Committee reviews the principles, policies and practices adopted in the preparation of the financial statements of Serabi Gold plc and its subsidiaries, as well as ensuring any other formal announcements relating to the financial performance of the Group comply with relevant statutory and regulatory requirements.

The Audit Committee is also responsible for assisting the Board in discharging its responsibilities with respect to the integrity of the Group's financial statements, the effectiveness of the systems of governance, risk management and internal control, and monitoring the effectiveness and independence of the external auditors.

Composition

The Audit Committee is required to consist of not less than three Non-Executive Directors. The Audit Committee is chaired by Mel Williams, and also comprises Sean Harvey and Felipe Swett. The UK Corporate Governance Code stipulates that at least one of the members of the Audit Committee must have recent and relevant financial experience. The Company believes that all members have such experience, in particular Mel Williams, who has served for many years as Chief Financial Officer for several international mining companies.

CORPORATE GOVERNANCE

Report on Corporate Governance continued**Audit Committee (continued)****Operations**

The Audit Committee is required to meet at least four times a year to consider and approve each of the quarterly financial statements and the annual financial statements. In 2015, the Committee met on five occasions. In addition to its members, the Audit Committee also routinely invites the Group's auditors, the Finance Director, and other Board members to attend its meetings as required.

During 2015, the Audit Committee considered the key areas of risk and judgement relevant to the Group. These included:

- the liquidity and going concern of the Group;
- the valuation and impairment of the Group's assets;
- the valuation of stocks of material comprising work in progress;
- the policy for capitalisation of development costs and policies for amortisation;
- consideration of the requirements for and determination of commercial production at the Sao Chico Mine.

In addition to matters raised at the Committee meetings, Serabi's management submit working papers and notes outlining the key issues, which are be circulated to the Committee for consideration ahead of the meetings.

The Audit Committee also reviews, and discusses plans for, and the conduct of, the Group's external audit and the findings of the auditors in respect of their work undertaken at the end of each calendar year, prior to approving the financial statements for release.

Responsibilities

The Audit Committee reviews and monitors the integrity of the Group's financial statements and related press releases, as well as any other formal announcements relating to the Group's financial performance. As part of this review, it focuses in particular on areas of judgement, appropriateness of policies, going concern matters, and any other areas it identifies as risks (e.g. on the grounds of materiality or uncertainty). Through its involvement in the audit process the Audit Committee considers that it can monitor not only the performance of the Group's finance teams but also that of the auditors themselves. The Audit Committee also has responsibility for any internal audit function but at this time has determined that in view of the size of the organisation, a separate internal audit team is not required.

Remuneration Committee Purpose

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration of the Chief Executive, all other Executive Directors, the Chairman of the Company (if an Executive Director), the Company Secretary and such other members of the Executive Management as it feels appropriate to consider. Furthermore it is responsible for setting the structure and determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options with due regard to the interests of the shareholders and the overall performance of the Group and the Company's overall philosophy and policy with respect to executive compensation.

It also considers recommendations from the Executive Directors in respect of proposals for bonuses, incentive payments and share options to be awarded to senior managers within the Group and makes recommendations on the overall remuneration plans adopted by the Company. The remuneration of the Non-Executive Directors is a matter that is dealt with by the Board as a whole.

The Remuneration Committee has expertise, in among other things, evaluating overall compensation policies, plans and practices, as well as setting compensation for executive officers; overseeing and administering equity compensation plans; and establishing employment, retention and severance arrangements for executive officers.

Composition

The Remuneration Committee is required to consist of not less than two Non-Executive Directors. Its members, and chairman, are to be determined by the Board. The current membership of the Committee comprises Mel Williams (Chairman), Sean Harvey, and Nicolas Bañados.

Operations

The Remuneration Committee meets at least twice a year, or more frequently as required. In 2015, the Remuneration Committee met twice. The Committee evaluated and made recommendations to the Board in respect of bonuses for key executives relating to both their individual and the Group's performance during 2014 against pre-determined targets. It also established and recommended targets in respect of the 2015 calendar year for Executive Directors and senior management and evaluated and made recommendations for the award of share options for senior management and Directors.

Full disclosure of the policies can be found in the Remuneration Report on pages 38 to 42.

Responsibilities

The Remuneration Committee is responsible for the following matters:

- to review the performance objectives and determine and agree the appropriate levels of remuneration for the Executive Directors, and the senior management of the Group;
- to determine the remuneration of the Chairman of the Board, Non-Executive Directors, as well as Chairmen and members of all Board Committees, subject to the condition that no person shall participate in discussions relating to his or her own remuneration;
- to review the design and management of Group salary structures and incentive schemes, and to ensure proper authorisation for any awards made under such schemes;
- to review the recommendations of the Chief Executive of the Group as to the grant of share awards and other bonuses, and to approve such awards as appropriate; and
- to review and approve the Remuneration Report in the Serabi Gold plc Annual Report.

Service Contracts

No Director has any service contracts, consultancy agreements or other such arrangements with a notice period in excess of one year.

Non-Audit Services

The Board regularly reviews the provision of non-audit services from its auditors, at least annually through discussion at Committee meetings. The Board is satisfied that the provision of non-audit services by BDO LLP is compatible with the general standard of independence for auditors and does not give rise to any conflict of interest.

Communications with Shareholders

The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Group's longer term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of quarterly operational updates and the quarterly and final financial results. News releases are issued throughout the year and the Company maintains a website (www.serabigold.com) on which press releases, corporate presentations and the Report and Financial Statements are available to view. Additionally this Report and Financial Statements contains extensive information about the Group's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. Shareholders and other interested parties can subscribe to receive notification of news updates and other documents from the Company via email. In addition the Executive Directors meet with major shareholders to discuss the progress of the Company and provide periodic feedback to the Board following meetings with shareholders.

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Executive Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the 2016 Annual General Meeting to be held on 16 June 2016 will be sent to all shareholders and will be also be available on the Company's website in due course.

CORPORATE GOVERNANCE

Directors' Remuneration Report

For the year ended 31 December 2015

Compensation plays an important role in achieving short and long-term business objectives that ultimately drive business success. The Group's compensation philosophy is to foster entrepreneurship at all levels of the organisation by making long-term equity-based incentives, through the granting of stock options, a significant component of executive compensation. This approach is based on the assumption that the performance of the Group's share price over the long-term is an important indicator of long-term performance.

The Group's compensation philosophy and objectives are based on the following fundamental principles:

1. Compensation programs align with shareholder interests – the Group aligns the goals of executives with maximising long-term shareholder value;
2. Performance sensitive – compensation for executive officers should be linked to operating and market performance of the Group and fluctuate with the performance; and
3. Offer market competitive compensation to attract and retain talent – the compensation program should provide market competitive pay in terms of value and structure in order to retain existing employees who are performing according to their objectives and to attract new individuals of the highest calibre.

The Group's principal goal is to create value for its shareholders. The Group's compensation philosophy is based on the objectives of linking the interests of the executive officers with both the short and long-term interests of the Group, of linking executive compensation to the performance of the Group and the individual and of compensating executive officers at a level and in a manner that ensures the Group is capable of attracting, motivating and retaining individuals with exceptional executive skills. The executive compensation program is designed to encourage, compensate and reward employees on the basis of individual and corporate performance, both in the short and the long-term. Base salaries are aligned with and judged against corporations of a comparable size and stage of development within the mining industry, thereby enabling the Group to compete for and retain executives critical to the Group's long-term success. Incentive compensation is directly tied to corporate performance. Share ownership opportunities are provided to align the interests of executive officers with the longer term interests of shareholders.

Elements of Executive Compensation

The elements of compensation earned by the executives of the Group for the financial year ended 31 December 2015 consists of a base salary, along with annual discretionary incentive compensation in the form of a performance based bonus, and a longer term incentive in the form of stock options.

This reflects a package consisting of a mix of compensation elements designed to provide executives with an "at risk" component of total compensation that reflects their ability to influence business outcomes and performance, and fixed elements that provide security and enable the Group to attract and retain key employees.

The following table outlines how each element of compensation aligns with the Group's compensation philosophy:

Element of compensation package	Purpose and link to strategy	Nature of review
Base salary	To recognise the market value of the role, reflecting the individual's skills, experience, authority and responsibilities, to ensure that the business can attract and retain appropriate individuals for executive and non-executive roles.	The element is reviewed annually. The Group compiles comparator data from published accounts and industry surveys of peer companies to determine the base salary for each of the Executive Directors. The Group has not used remuneration consultants. Peer group data is also used to assess the level of fees for the Non-Executive Directors.

Elements of Executive Compensation (continued)

Element of compensation package	Purpose and link to strategy	Nature of review
Performance related bonus	To incentivise and reward, on an annual basis, the performance of individuals, and of the Group, using a range of financial and non-financial metrics.	Objectives and measurable targets ("KPIs") are set, prior to the year under review, to align near-term goals with the longer term sustainable future of the Group. The short-term incentive component is structured to reward not only increased value for shareholders but also performance with respect to key operational factors and non-financial goals important to long-term success. At the end of each year the Committee considers if and to what extent the KPIs have been achieved and in this way establish a transparent and non-discretionary assess an individual's performance and contribution to the Group. The maximum level of performance related bonus for the Chief Executive Officer is capped at 75% of annual salary and for the Finance Director 50% of annual salary; Non-Executive Directors do not participate in the bonus scheme.
Share options	To reward delivery of sustained long-term improvements in shareholder returns by aligning performance directly with an increase in the fundamental measure of the generation of shareholder value.	The Board seeks to award options on an annual basis and the Group's LTIP scheme is equity settled. Options vest in three annual equal instalments with the initial vesting on the date of the award. Any option which is unexercised after a period of three years from the date of grant expires. Options are also forfeited if a holder leaves the Group before the options vest or are exercised although the Committee may exercise discretionary powers in certain circumstances. Options issued to date have not been subject to attainment of performance criteria prior to vesting or exercise. The Committee has the right to impose such criteria in respect of new awards. Whilst there is no maximum value to which options that may be granted in one year, nor any cap on the level than an individual may hold, the Committee exercise discretion to ensure that annual awards can be made and considers the level and value of existing awards in determining the level of new awards.
Pension provision	The provision of pension benefits is a relatively normal constituent of compensation offered by peer companies. The Group will contribute to defined contribution schemes on behalf of its executives as part of the overall remuneration package provided to an employee.	The Group does not operate any pension plans for its Executive Directors except to the minimum extent required under UK law. The level of pension contribution made to an individuals defined contribution scheme will generally be linked to an employee's base salary, though the Committee may make single lump sum payments to provide an overall complete retirement benefit for an individual.
Other benefits	To provide costs effective and competitive remuneration benefits.	The Group provides private medical and life assurance benefits for employees and Executive Directors which may be linked to base salary.

CORPORATE GOVERNANCE

Directors' Remuneration Report continued**Compensation Risk Management**

The Group believes that its executive compensation program does not create risk outside the Group's risk appetite. Some of the risk-management initiatives currently employed by the Group are as follows:

- appointing a Remuneration Committee comprised of independent directors to oversee the executive compensation program;
- the use of deferred equity compensation to encourage a focus on long-term corporate performance as opposed to short-term results;
- disclosure of executive compensation to stakeholders;
- use of discretion in adjusting bonus payments up or down as the Remuneration Committee deems appropriate and recommends to the Board; and
- ultimately complete Board accountability.

Non-Executive Remuneration

The remuneration package for Non-Executive Directors is established by the Board as a whole but Non-Executive Directors do not vote on any changes to their own fees.

Remuneration consists of a fixed fee which is set to reflect prescribed time commitments and the relative responsibilities of each Non-Executive Director on the affairs of the Group, fees payable in respect of attendance at meetings and fees payable for service on any formal committees of the Board. Additional consultancy fees are paid if the input required exceeds the anticipated levels. Some of the Non-Executive Directors currently hold share options. Whilst the award of share options by the Group to Non-Executive Directors is contrary to the recommendations of the UK Corporate Governance Code ("The Code"), the Board believes that, given the nature and size of the Group and the need to conserve cash resources, it is appropriate that the remuneration of the Non-Executive Directors be aligned with the success and growth of the Group. The Board notes also that it is normal practice for natural resources companies listed on the Toronto Stock Exchange to award Non-Executive Directors share options as part of their remuneration. The Company has therefore concluded that, in order to attract Non-Executive Directors of an appropriate stature and experience, it is obliged to continue to permit its Non-Executive Directors to be involved in its equity participation plans.

Remuneration

Director	Salary US\$	Fees as Director US\$	Other Fees US\$	Bonus US\$	Pension US\$	IFRS 2 charge for options granted US\$	For the year to		
							31 December 2015 Total US\$	31 December 2014 Total US\$	
Michael Hodgson	254,577	–	–	256,708	93,643	100,084	3,495	708,507	544,900
Clive Line	228,662	–	–	150,720	61,136	76,070	2,796	519,384	439,654
Aquiles Alegria ⁽¹⁾	–	20,369	–	–	–	21,733	–	42,102	15,053
Nicolas Bañados	–	23,807	–	–	–	22,974	–	46,781	18,156
T Sean Harvey	–	35,735	–	–	–	43,549	–	79,284	70,524
Eduardo Rosselot	–	21,894	60,000	–	–	38,003	–	119,897	101,334
Felipe Swett ⁽²⁾	–	24,431	–	–	–	21,733	–	46,164	11,349
Melvyn Williams	–	31,129	–	–	–	35,506	–	66,635	52,340
Dr Doug Jones ⁽³⁾	–	–	–	–	–	–	–	–	15,189
Daniel Kunz ⁽³⁾	–	–	–	–	–	–	–	–	20,578
Total	483,239	157,365	60,000	407,428	154,779	359,652	6,291	1,628,754	1,289,077

(1) Mr A Alegria was appointed 7 July 2014.

(2) Mr Felipe Swett was appointed 30 September 2014.

(3) Mr Kunz and Dr Jones both resigned from the Board on 24 June 2014.

Directors and Their Interests

Ordinary Shares and Options

The Directors of the Company, who held office during the year and as of 31 December 2015, had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Shares held at 31 December 2015	Shares held at 31 December 2014	Share options held at 31 December 2015	Share options held at 31 December 2014	Option price	Exercise period
Michael Hodgson	441,320	441,320	500,000	500,000	UK£0.15	21 Dec 09 to 20 Dec 19
			600,000	600,000	UK£0.41	28 Jan 11 to 27 Jan 21
			–	275,000	UK£0.10	21 May 12 to 20 May 15
			4,200,000	4,200,000	UK£0.061	26 Jan 13 to 25 Jan 16
			4,000,000	4,000,000	UK£0.050	07 Apr 14 to 06 Apr 17
Clive Line	766,653	766,653	3,900,000	–	UK£0.055	22 Jan 15 to 21 Jan 18
			500,000	500,000	UK£0.15	21 Dec 09 to 20 Dec 19
			600,000	600,000	UK£0.41	28 Jan 11 to 27 Jan 21
			–	225,000	UK£0.10	21 May 12 to 20 May 15
			3,700,000	3,700,000	UK£0.061	26 Jan 13 to 25 Jan 16
T Sean Harvey	1,200,000	1,200,000	2,800,000	2,800,000	UK£0.050	07 Apr 14 to 06 Apr 17
			2,800,000	–	UK£0.055	22 Jan 15 to 21 Jan 18
			1,900,000	1,900,000	UK£0.061	26 Jan 13 to 25 Jan 16
			1,700,000	1,700,000	UK£0.050	07 Apr 14 to 06 Apr 17
			1,600,000	–	UK£0.055	22 Jan 15 to 21 Jan 18
Melvyn Williams	295,000	295,000	950,000	950,000	UK£0.061	26 Jan 13 to 25 Jan 16
			1,400,000	1,400,000	UK£0.050	07 Apr 14 to 06 Apr 17
			1,300,000	–	UK£0.055	22 Jan 15 to 21 Jan 18
Aquiles Alegria	100,000	100,000	1,000,000	1,000,000	UK£0.055	30 Sept 14 to 29 Sept 17
Felipe Swett	–	–	1,000,000	1,000,000	UK£0.055	30 Sept 14 to 29 Sept 17
			1,000,000	–	UK£0.055	22 Jan 15 to 21 Jan 18
Eduardo Rosselot	–	–	1,900,000	1,900,000	UK£0.061	26 Jan 13 to 25 Jan 16
			1,200,000	1,200,000	UK£0.050	07 Apr 14 to 06 Apr 17
			1,000,000	–	UK£0.055	22 Jan 15 to 21 Jan 18
Nicolas Bañados ⁽¹⁾	22,443,947	22,443,947	1,200,000	1,200,000	UK£0.055	30 Sept 14 to 29 Sept 17
			1,000,000	–	UK£0.055	22 Jan 15 to 21 Jan 18

(1) Mr. Bañados has a direct interest in 144,282 ordinary shares. Mr Bañados is the beneficial owner of 50 per cent. of the share capital of Asesorias e Inversiones Asturias Limitada which beneficially owns: (1) directly 159,665 ordinary shares; and (2) 25 per cent. of the units in Fondo de Inversiones Privado Santa Monica, a private financial investment fund, which is interested in 22,140,000 ordinary shares.

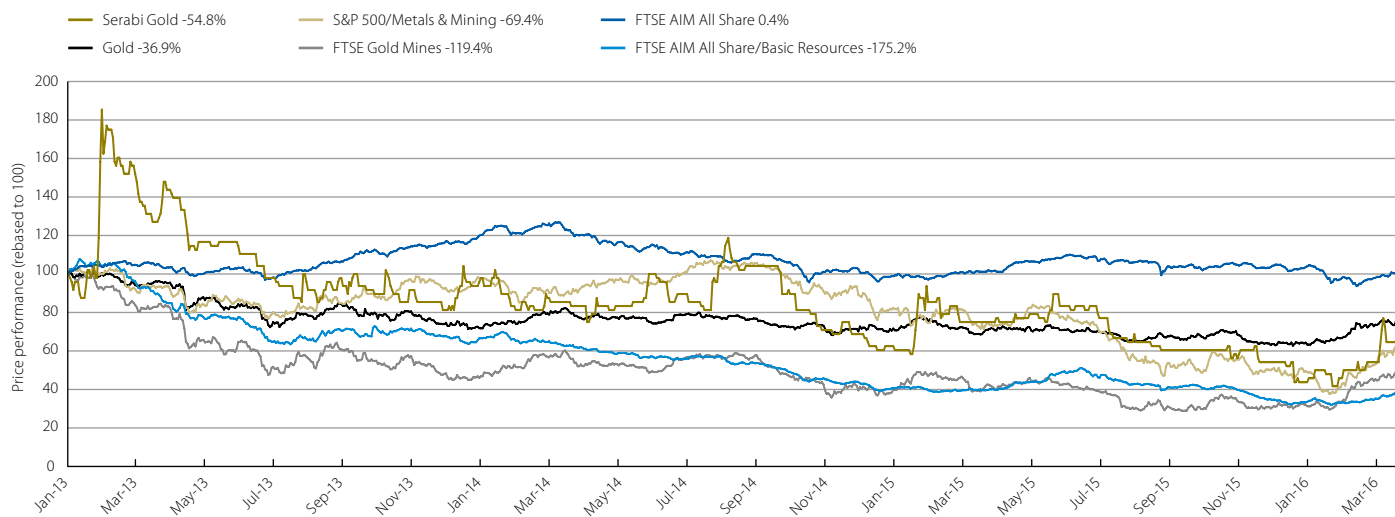
During the year ended 31 December 2015 the Company's shares have traded between 2.520 pence and 6.250 pence.

CORPORATE GOVERNANCE

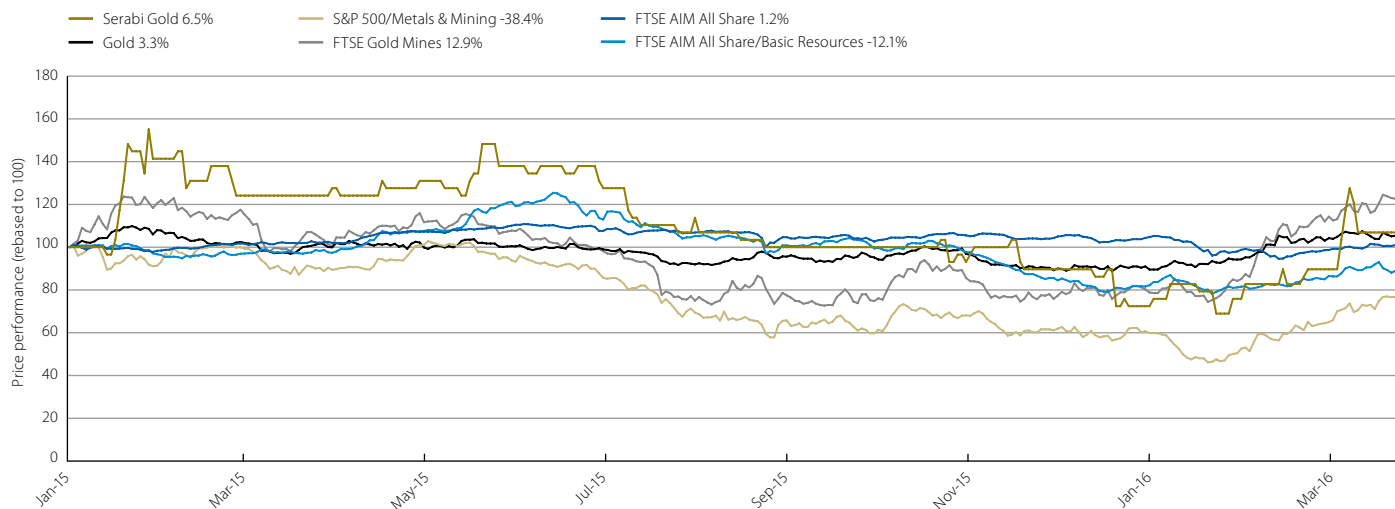
Directors' Remuneration Report continued

Share Price Performance

Performance since January 2013



Performance since January 2015



CORPORATE GOVERNANCE

Directors' Report

For the year ended 31 December 2015

The Directors present their report together with the audited financial statements for the year ended 31 December 2015.

Results and dividends

The Group loss for the year after taxation amounts to US\$48,738 (2014: loss of US\$174,401). The Directors do not recommend the payment of a dividend.

The results for the year are set out on page 49 in the Statement of Comprehensive Income.

Principal activities and business review

The principal activity of the Company is that of a holding and gold sales company and a provider of support and management services to its operating subsidiaries. Together with its subsidiaries (see note 10), it is involved in the development of gold and other metals mining projects in Brazil and the operation of the Palito gold mine in the Tapajos region of Brazil.

A detailed review of activities, future developments and the Group's projects is included in the Chairman's Statement, the Management Discussion and Analysis – Operational Review and Financial Review and the Strategic Review.

Substantial shareholdings

As at 28 March 2016 the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

Name	Number of shares held	Percentage
Fratelli Investments Limited	343,613,166	52.35%
Anker Holding AG	49,485,000	7.54%
Drake PIPE Fund	45,976,686	7.00%
Eldorado Gold Corporation	34,090,000	5.19%
FIP Santa Monica	22,443,947	3.42%

Share capital

Details of the share capital and movements in share capital during the period are disclosed in note 18 to the financial statements.

During the period the following issues of share options under the Serabi Mining 2011 Share Option Plan were made to Directors:

Date of issue	Number issued	Price	Expiry
22 January 2015	15,000,000	5.50 pence	21 January 2018

Company's listings

The Company's ordinary shares have been traded on AIM since 10 May 2005 and on the TSX since 30 March 2011.

Going concern and availability of project finance

Having commenced initial development activities for the Sao Chico Mine at the end of 2014, this mine has been in development during 2015. On 1 February 2016, the Group announced that, with effect from 1 January 2016, the Sao Chico Mine had achieved Commercial Production. The Palito Mine has been in Commercial Production since 1 July 2014.

On 30 December 2015, the Group entered into an agreement with Fratelli Investments Ltd ("Fratelli"), its major shareholder, whereby Fratelli agreed to provide an unsecured short-term working capital convertible loan facility of US\$5 million ("the Facility") to provide additional working capital facilities. On 6 January 2016, the Group announced that it had made an initial draw down of US\$2 million against the Facility. The balance of the Facility may be drawdown at any time up to 30 June 2016. The facility is to be repaid by 31 January 2017.

The Group has a secured loan facility which is repayable by 31 December 2016. At 31 December 2015, the amount outstanding under this facility was US\$4.0 million.

The Directors anticipate the Group now has access to sufficient funding for its immediate projected needs. The Group expects to have sufficient cash flow from its forecast production to finance its on-going operational requirements to repay its secured and unsecured loan facilities and to, at least in part, fund exploration and development activity on its other gold properties.

CORPORATE GOVERNANCE

Directors' Report continued**Going concern and availability of project finance (continued)**

However, the forecasted cash flow projections for the next twelve months include a significant increase in production from the Sao Chico Mine compared with the preceding calendar year. Whilst the Group has declared Commercial Production at the Sao Chico Mine, there are risks associated with the commencement of any new mining operation whereby unforeseen technical and logistical events result in additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required. Additionally the Group is exposed to changes in gold price and currency exchange rates. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale.

On this basis, the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis. However, there is no certainty that such additional funds either for working capital or for future development will be forthcoming and these conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and in accordance with the rules of the Toronto Stock Exchange.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Principal risks and uncertainties

The principal risks and uncertainties are outlined in the Strategic Report on pages 11 to 13.

Management of financial risks

Capital management and financial risk disclosures are provided within notes 20 and 24 of the financial statements.

Corporate governance

The Directors give due regard to the principles set out in The UK Corporate Governance Code, published in September 2014, by the Financial Reporting Council and comply with those principles that are appropriate given the size and nature of activities of the Group.

Board composition

The Directors who served during the year are shown on pages 32 and 33.

The Directors have responsibility for the overall corporate governance of the Group and recognise the need for the highest standards of behaviour and accountability. The Directors are committed to the principles underlying best practice in corporate governance and intend to comply with the principles of The UK Corporate Governance Code published in September 2014 by the Financial Reporting Council and the Quoted Companies Alliance (QCA) published Corporate Governance Guidelines in such respects as they consider appropriate for a company of its size and nature. The Board has a wide range of experience directly relevant to the Group and its activities and its structure ensures that no one individual or group dominates the decision making process.

Further details relating to the Board, independence and meetings undertaken during the year are set out in the Report on Corporate Governance on pages 34 to 37.

Committees

The Company has established an Audit Committee, a Remuneration Committee and an Executive Committee. Details of these committees are set out in the Report on Corporate Governance on pages 34 to 37.

Employees

The Group has a policy of equal opportunities throughout the organisation, and is proud of its culture of diversity and tolerance. Employees benefit from regular communication both informally and formally with regard to Company issues (external and internal developments, updates, etc.), including regular news updates distributed at the mine site and in the corporate offices. Employees are made aware of the Company's share ownership policy, both to ensure compliance with listing rules but also to make them aware of the opportunity to participate in the Company's share performance.

Share dealing

The Company has adopted a share dealing code for Directors and relevant employees in accordance with the AIM Rules and takes proper steps to ensure compliance by the Directors and these employees.

Internal controls

The Directors acknowledge their responsibility for the Group's system of internal controls and procedures and for reviewing the effectiveness of these and ensuring that management of its subsidiaries review the internal controls and procedures operating in the subsidiaries. Such controls and procedures are designed to safeguard the Company's and the Group's assets and ensure reliability of reporting information, financial and otherwise, for both internal use and external publication. The Group's management has designed internal controls over financial reporting, 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.

Throughout the year the design and operating effectiveness of the Group's internal controls over financial reporting are reviewed. Based on these evaluations the Board has concluded that the internal controls over financial reporting were effective as at 31 December 2015, using the criteria, having taken account of the size and nature of the Group, put forward by the Financial Reporting Council in their revised guidance for directors on internal controls for UK listed companies (issued 2005).

The Group's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that its disclosure controls and internal controls over financial reporting will prevent or detect all errors and fraud. A cost effective system of internal controls, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

Key contracts

The Group has contractual arrangements with key suppliers for its operations notably for fuel, power, reagents and equipment spare parts. It also has an existing commitment to sell its production of copper/gold concentrate to a single customer which will be subject to renewal during 2016. However, management considers that alternative suppliers and purchasers could be arranged if necessary and do not therefore consider that the Group is unduly reliant on any single contract or supplier.

The Group is reliant on retaining its exploration and mining licences and its operating licences which are subject to compliance with various federal and state regulations and obligations. The Group considers such compliance a high priority in view of this reliance.

CORPORATE GOVERNANCE

Directors' Report continued

Post balance sheet events

On 31 December 2015, the Group announced that it had entered into an agreement with Fratelli Investments Ltd ("Fratelli"), its major shareholder whereby Fratelli had agreed to provide an unsecured short-term working capital convertible loan facility of US\$5 million ("the Facility") to provide additional working capital facilities. On 6 January 2016 the Group announced that it had made an initial draw down of US\$2 million against the Facility.

On 1 February 2016, the Group announced that it had agreed an extended repayment period for the remainder of the loan with Sprott Resource Lending Partnership ("Sprott"), the outstanding balance of which amounted to US\$4 million as at 31 December 2015. The balance of the loan had been due to be repaid to Sprott by 31 March 2016. The Group has now agreed with Sprott that the balance of the loan shall be repaid in nine equal monthly instalments commencing 30 April 2016 and ending 31 December 2016. In the event that the Group elects to make any early repayment a penalty fee can be applied which, depending on the time of repayment, could be a maximum of 5% of the outstanding loan balance at that time. The interest rate applied to the loan remains at 10% per annum. The Group has granted to Sprott a call option over 2,500 ounces of gold at a strike price of US\$1,125 per ounce. Sprott has the right to exercise its call option, subject to a minimum of 500 ounces, at any time up to 30 June 2017. The call option if exercised will be settled in cash.

The Group has announced that effective from 1 January 2016, the Sao Chico Mine had entered into commercial production.

Indemnification of Directors and officers

During the financial year, the Group paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all Executive officers of the Group against liability incurred as such a Director, Company Secretary or Executive officer to the extent permitted under legislation.

Auditor

The auditor, BDO LLP has confirmed its willingness to remain as auditor to the Company. A resolution to appoint BDO LLP will be put to the Annual General Meeting.

Disclosure of audit information

As far as each of the Directors is aware, at the time this report was approved:

- (a) There is no relevant available information of which the auditor is unaware; and
- (b) They have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the Board

Clive Line

Company Secretary

29 March 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Serabi Gold plc

We have audited the financial statements of Serabi Gold plc for the year ended 31 December 2015 which comprise the statement of comprehensive income, the Group and Company balance sheets, the Group and Company statements of changes in shareholders' equity, the Group and Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in Note 1(a) to the financial statements concerning the Group's ability to continue as a going concern. Whilst the Group has access to further unsecured loan amounts in the near term, these loans must be repaid by 31 January 2017. In order to meet its existing commitments and liabilities as they fall due, the Group is dependent on its ability to successfully achieve planned production levels for the year from the Palito and Sao Chico Mines, the latter of which achieved commercial production on 1 January 2016. There are risks associated with the commencement of a new mining operation and additional working capital may be required to fund unforeseen technical and logistical events should they occur. The Group is also susceptible to changes in gold price and currency exchange rates which are outside of its control. These conditions, along with the other matters explained in Note 1(a) to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stuart Barnsdall (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London, United Kingdom

29 March 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INDEPENDENT AUDITOR'S REPORT

In Respect of Canadian National Instrument 52-107

[Acceptable Accounting Principles and Auditing Standards]

In accordance with the requirements contained in Canadian National Instrument 52-107 we also report below on whether our audit has been conducted in accordance with International Standards on Auditing (as issued by the International Auditing and Assurance Standards Board) and whether the financial statements have been prepared in accordance with International Financial Reporting Standards (as issued by the International Accounting Standards Board).

To the Shareholders of Serabi Gold plc

We have audited the accompanying financial statements of Serabi Gold plc for the year ended 31 December 2015 and the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, the consolidated and Company statements of financial position, the consolidated and Company statements of changes in equity, the consolidated and Company statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) and, as regards the parent company financial statements, International Financial Reporting Standards as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (as issued by the International Auditing and Assurance Standards Board). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of Serabi Gold plc as at 31 December 2015 and 31 December 2014 and its financial performance and its cash flows for the years then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in Note 1(a) to the financial statements concerning the Group's ability to continue as a going concern. Whilst the Group has access to further unsecured loan amounts in the near term, these loans must be repaid by 31 January 2017. In order to meet its existing commitments and liabilities as they fall due, the Group is dependent on its ability to successfully achieve planned production levels for the year from the Palito and Sao Chico mines, the latter of which achieved commercial production on 1 January 2016. There are risks associated with the commencement of a new mining operation and additional working capital may be required to fund unforeseen technical and logistical events should they occur. The Group is also susceptible to changes in gold price and currency exchange rates which are outside of its control. These conditions, along with the other matters explained in Note 1(a) to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

BDO LLP

London, United Kingdom

29 March 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	Group	
		For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Continuing operations			
Revenue		35,086,113	12,627,784
Cost of sales		(23,585,063)	(9,697,665)
Depreciation and amortisation charges		(5,840,769)	(2,633,578)
Gross profit		5,660,281	296,541
Administration expenses		(4,379,770)	(4,257,540)
Write-back of provision for contingencies		-	298,088
Share-based payments		(404,075)	(258,598)
Write back of impairment provision		-	2,590,532
Operating profit/(loss)	3	876,436	(1,330,977)
Foreign exchange loss		(71,280)	(33,742)
Finance expense	4	(1,533,008)	(687,282)
Income on financial instruments	4	1,203,023	1,841,459
Finance income	4	1,123	36,141
Profit/(loss) before taxation		476,294	(174,401)
Income tax expense	5	(525,032)	-
Loss for the period from continuing operations⁽¹⁾		(48,738)	(174,401)
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(20,490,243)	(7,965,119)
Total comprehensive loss for the period⁽¹⁾		(20,538,981)	(8,139,520)
Loss per ordinary share (basic and diluted)	7	(0.01c)	(0.03c)

(1) The Group has no non-controlling interests and all losses are attributable to the equity holders of the parent company.

FINANCIAL STATEMENTS

Group Balance Sheet

As at 31 December 2015

	Notes	Group	
		2015 US\$	2014 US\$
Non-current assets			
Development and deferred exploration costs	8	8,679,246	11,799,271
Property, plant and equipment	9	40,150,484	54,103,898
Total non-current assets		48,829,730	65,903,169
Current assets			
Inventories	11	6,908,790	8,070,215
Trade and other receivables	12	6,133,284	6,772,046
Prepayments	13	2,429,506	2,503,877
Cash and cash equivalents	14	2,191,759	9,813,602
Total current assets		17,663,339	27,159,740
Current liabilities			
Trade and other payables	15	4,212,803	4,601,337
Interest-bearing liabilities	17	11,385,155	16,228,220
Derivative financial liabilities		–	528,503
Accruals		226,197	167,377
Total current liabilities		15,824,155	21,525,437
Net current assets/(liabilities)		1,839,184	5,634,303
Total assets less current liabilities		50,668,914	71,537,472
Non-current liabilities			
Trade and other payables	15	1,857,914	1,424,798
Provisions	16	1,898,714	2,829,468
Interest-bearing liabilities	17	128,641	364,655
Total non-current liabilities		3,885,269	4,618,921
Net assets		46,783,645	66,918,551
Equity			
Share capital	18	5,263,182	61,668,212
Share premium reserve		–	67,656,848
Option reserve		2,747,415	2,400,080
Other reserves		450,262	450,262
Translation reserve		(39,226,535)	(18,736,292)
Retained surplus/(accumulated losses)		77,549,321	(46,520,559)
Equity shareholders' funds attributable to owners of the parent		46,783,645	66,918,551

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2016 and signed on its behalf by:

Clive Line

Finance Director

29 March 2016

Company Number 5131528

FINANCIAL STATEMENTS

Company Balance Sheet

As at 31 December 2015

	Notes	Company	
		2015 US\$	2014 US\$ (as restated see note 21)
Non-current assets			
Development and deferred exploration costs	8	2,040,437	2,040,437
Property, plant and equipment	9	6,174,311	6,542,252
Investments in subsidiaries	10	69,770,204	69,770,204
Other receivables	12	13,753,874	11,044,894
Total non-current assets		91,738,826	89,397,787
Current assets			
Inventories	11	1,148,634	2,173,886
Trade and other receivables	12	6,030,125	8,013,590
Prepayments	13	101,712	561,755
Cash and cash equivalents	14	1,781,433	9,234,070
Total current assets		9,061,904	19,983,301
Current liabilities			
Trade and other payables	15	6,775,354	1,125,791
Interest-bearing liabilities	17	10,998,513	16,095,993
Derivative financial liabilities		–	528,503
Accruals		499,057	167,376
Total current liabilities		18,272,924	17,917,663
Net current assets/(liabilities)		(9,211,020)	2,065,638
Total assets less current liabilities		82,527,806	91,463,425
Non-current liabilities			
Interest-bearing liabilities	17	–	203,016
Total non-current liabilities		–	203,016
Net assets		82,527,806	91,260,409
Equity			
Share capital	18	5,263,182	61,668,212
Share premium reserve		–	67,656,848
Option reserve		2,747,415	2,400,080
Other reserves		88,801	88,801
Translation reserve		–	–
Distributable surplus/(accumulated losses)		74,428,408	(40,553,532)
Equity shareholders' funds attributable to owners of the parent		82,527,806	91,260,409

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2016 and signed on its behalf by:

Clive Line

Finance Director

29 March 2016

Company Number 5131528

FINANCIAL STATEMENTS

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2015

Group	Share capital US\$	Share premium US\$	Share option reserve US\$	Other reserves US\$	Translation reserve US\$	Retained surplus US\$	Total equity US\$
Equity shareholders' funds at 31 December 2013	60,003,212	54,479,151	2,330,789	789,076	(10,771,173)	(46,796,348)	60,034,707
Foreign currency adjustments	-	-	-	-	(7,965,119)	-	(7,965,119)
Loss for year	-	-	-	-	-	(174,401)	(174,401)
Total comprehensive income for the year	-	-	-	-	(7,965,119)	(174,401)	(8,139,520)
Issue of new ordinary shares for cash	1,665,000	13,302,000	-	-	-	-	14,967,000
Costs associated with issue of new ordinary shares for cash	-	(202,235)	-	-	-	-	(202,235)
Convertible loan stock repaid	-	-	-	(260,882)	-	260,882	-
Warrants lapsed in period	-	77,932	-	(77,932)	-	-	-
Share options lapsed in period	-	-	(189,308)	-	-	189,308	-
Share option expense	-	-	258,599	-	-	-	258,599
Equity shareholders' funds at 31 December 2014	61,668,212	67,656,848	2,400,080	450,262	(18,736,292)	(46,520,559)	66,918,551
Foreign currency adjustments	-	-	-	-	(20,490,243)	-	(20,490,243)
Loss for year	-	-	-	-	-	(48,738)	(48,738)
Total comprehensive income for the year	-	-	-	-	(20,490,243)	(48,738)	(20,538,981)
Cancellation of share premium	-	(67,656,848)	-	-	-	67,656,848	-
Cancellation of deferred shares	(56,405,030)	-	-	-	-	56,405,030	-
Share options lapsed in period	-	-	(56,740)	-	-	56,740	-
Share option expense	-	-	404,075	-	-	-	404,075
Equity shareholders' funds at 31 December 2015	5,263,182	-	2,747,415	450,262	(39,226,535)	77,549,321	46,783,645

Other reserves comprise a merger reserve of US\$361,461 (2014: US\$361,461) and a warrant reserve of US\$88,801 (2014: US\$88,801).

The following is a description of each of the reserve accounts that comprise equity shareholders' funds

Share capital	The share capital comprises the issued ordinary shares of the Company at par.
Share premium	The share premium comprises the excess value recognised from the issue of ordinary shares at par.
Share option reserve	Cumulative fair value of options charged to the statement of comprehensive income net of transfers to the profit and loss reserve on exercised and cancelled/lapsed options.
Other reserves	Other reserves comprises of a merger reserve arising on the acquisition of Kenai Resources Limited, representing the difference between the nominal value of the shares issued and their fair value, and a warrant reserve being the cumulative fair value of warrants issued associated with equity shares issued.
Translation reserve	Cumulative gains and losses on translating the net assets of overseas operations to the presentation currency.
Retained surplus	Retained surplus/(accumulated losses) comprise the Group's cumulative accounting profits and losses since inception.

Company	Share capital US\$	Share premium US\$	Share option reserve US\$	Other reserves US\$	Retained surplus US\$	Total equity US\$
Equity shareholders' funds at 31 December 2013	60,003,212	54,479,151	2,330,789	427,615	(37,033,238)	80,207,529
Loss for the year as previously reported	-	-	-	-	(5,430,795)	(5,430,795)
Prior year adjustment (note 21)	-	-	-	-	1,460,311	1,460,311
Loss for the year as restated	-	-	-	-	(3,970,484)	(3,970,484)
Comprehensive income for year	-	-	-	-	(3,970,484)	(3,970,484)
Issue of new ordinary shares	1,665,000	13,302,000	-	-	-	14,967,000
Costs associated with issue of new ordinary shares	-	(202,235)	-	-	-	(202,235)
Convertible loan stock repaid	-	-	-	(260,882)	260,882	-
Warrants lapsed in period	-	77,932	-	(77,932)	-	-
Share options lapsed in period	-	-	(189,308)	-	189,308	-
Share option expense	-	-	258,599	-	-	258,599
Equity shareholders' funds at 31 December 2014 (as restated)	61,668,212	67,656,848	2,400,080	88,801	(40,553,532)	91,260,409
Loss for the year	-	-	-	-	(9,136,678)	(9,136,678)
Comprehensive income for year	-	-	-	-	(9,136,678)	(9,136,678)
Cancellation of share premium	-	(67,656,848)	-	-	67,656,848	-
Cancellation of deferred shares	(56,405,030)	-	-	-	56,405,030	-
Share options lapsed in period	-	-	(56,740)	-	56,740	-
Share option expense	-	-	404,075	-	-	404,075
Equity shareholders' funds at 31 December 2015	5,263,182	-	2,747,415	88,801	74,428,408	82,527,806

Other reserves comprise a warrant reserve of US\$88,801 (2014: US\$88,801).

FINANCIAL STATEMENTS

Cash Flow Statements

For the year ended 31 December 2015

	Group		Company	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 (as restated see note 21) US\$
Cash outflows from operating activities				
Loss for the year	–	–	(9,136,678)	–
Prior year adjustment	–	–	1,460,311	–
Operating loss	(48,738)	(174,401)	(7,676,367)	(3,970,484)
Net financial (income)/expense	400,142	(1,156,576)	338,152	(1,186,673)
Depreciation – plant, equipment and mining properties	5,840,769	2,633,578	597,353	337,514
Write back of impairment provision	–	(2,590,532)	–	–
Taxation	525,032	–	–	–
Share-based payments	404,075	258,598	404,075	258,598
Write-back of provision for contingencies	–	(298,088)	–	–
Interest paid	(1,006,508)	(343,738)	(1,006,508)	(287,738)
Foreign exchange	(1,482,239)	462,326	63,208	130,765
Finance charges	(171,500)	(228,510)	(171,500)	(228,510)
Changes in working capital				
Increase in inventories	(1,617,365)	(4,157,262)	1,025,252	(2,173,886)
(Increase)/decrease in receivables, prepayments and accrued income	(272,978)	(8,218,764)	983,196	(8,373,835)
Increase in payables, accruals and provisions	1,831,710	1,153,538	77,463	342,693
Increase in short-term intercompany payables	–	–	5,776,622	–
Net cash flow from operations	4,402,400	(12,659,831)	410,945	(15,151,556)
Investing activities				
Sales revenues – capitalised	3,337,071	4,079,663	–	4,079,663
Capitalised pre-operating costs	(5,422,606)	(7,665,510)	–	(5,832,746)
Purchase of property, plant, equipment and projects in construction	(2,985,139)	(5,613,297)	–	–
Mine development expenditure	(1,539,729)	(301,723)	(229,411)	(43,610)
Capital and loan investments in subsidiaries	–	–	(2,708,980)	(5,508,663)
Interest received and other finance income	675,643	36,141	674,871	7,228
Net cash outflow on investing activities	(5,934,760)	(9,464,726)	(2,263,520)	(7,298,128)
Financing activities				
Issue of ordinary share capital	–	16,650,000	–	16,650,000
Receipts from short-term secured loans	–	10,750,000	–	10,750,000
Repayment of short-term secured loan	(4,000,000)	(5,500,000)	(4,000,000)	(5,500,000)
Repayment of convertible loan stock	–	(477,780)	–	(477,780)
Payment of finance lease liabilities	(757,596)	(706,457)	(445,380)	(694,803)
Receipts for short-term trade finance	21,787,907	16,205,212	21,787,907	16,205,212
Repayment of short-term trade finance	(22,899,024)	(8,441,166)	(22,899,024)	(8,441,166)
Acquisition of subsidiary – cash acquired	–	–	–	–
Payment of share issue costs	–	(202,235)	–	(202,235)
Net cash inflow from financing activities	(5,868,713)	28,277,574	(5,556,497)	28,289,228
Net (decrease)/increase in cash and cash equivalents	(7,401,073)	6,153,017	(7,409,072)	5,839,544
Cash and cash equivalents at beginning of period	9,813,602	3,789,263	9,234,070	3,454,296
Exchange difference on cash	(220,770)	(128,678)	(43,565)	(59,770)
Cash and cash equivalents at end of period	2,191,759	9,813,602	1,781,433	9,234,070

FINANCIAL STATEMENTS

Notes to the Financial Statements

For the year ended 31 December 2015

1 Significant accounting policies

(a) Basis of preparation

Serabi Gold plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom, the shares of which are listed on AIM, part of the London Stock Exchange, and the Toronto Stock Exchange. The public registered office and principal place of business are disclosed in the shareholder information section of the Annual Report.

The principal activities of the Group are described in the Directors' Report on page 43.

The financial statements are presented in US Dollars. They are prepared on the historical cost basis or the fair value basis where the fair valuing of relevant assets and liabilities has been applied.

The financial statements have been 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") as 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 Companies Act 2006 applicable to companies reporting under IFRS.

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 but are not yet effective will have a material impact on the Group's earnings or shareholders' funds. The Company has not adopted any new standards in advance of the effective dates.

Going concern and availability of project finance

Having commenced initial development activities for the Sao Chico Mine at the end of 2014, this mine has been in development during 2015. On 1 February 2016, the Group announced that, with effect from 1 January 2016, the Sao Chico Mine had achieved Commercial Production. The Palito Mine has been in Commercial Production since 1 July 2014.

On 30 December 2015, the Group entered into an agreement with Fratelli Investments Ltd ("Fratelli"), its major shareholder, whereby Fratelli agreed to provide an unsecured short-term working capital convertible loan facility of US\$5 million ("the Facility") to provide additional working capital facilities. On 6 January 2016, the Group announced that it had made an initial draw down of US\$2 million against the Facility. The balance of the Facility may be drawdown at any time up to 30 June 2016. The facility is to be repaid by 31 January 2017.

The Group has a secured loan facility which is repayable by 31 December 2016. At 31 December 2015, the amount outstanding under this facility was US\$4.0 million.

The Directors anticipate the Group now has access to sufficient funding for its immediate projected needs. The Group expects to have sufficient cash flow from its forecast production to finance its on-going operational requirements to repay its secured and unsecured loan facilities and to, at least in part, fund exploration and development activity on its other gold properties.

However, the forecasted cash flow projections for the next twelve months include a significant increase in production from the Sao Chico Mine compared with the preceding calendar year. Whilst the Group has declared Commercial Production at the Sao Chico Mine, there are risks associated with the commencement of any new mining operation whereby unforeseen technical and logistical events result in additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required. Additionally the Group is exposed to changes in gold price and currency exchange rates. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale.

On this basis, the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis. However, there is no certainty that such additional funds either for working capital or for future development will be forthcoming and these conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued**1 Significant accounting policies (continued)****(b) Basis of consolidation****(i) Subsidiaries and acquisitions**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is recognised where an investor is expected, or has rights, to variable returns from its investment with the investee, and has the ability to affect these returns through its power over the investee. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as a “fair value” adjustment. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

In the Company's balance sheet, investments in subsidiaries includes the investment in Kenai Resources Limited (“Kenai”) for the nominal value of the shares issued as consideration for the acquisition of that company. As permitted by the Companies Act 2006, no premium was recorded on the issue of such shares. On consolidation, the difference between the nominal value of the shares issued and their fair value was credited directly to the merger reserve, which is included within other reserves.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(c) Foreign currencies

The Group's presentational currency is US Dollars and has been selected based on the currency of the primary economic environment in which the Group as a whole operates on the basis that the Group's primary product is generally traded by reference to its pricing in US Dollars. The functional currency of the Company is also considered to be the US Dollar.

Transactions in currencies other than the functional currency of a company are recorded at a rate of exchange approximating to that prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the amounts prevailing at the balance sheet date and any gains or losses arising are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations that do not have a US Dollar functional currency, are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rate for the period. Exchange differences arising on the net investment in subsidiaries are recognised in other comprehensive income.

The US Dollar/Sterling exchange rate at 31 December 2015 was 1.4741 (2014: 1.5576). The Brazilian Real/US Dollar exchange rate at 31 December 2015 was 3.9042 (2013: 2.6556).

(d) Property, plant and equipment**(i) Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation (note 1(d) (iv)) and impairment losses (note 1(h)).

Upon demonstration of the feasibility of commercial production, any past deferred exploration, evaluation and development costs related to that operation are reclassified as Assets in Construction. When commercial production commences these expenditures are then subsequently transferred at cost to Mining Properties. They are stated at cost less amortisation charges and any provision for impairment. Amortisation is calculated over the estimated life of the mineable inventory on a unit of production basis. Future forecast capital expenditure is included in the unit of production depreciation calculation.

(ii) Leased assets

Assets held under leases, which result in the Group bearing risk and receiving benefit of ownership (finance leases), are capitalised as property, plant and equipment at the estimated present value of underlying lease payments.

The corresponding finance lease obligation is included within borrowings. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

1 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Subsequent costs

Costs relating to maintenance and upkeep of the Group's assets once such assets have been commissioned and entered into commercial operations, will generally be expensed as incurred. In the event, however, that the costs demonstrably result in extending the original estimated life of such asset or enhances its value, then such expenditure is added to the carrying value of that asset and amortised over its remaining estimated useful life.

(iv) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Mining assets

Processing plant	three – seven years
Other plant and assay equipment	two – ten years
Heavy vehicles	eight years
Light vehicles	three years
Land and buildings	ten – twenty years
Mining properties	unit of production

Other assets

Furniture and fittings	five years
Office equipment	four years
Communication installations	five years
Computers	three years

The Group reviews the economic lives at the end of each annual reporting period.

The residual value, if not insignificant, is reassessed annually. Gains and losses on disposal are determined by comparing proceeds with carrying values and are included in profit or loss.

(e) Deferred exploration costs

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred. Subsequent to the legal rights being obtained, all costs related to the exploration of mineral properties are capitalised on a project-by-project basis and deferred until either the properties are demonstrated to be commercially viable (see note 1(d)(i)) or until the properties are sold, allowed to lapse or abandoned, at which time any capitalised costs are written off to the income statement. Costs incurred include appropriate technical and administrative overheads but not general overheads. Deferred exploration costs are carried at cost, less any impairment losses recognised.

At such time as commercial feasibility is established and a development decision is reached, the costs associated with that property will be transferred to and re-categorised as Projects in Construction and upon commercial production being achieved, re-categorised as Mining Property.

Property, plant and equipment used in the Group's exploration activities are separately reported.

(f) Trade and other receivables

Trade receivables are not interest-bearing and are stated at nominal value at the balance sheet date.

Other receivables are not interest-bearing and are stated at amortised cost at the balance sheet date.

Receivables in respect of sale of gold/copper concentrate are re-valued using metal prices ruling at the balance sheet date (see Revenue policy – note 1(p)).

Trade and other receivables are reviewed for impairment on a regular basis.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued**1 Significant accounting policies (continued)****(h) Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment. Prior to carrying out of impairment reviews, the significant cash generating units are assessed to determine whether they should be reviewed under the requirements of IFRS 6 – Exploration for and Evaluation of Mineral Resources or IAS 36 – Impairment of Assets. Such determination is by reference to the stage of development of the project and the level of reliability and surety of information used in calculating value in use or fair value less costs to sell. Impairment reviews performed under IFRS 6 are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise; typically when one of the following circumstances applies:

- (i) sufficient data exists that render the resource uneconomic and unlikely to be developed
- (ii) title to the asset is compromised
- (iii) budgeted or planned expenditure is not expected in the foreseeable future
- (iv) insufficient discovery of commercially viable resources leading to the discontinuation of activities

Impairment reviews performed under IAS 36 are carried out when there is an indication that the carrying value may be impaired. Such key indicators (though not exhaustive) to the industry include:

- (i) a significant deterioration in the spot price of gold
- (ii) a significant increase in production costs
- (iii) a significant revision to, and reduction in, the life of mine plan

If any indication of impairment exists, the recoverable amount of the asset is estimated, being the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Such impairment losses are recognised in profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss for the year.

(i) Share capital

The Company's ordinary shares are classified as equity.

Called up share capital is recorded at par value of 0.5 pence per ordinary share.

Monies raised from the issue of shares in excess of par value are recorded as Share premium. Costs associated with the raising of capital are netted off this amount.

(j) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Interest on borrowings used specifically to fund the acquisition of non-current assets is capitalised as part of the acquisition cost of the asset.

1 Significant accounting policies (continued)

(k) Employee benefits

(i) Share-based payment transactions and share options

The Group issues share-based payments including share options to certain employees, which are measured at fair value at date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The Black-Scholes method is used to calculate fair value. The expected life of the instrument used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The entity measures the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received. The fair value is measured at the date of grant. Where the equity instruments granted do not vest immediately but after a specified number of years, the fair value is accounted for over the vesting period.

(ii) Pension costs

The Group does not operate any pension plan for its employees although it does make contributions to employee pension plans in accordance with instructions from those employees. The Company has no contractual commitment as to the ability of those funds to provide any minimum level of future benefit to the individual and is contracted only to make the contributions. Company contributions to such schemes are charged against profit as they fall due.

(l) Provisions, contingent liabilities and contingent assets

Provisions are recognised when:

- (i) the Group has a present legal or constructive obligation as a result of past events;
- (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and
- (iii) the amount can be reliably estimated.

(m) Restoration, rehabilitation and environmental costs

Provision for environmental remediation and decommissioning of the Group's mining and exploration facilities has been estimated using current prices which are inflated and then discounted for the time value of money. While the provision has been based on the best estimates of future costs and economic life, there is uncertainty regarding the amount and timing of these costs.

(n) Trade and other payables

Trade and other payables that are not interest-bearing are stated at amortised cost. Any interest charges or late payment penalties are recognised only when agreed with the supplying party or it considered probable that they will be levied.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Materials that are no longer considered as likely to be used by the Group, or their value is unlikely to be readily realised through a sale to a third party, are provided for.

Materials held for consumption within operations are valued based on purchase price or, when manufactured internally, at cost. Costs are allocated on an average basis and include direct material, labour, related transportation costs and an appropriate allocation of overhead costs.

Gold bullion, copper/gold concentrate, run of mine ore and any other production inventories are valued at the lower of cost and net realisable value. Dependent on the current stage of any product inventory in the process cycle, cost will reflect, as appropriate, mining, processing, transport and labour costs, as well as an allocation of mine services overheads required to bring the product to its current state.

Net realisable value is the estimated selling price in the ordinary course of business, after deducting any costs to completion and any applicable marketing, selling, shipping and other distribution expenses.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued**1 Significant accounting policies (continued)****(p) Revenue**

Revenue represents amounts receivable in respect of sales of gold and by-products. Revenue represents only sales for which contracts have been agreed and for which the product has been delivered to the purchaser in the manner set out in the contract. Revenue is stated net of any applicable sales taxes. All revenue is derived from the sales of copper/gold concentrates produced by the Palito Mine and gold bullion produced from both the Palito Mine and the Sao Chico Mine.

Revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the buyer. Revenues are recognised in full using prices ruling at the date of sale with adjustments in respect of final sales prices being recognised in the month that such adjustment is agreed. Fair value adjustments for gold prices in respect of any sale for which final pricing has not been agreed at any balance sheet date is accounted for using the gold price at that balance sheet date. Any unsold production and in particular concentrate, is held as inventory and valued at the lower of production cost and net realisable value until sold.

In the case of the sales of copper/gold concentrates, revenue is recognised when in accordance with the terms of the contract the product arrives at the port of delivery. In the case of gold bullion revenue is recognised at the time that gold is delivered to the end purchaser.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

All sales revenue from incidental production arising during the exploration, evaluation, development and commissioning of a mineral resource prior to commercial production, are taken as a contribution towards previously incurred costs and offset against the related asset accordingly.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

(q) Expenses**(i) Operating lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(ii) Finance lease payments

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Financing expenses

Financing expenses comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested. It also includes charges arising on the unwinding of discount factors relating to the provisions for future charges.

(r) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end and any adjustments in respect of prior years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

(s) Compound financial instruments

Compound financial instruments comprise both liability and equity components. At issue date, the fair value of the liability component is estimated by discounting its future cash flows at an interest rate that would have been payable on a similar debt instrument without any equity conversion option. The liability component is accounted for as a financial liability. The difference between the net issue proceeds and the liability component is the equity component, and is accounted for as equity.

Any transaction costs associated with the issue of a compound financial instrument are allocated in proportion to the equity and liability components.

The interest expense on the liability component is calculated by applying the effective interest rate for the liability component of the instrument. The difference between the interest expense and the interest payments made are included in the carrying amount of the liability.

1 Significant accounting policies (continued)

(t) Segmental reporting

An operating segment is a component of the Group engaged in exploration or production activity that is regularly reviewed by the Chief Operating Decision Maker ("CODM") for the purposes of allocating resources and assessing financial performance. The CODM is considered to be the Board of Directors. The Group has only one primary business activity namely the conduct of gold mining and exploration in Brazil. For management purposes, however, the Group recognises two separate segments, Brazil and UK. Copper/gold concentrate is produced in Brazil and sales routed through the UK, whilst sales of gold bullion are conducted directly from Brazil. The operating segments are reported in a manner consistent with the internal reporting provided to the CODM.

The Group does not report geographic segments by location of customer as its business is the production of gold which is traded as a commodity on a worldwide basis. Sales are ultimately made into the bullion market, where the location of the ultimate customer is unknown.

(u) Investments in subsidiaries

Investments in subsidiaries are recognised at cost, less any provision for impairment.

(v) Financial instruments

Financial instruments

Financial assets and financial liabilities are recognised on the Company's and Group's balance sheet when the Company and Group has become a party to the contractual provisions of the instrument and are initially measured at fair value, except for financial assets at fair value through profit or loss, which are initially measured at fair value, excluding transaction costs.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Financial liabilities include bank loans and overdrafts which are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through profit and loss comprise derivative financial instruments. Subsequent to initial recognition financial assets at fair value through profit and loss are stated at fair value. Movements in fair values are recognised in profit or loss, unless they relate to derivatives designated and effective as hedging instruments, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship.

De-recognition of financial assets

De-recognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least annually at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

(w) Leases

Finance leases are recognised as those leases that transfer substantially all the risks and rewards of ownership. Assets held under finance leases are capitalised and the outstanding future lease obligations are shown in liabilities at the fair value of the lease, or if lower at the present value of the lease payments. They are depreciated over the term of the lease or their useful economic lives, whichever is the shorter. The interest element (finance charge) of lease payments is charged to the income statement on a constant basis over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement in the period on a straight-line basis. The Company does not act as a lessor.

(x) Derivatives

Derivatives are valued by reference to available market data. Any change in the value of the derivative is recognised in the statement of comprehensive income in the period in which it occurs.

(y) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements and assumptions about the future in the use of accounting estimates. These are based on management's best knowledge of the relevant facts and circumstances. However these judgements and estimates regarding the future are a source of uncertainty and actual results may differ from the amounts included in the financial statements and adjustment will consequently be necessary. Estimates are continually evaluated, based on experience and reasonable expectations of future events.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued**1 Significant accounting policies (continued)****(y) Critical accounting estimates and judgements (continued)**

Accounting estimates are applied in assessing and determining the carrying values of significant assets and liabilities.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Impairment of mining assets and other property, plant and equipment

Determining whether mining assets are impaired requires an estimation of the value in use of the cash-generating units ("CGU's"). The value in use calculation requires the entity to estimate the future cash flows expected to arise from a CGU and a suitable discount rate in order to calculate present value. A CGU is a group of assets that generates cash inflows from continuing use. Given their interdependences and physical proximity, the Palito and Sao Chico mines are considered to be a single CGU.

As described in note 1(d) (iv), 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 regarding the key assumptions made in assessing the value in use.

Provisions and contingent liabilities

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

Mineral resources

Quantification of mineral resources requires a judgement on the reasonable prospects for eventual economic extraction. These judgements are based on assessments made in accordance with the provisions of Canadian National instrument 43-101. These factors are a source of uncertainty and changes could result in an increase or decrease in mineral resources and changes to the categorisation of mineral resources between Ore Reserves, Measured and Indicated Resources and Inferred Resources. This would, in turn, affect certain amounts in the financial statements such as depreciation and closure provisions, which are calculated on projected life of mine figures, and carrying values of mining property and plant which are tested for impairment by reference to future cash flows based on projected life of mine figures.

Development and deferred exploration expenditure

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

Inventory valuation

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

Commercial production

Following the commencement of development and construction work intended to advance a mining project into commercial production, the Board will consider and approve the criteria that they will apply in assessing when that mining project has achieved commercial production. These criteria may be agreed in conjunction with other stakeholders particularly financing parties and lenders. There are no set regulations or standards to be applied, but the criteria set will primarily consider the performance of the project compared to projections and generally these criteria will be measured over a continuous period of time. The judgements made and the relative performance measures will be based on the Board's view of the complexity and the relative importance of certain key activity areas in determining the long-term commerciality of the mining project.

Restoration, rehabilitation and environmental provisions

Such provisions require a judgement on likely future obligations, based on assessment of technical, legal and economic factors. The ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including the timing of expenditure, the discount rate, inflation rate and foreign exchange rate used in calculating the current value of future expenditures and the projected scale of disturbance that is anticipated at the end of the project life.

2 Segmental analysis

The following information is given about the Group's reportable segments:

The Chief Operating Decision Maker is the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance of the business. Management has determined the operating segments based on the reports reviewed by the Board.

An analysis of the results for the year by management segment is as follows:

	2015			2014		
	Brazil US\$	UK US\$	Total US\$	Brazil US\$	UK US\$	Total US\$
Revenue	9,632,695	25,453,418	35,086,113	1,608,587	11,019,197	12,627,784
Intra-group sales	20,692,896	(20,692,896)	–	18,195,003	(18,195,003)	–
Operating expenses	(17,830,533)	(5,754,530)	(23,585,063)	(7,049,565)	(2,648,100)	(9,697,665)
Depreciation and amortisation	(5,070,681)	(770,088)	(5,840,769)	(2,201,199)	(432,379)	(2,633,578)
Gross profit/(loss)	7,424,377	(1,764,096)	5,660,281	10,552,826	(10,256,285)	296,541
Administration expenses	(1,411,865)	(2,967,905)	(4,379,770)	(1,669,279)	(2,588,261)	(4,257,540)
Share-based payments	–	(404,075)	(404,075)	–	(258,598)	(258,598)
Write back of provision for contingencies	–	–	–	298,088	–	298,088
Write back prior year impairment	–	–	–	2,590,532	–	2,590,532
Operating profit/(loss)	6,012,512	(5,136,076)	876,436	11,772,167	(13,103,144)	(1,330,977)
Foreign exchange gain/(loss)	1,299,181	(1,370,461)	(71,280)	247,503	(281,245)	(33,742)
Finance income/(expense)	772	(329,634)	(328,862)	28,912	1,161,406	1,190,318
Profit/(loss) before taxation	7,312,465	(6,836,171)	476,294	12,048,582	(12,222,983)	(174,401)

An analysis of non-current assets by location is as follows:

	Total non-current assets	
	31 December 2015 US\$	31 December 2014 US\$
Brazil – operations	40,150,484	54,103,898
Brazil – exploration	8,679,246	11,799,271
Brazil – total	48,829,730	65,903,169
UK	–	–
	48,829,730	65,903,169

An analysis of total assets by location is as follows:

	Total assets	
	31 December 2015 US\$	31 December 2014 US\$
Brazil	57,378,205	76,713,805
UK	9,114,864	16,349,104
	66,493,069	93,062,909

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

2 Segmental analysis (continued)

During the year, the following amounts incurred by project location were capitalised as deferred exploration costs:

	Group	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Brazil	–	258,113

During the year, the following amounts were capitalised as land and buildings, mine assets, property, plant, equipment and projects in construction (see Note 9):

	Group	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Brazil	7,322,577	14,301,202
UK	–	–
	7,322,577	14,301,202

Revenue

All of the Group's revenue arises from its activities in Brazil.

An analysis of the revenue by reference to the domicile of the entity within the Group that concludes the sale is as follows:

	31 December 2015 US\$	31 December 2014 US\$
Brazil	9,632,695	1,608,587
UK	25,453,418	11,019,197
Total	35,086,113	12,627,784

An analysis of major customers (accounting for more than 10% of the Group's revenues) is as follows:

	31 December 2015 US\$	31 December 2015 %	31 December 2014 US\$	31 December 2014 %
Customer 1	25,453,418	72.6%	11,019,197	87.3%
Customer 2	6,197,836	17.6%	1,608,587	12.7%
Other	3,434,859	9.8%	–	–
Total	35,086,113	100.0%	12,627,784	100.0%

3 Operating profit/(loss)

a. Group operating profit/(loss) for the year is stated after charging the following:

	Group	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Staff costs	8,719,740	8,126,221
Depreciation (property, plant and equipment)	1,300,337	298,716
Amortisation of the mine asset	4,540,432	2,334,862
Operating lease charges	147,755	171,826

b. Auditor's remuneration

	Group	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	124,445	116,796
Fees payable to the Group's auditor and its associates for other services:		
audit of the Group's subsidiaries pursuant to legislation	28,858	37,228
tax compliance services	2,743	5,104
audit-related assurance services	9,994	17,746

4 Finance expense and income

	Group	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Interest on trade financing loan	(364,656)	(228,510)
Finance cost on Sprott Loan	(526,500)	(120,000)
Interest on short-term loan	(586,667)	(101,782)
Interest payable on finance leases	(32,388)	(81,501)
Finance charge re convertible loan stock	-	(75,763)
Other finance-related expenses	(22,797)	(79,726)
Interest payable	(1,533,008)	(687,282)
Release of fair value for call options granted	196,330	123,670
Release of fair value for warrants issued ⁽¹⁾	332,173	1,350,827
Income from gold hedging activities	674,520	366,962
Gains on financial instruments⁽¹⁾	1,203,023	1,841,459
Finance income on short-term deposits	1,123	36,141
Net finance income/(cost)	(328,862)	1,190,318

(1) The release of fair value for warrants issued relates to 100,000,000 warrants to subscribe for new ordinary shares issued by the Company on 3 March 2014. The Company accounted for the issue of these warrants in accordance with IAS32 and recorded a liability of US\$1.68 million at the date of issue. As at 31 December 2015 the fair value of these warrants was assessed to be US\$nil (2014: US\$332,173) and the reduction in fair value has been recognised through the income statement. The warrants expired on 2 March 2016 with none having been exercised.

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5 Taxation

	Group	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Current tax		
UK tax	-	-
Foreign tax	525,032	-
Deferred tax	-	-
Total	525,032	-

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%). The differences are explained as follows:

	Group	
	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Profit/(loss) on ordinary activities before tax	476,294	(174,401)
Tax thereon at UK corporate tax rate of 20.25% (2014: 21.50%)	96,449	(37,496)
Factors affecting the tax charge:		
expenses not deductible for tax purposes	159,617	105,839
timing differences (not recognised)	(233,161)	(1,738,086)
income not taxable	(52,420)	(152,534)
lower rate tax overseas	(370,305)	(216,508)
unrecognised tax losses carried forward	924,852	2,038,785
Tax charge	525,032	-
Gross deferred tax position	US\$	US\$
Tax losses	53,413,057	53,527,355
Timing differences	(348,248)	(1,738,086)
	53,064,809	51,789,269
Unrecognised deferred tax asset	US\$	US\$
Tax losses	10,059,038	14,911,448
Timing differences	(53,108)	(590,949)
Total deferred tax asset	10,005,930	14,320,499

The deferred tax asset has not been recognised in the financial statements because of uncertainty as the level and timing of future profits that might be generated and against which this asset may be recovered.

6 Employee information

The average number of persons, including Executive Directors, employed by the Group during the year was:

	For the year ended 31 December 2015 Number	For the year ended 31 December 2014 Number
Management and corporate administration	17	17
Exploration	–	–
Mine operations and maintenance	139	124
Mine management and administration	14	12
Plant and processing	57	45
Total	227	198
	US\$	US\$
Staff costs		
Wages and salaries	6,525,020	6,092,423
Cost of incentive scheme shares and Director shares vested	359,652	234,161
Social security costs	1,621,644	1,631,192
Termination costs	58,646	40,115
Pension contributions	154,779	128,330
Total	8,719,740	8,126,221

No company within the Group operates a pension plan for the Directors or the employees. For those Executive Directors and employees who have an entitlement to pension provision, the premiums are paid directly to the personal pension plans selected by the individuals. The Company's obligation is limited to making fixed payments to these individual plans.

Serabi Mineração SA and Gold Aura do Brasil Mineração Ltda contribute via social security payments to the state pension scheme which operates in Brazil and to which all its employees are entitled.

Directors' remuneration

The compensation of the Directors is:

	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Salary and other benefits	1,114,323	926,586
Post-employment benefits	154,779	128,330
Total	1,269,102	1,054,916

The remuneration of the highest paid Director during the year was US\$608,423 (2014: US\$468,593). The Company made cash contributions to his money purchase pension scheme of US\$93,643 (2014: US\$61,282).

During the year ended 31 December 2015, two of the Directors (2014: two) were entitled to accrue retirement benefits under money purchase schemes.

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Notes to the Financial Statements continued**7 Loss per share**

The calculation of the basic loss per share of 0.01 cents (2014: loss per share: 0.03 cents) is based on the loss attributable to ordinary shareholders of US\$48,738 (2014: loss of US\$174,401) and on the weighted average number of ordinary shares of 656,389,204 (2014: 622,964,546) in issue during the period. Diluted loss per share is the same as the basic loss per share because the exercise of share options would be anti-dilutive. Details of share options that could potentially dilute earnings per share in future periods are set out in note 18.

8 Intangible assets**Deferred exploration costs**

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Cost				
Opening balance	11,799,271	24,659,003	2,040,437	2,040,437
Exploration and evaluation expenditure	-	258,113	-	-
Transfer to mining property and projects in construction	-	(11,806,834)	-	-
Foreign exchange movements	(3,120,035)	(1,311,011)	-	-
Total as at end of period	8,679,246	11,799,271	2,040,437	2,040,437

The value of these assets is dependent on the development of mineral deposits.

Past exploration and evaluation expenditures for a project are transferred to mining property and projects in construction at the commencement of the mine and process plant construction activities for that project.

The Company has not, in the year ended 31 December 2015, written off any past exploration expenditures.

9 Tangible assets

Property, plant and equipment – Group

2015	Land and buildings – at cost US\$	Mining property – at cost US\$	Projects in construction – at cost US\$	Plant and equipment – at cost US\$	Total US\$
Cost					
Balance at 31 December 2014	3,579,379	38,106,946	13,166,324	12,970,637	67,823,286
Additions	58,597	1,769,141	2,025,613	3,469,226	7,322,577
Foreign exchange movements	(1,153,297)	(11,301,717)	(3,961,675)	(3,788,889)	(20,205,578)
At 31 December 2015	2,484,679	28,574,370	11,230,262	12,650,974	54,940,285
Depreciation					
Balance at 31 December 2014	(2,074,684)	(4,525,753)	–	(7,118,951)	(13,719,388)
Charge for period	(33,604)	(4,405,385)	–	(1,159,504)	(5,598,493)
Foreign exchange movements	868,561	1,831,374	–	1,828,145	4,528,080
At 31 December 2015	(1,239,727)	(7,099,764)	–	(6,450,310)	(14,789,801)
Net book value at 31 December 2015	1,244,952	21,474,606	11,230,262	6,200,664	40,150,484
Net book value at 31 December 2014	1,504,695	33,581,193	13,166,324	5,851,686	54,103,898

Additions during the period include US\$574,789 in respect of plant and equipment purchased by finance lease (2014: US\$478,962). The net book value of assets acquired under finance leases at 31 December 2014 was US\$1,970,312 (2014: US\$2,042,851). Depreciation charged on leased assets for the period was US\$487,519 (2014: US\$466,790).

In 2009 the Company established an impairment provision against the carrying value of the Palito Mine. The Company has undertaken an impairment review at the end of each of 2015 and 2014 and has also determined that Palito and Sao Chico form a single cash generating unit ("the Palito/Sao Chico CGU") given their close proximity and sharing of common services and processing facilities. The impairment review undertaken at the end of 2014 indicated that the carrying value ascribed to the Palito/Sao Chico CGU was significantly below the value in use calculation and therefore the Board determined that the existing impairment provision was no longer required.

The 2015 impairment review has also indicated that the carrying value ascribed to the Palito/Sao Chico CGU remains below the value in use calculation and therefore the Board has determined that no impairment provision is required. Further details regarding the impairment review undertaken by the Group, are set out in note 19.

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9 Tangible assets (continued)**Property, plant and equipment – Group**

2014	Land and buildings – at cost US\$	Mining property – at cost US\$	Projects in construction – at cost US\$	Plant and equipment – at cost US\$	Total US\$
Cost					
Balance at 31 December 2013	2,910,142	24,570,958	10,829,432	12,451,061	50,761,593
Assets written down	(32,377)	–	–	(963,387)	(995,764)
Additions	378,390	6,144,128	4,917,640	2,861,044	14,301,202
Reallocations	803,646	10,001,886	(10,805,532)	–	–
Transfer from development and deferred exploration costs	–	1,995,102	9,811,732	–	11,806,834
Foreign exchange movements	(480,422)	(4,605,128)	(1,586,948)	(1,378,081)	(8,050,579)
At 31 December 2014	3,579,379	38,106,946	13,166,324	12,970,637	67,823,286
Depreciation					
Balance at 31 December 2013	(2,910,142)	(3,906,556)	–	(7,936,577)	(14,753,275)
Charge for period	–	(3,275,671)	–	(789,797)	(4,065,468)
Released on assets written down	28,362	–	–	877,219	905,581
Write-back of impairment provision	466,719	2,123,813	–	–	2,590,532
Foreign exchange movements	340,377	532,661	–	730,204	1,603,242
At 31 December 2014	(2,074,684)	(4,525,753)	–	(7,118,951)	(13,719,388)
Net book value at 31 December 2014	1,504,695	33,581,193	13,166,324	5,851,686	54,103,898
Net book value at 31 December 2013	–	20,664,402	10,829,432	4,514,484	36,008,318

Property, plant and equipment – Company

2015	Mining property – at cost US\$	Projects in construction – at cost US\$	Plant and equipment – at cost US\$	Total US\$
Cost				
Balance at 31 December 2014	5,995,611	43,610	2,919,482	8,958,703
Additions	229,411	–	–	229,411
At 31 December 2015	6,225,022	43,610	2,919,482	9,188,114
Depreciation				
Balance at 31 December 2014	(1,131,805)	–	(1,284,646)	(2,416,451)
Charge for period	(199,826)	–	(397,526)	(597,352)
At 31 December 2015	(1,331,631)	–	(1,682,172)	(3,013,803)
Net book value at 31 December 2015	4,893,391	43,610	1,237,310	6,174,311
Net book value at 31 December 2014	4,863,806	43,610	1,634,836	6,542,252

Additions during the period include US\$Nil in respect of plant and equipment purchased by finance lease (2014: US\$Nil). The net book value of assets acquired under finance leases as at 31 December 2014 was US\$1,235,021 (2014: US\$1,632,548). Depreciation charged on leased assets for the period was US\$397,526 (2014: US\$451,823).

9 Tangible assets (continued)

Property, plant and equipment – Company

2014	Mining property – at cost US\$	Projects in construction – at cost US\$	Plant and equipment – at cost US\$	Total US\$
Cost				
Balance at 31 December 2013	2,167,502	1,846,676	2,919,482	6,933,660
Additions	–	43,610	–	43,610
Reallocations	1,846,676	(1,846,676)	–	–
Capitalised pre operating expenses and revenues	1,981,433	–	–	1,981,433
At 31 December 2014	5,995,611	43,610	2,919,482	8,958,703
Depreciation				
Balance at 31 December 2013	(1,022,060)	–	(828,527)	(1,850,587)
Charge for period	(109,745)	–	(456,119)	(565,864)
At 31 December 2014	(1,131,805)	–	(1,284,646)	(2,416,451)
Net book value at 31 December 2014	4,863,806	43,610	1,634,836	6,542,252
Net book value at 31 December 2013	1,145,442	1,846,676	2,090,956	5,083,073

10 Investments held as fixed assets

The Group consists of the following subsidiary undertakings:

Name	Incorporated	Activity	% holding
Serabi Mineração SA	Brazil	Gold mining and exploration	100% ⁽¹⁾
Kenai Resources Ltd	British Columbia, Canada	Investment	100%
Gold Origin Limited	British Virgin Islands	Dormant	96.1% ⁽¹⁾
Gold Aura do Brasil Mineração Ltda	Brazil	Gold mining and exploration	99.9% ⁽¹⁾
Gold Origin Mexico SA de CV	Mexico	Dormant	100% ⁽¹⁾
Serabi Mining Ltd	British Virgin Islands	Investment	100%

(1) Indirectly held.

An application for the de-registration of Serabi Mining Services Pty Ltd by the Australian Securities and Investments Commission was approved on 10 March 2015.

	Company	
	31 December 2015 US\$	31 December 2014 US\$
Cost at start of period	76,196,138	70,687,475
Investment during the year	–	5,508,663
Cost at end of period	76,196,138	76,196,138
Impairment provision balance at start and end of period	(6,425,934)	(6,425,934)
Net book value at end of period	69,770,204	69,770,204

The value of these investments is dependent on the development of the Group's mineral deposits in Brazil. The Company has undertaken an impairment review at the end of 2015 to assess the future recoverability of the value of the investments that it holds in subsidiary entities. The Board has determined that based on its assessment of the future cash flows that the current operating mines may generate and the potential of the undeveloped assets no additional impairment provision is required at this time.

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11 Inventories

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Consumables	1,360,954	911,476	-	-
Stockpile of mined ore	1,433,161	1,054,989	-	-
Stockpile of flotation tails	1,067,243	2,342,936	-	-
Other material in process	547,876	168,932	-	-
Finished goods awaiting sale	2,499,556	3,591,882	1,148,634	2,173,886
	6,908,790	8,070,215	1,148,634	2,173,886

12 Trade and other receivables

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 (as restated see note 21) US\$
Current				
Trade Receivables	5,996,591	6,400,206	5,996,591	6,400,206
Other receivables	136,693	371,840	33,534	153,073
Amounts owed by subsidiaries	-	-	-	1,460,311
Trade and other receivables	6,133,284	6,772,046	6,030,125	8,013,590
Non-current				
Amounts owed by subsidiaries	-	-	25,504,584	22,795,604
Impairment provision	-	-	(11,750,710)	(11,750,710)
Other receivables	-	-	13,753,874	11,044,894

The Company has undertaken an impairment review at the end of 2015 to assess the future recoverability of the value of the amounts owed by its subsidiary entities. The Board has determined that based on its assessment of the future cash flows that the current operating mines may generate and the potential of the undeveloped assets no additional impairment provision is required at this time.

13 Prepayments

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Recoverable state and federal taxes	1,833,877	1,319,722	-	-
Supplier downpayments	473,606	540,614	-	-
Other prepayments and employee advances	122,024	643,541	101,712	561,755
Prepayments	2,429,506	2,503,877	101,712	561,755

14 Cash and cash equivalents

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Cash and cash equivalents	2,191,759	9,813,602	1,781,433	9,234,070

15 Trade and other payables

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Current				
Trade payables	1,996,670	1,928,960	542,628	648,158
Property acquisition ⁽¹⁾	–	1,094,838	–	–
Other payables	555,966	541,344	–	–
Employee benefits	566,001	305,210	36,568	49,581
Other taxes and social security	1,094,166	730,985	–	8,516
Amounts due to subsidiaries	–	–	6,196,158	419,536
Trade and other payables	4,212,803	4,601,337	6,775,354	1,125,791
Non-current				
(Between one and five years)				
Other payables	–	–	–	–
Property acquisition ⁽¹⁾	1,753,351	1,167,473	–	–
Other taxes and social security	104,563	257,325	–	–
	1,857,914	1,424,798	–	–

(1) Under the terms of an agreement entered into by Gold Aura do Brasil Mineração Ltda ("GOAB") in October 2012, GOAB undertook to acquire from Mr Waldimiro Morais Martins a 30% net profits interest of GOAB (the "NPI") arising from production of gold and base metals extracted from the Sao Chico mining concession for a consideration of Br\$7.7 million upon GOAB successfully securing the resources and finance for the Sao Chico project. With the intention to start processing of ore from Sao Chico during the second quarter of 2015 the Company considers that this commitment has become due. GOAB will pay to Mr Martins, the sum of Br\$3 million upon execution of the transfer of the NPI to GOAB, waive a debt due to GOAB by Mr Martins of Br\$700,000 and pay the remainder in 36 monthly instalments of Br\$111,111 with the first instalment due within ten months from the date of the execution of the transfer of the NPI.

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16 Non-current provisions**Employment and claims provision**

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Opening balance	35,518	339,164	-	-
Movement in year	-	(298,088)	-	-
As a result of exchange variations	(11,358)	(5,558)	-	-
Closing balance	24,160	35,518	-	-

Environmental rehabilitation provision

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Opening balance	2,793,950	1,141,501	-	-
Provided for in year				
as a result of changes in estimates	(30,300)	2,021,129	-	-
as a result of exchange variations	(889,096)	(368,680)	-	-
	(919,396)	1,652,449	-	-
Closing balance	1,874,554	2,793,950	-	-
Total non-current provisions	1,898,714	2,829,468	-	-

The employment and claims provision covers claims that may be brought by:

- i) Former employees of Serabi Mineração SA and Gold Aura do Brasil Mineração Ltda against these companies. Brazilian labour law entitles a former employee to lodge within two years of leaving the company claims for alleged unpaid remuneration and compensation in the event of dismissal. The Group whilst contesting each claim has made provision in respect of all known claims.
- ii) Third parties against Serabi Mineração SA and Gold Aura do Brasil Mineração Ltda where sums are claimed over and above contracted amounts. Whilst the Group will contest these claims it has made an additional provision as a best estimate of the potential value of any settlement that could arise based on legal opinion.

The environmental rehabilitation provision has been established to cover any asset decommissioning and rehabilitation obligations for the Palito and Sao Chico mines. Such obligations include the dismantling of infrastructure, removal of residual materials and remediation of disturbed areas. The provision does not allow for any additional obligations expected from future developments. The timing and scope of the rehabilitation is uncertain and is dependent on mine life and quantities extracted from the mine.

Cost estimates are formally reviewed at regular intervals and the provisions are adjusted accordingly.

17 Interest-bearing liabilities

Secured loan facility

On 26 September 2014, Serabi Gold plc and the Sprott Resource Lending Partnership ("Sprott") entered into a US\$8 million credit facility (the "Sprott Facility"). At 31 December 2015 the Sprott Facility was due to repaid by 31 March 2016. On 20 January 2016 the Sprott Facility was extended for a term expiring on 31 December 2016. It carries interest at a rate of 10% per annum. The Sprott Facility was taken out to provide additional funding for the continued development of the Palito Mine and the Sao Chico gold project, to finance an additional drilling programme at Sao Chico and for general corporate purposes.

The Sprott Facility was subject to a number of conditions precedent, including execution of security documentation in favour of Sprott over the assets of the Group. The first Tranche of US\$3 million was released on 26 September 2014, concurrent with the closing of the transaction and the remaining funds were released on 29 December 2014, following completion of the registration of all the security arrangements.

Serabi has provided to Sprott certain covenants and undertakings, consistent with normal bank lending arrangements, including an undertaking to maintain at all times working capital in excess of US\$2.5 million (excluding any amount due under the Sprott Facility and any amount due to Fratelli Investment Limited under a Convertible Loan Facility (see note 23. Related party transactions) and a minimum of US\$1 million in unrestricted cash and cash equivalents. The Facility is subject to standard events of default. Serabi has been and remains in compliance with all the terms of the Facility.

Serabi may prepay in whole the Facility prior to 31 December 2016. If such payment is made prior to 30 June 2016, a penalty fee shall be payable amounting to 5% of the outstanding balance of the Sprott Facility. If such repayment is made after 1 July 2016, the penalty shall be equal to 60% of the remaining interest charges that would otherwise have been due under the Sprott Facility up until the expiry of the Sprott Facility.

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Current				
Secured loan facility	4,000,000	7,744,000	4,000,000	7,744,000
Convertible loan stock	–	–	–	–
Obligations under trade finance facility	6,652,930	7,764,046	6,652,930	7,764,046
Obligations under finance leases	732,225	720,174	345,583	587,947
Due in less than one year	11,385,155	16,228,220	10,998,513	16,095,993
Non-current				
(Between one and five years)				
Obligations under finance leases	128,641	364,655	–	203,016
Due in more than one year	128,641	364,655	–	203,016

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Secured loan facility				
Amount outstanding at beginning of period	7,744,000	8,000,000	7,744,000	8,000,000
Amount repaid during the year	(4,000,000)	–	(4,000,000)	–
Fair value of call options granted	–	(320,000)	–	(320,000)
Amortisation of call options in period	256,000	64,000	256,000	64,000
Value of secured loan facility at 31 December 2015	4,000,000	7,744,000	4,000,000	7,744,000

Each finance lease is secured against the underlying assets that are the subject of that lease.

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18 Share capital

The Companies Act 2006 (as amended) abolishes the requirement for a company to have an authorised share capital and on 3 March 2014, the Company adopted new articles of association to reflect this.

At the Annual General Meeting of Serabi Gold plc held on 11 June 2015, shareholders of the Company approved a resolution, subject to the confirmation of the High Court of Justice in England and Wales (the "Court"), that the issued share capital of the Company be reduced by cancelling and extinguishing all of the issued deferred shares of 4.5 pence each and 9.5 pence each in the capital of the Company ("Deferred Shares").

On 29 July 2015, the Court issued an order (the "Order") confirming the cancellation of the Deferred Shares and the Company received confirmation from the Registrar of Companies of the registration of the Order.

The value standing to the account of the Deferred Shares, following their cancellation, has been credited to the distributable reserves of the Company.

The deferred shares had no voting or dividend rights and on a return of capital, the right only to receive the amount paid up thereon after the holders of the ordinary shares had received the aggregate amount paid up thereon plus UK£100 per ordinary share. Any further surplus was to be distributed only amongst the holders of ordinary shares.

	2015		2014	
	Number	US\$	Number	US\$
Allotted, called up and fully paid				
Ordinary shares of 0.5 pence each	656,389,204	5,263,182	656,389,204	5,263,182
Deferred shares of 4.5 pence each	–	–	456,389,204	32,383,635
Deferred shares of 9.5 pence each	–	–	140,139,065	24,021,395
		5,263,182		61,668,212

Movements in issued share capital

	31 December 2015 Number	31 December 2015 US\$	31 December 2014 Number	31 December 2014 US\$
Ordinary shares				
Opening balance	656,389,204	5,263,182	456,389,204	35,981,817
Issue of shares for cash	–	–	200,000,000	1,665,000
Share split	–	–	–	(32,383,635)
Closing balance	656,389,204	5,263,182	656,389,204	5,263,182

	31 December 2015 Number	31 December 2015 US\$	31 December 2014 Number	31 December 2014 US\$
Deferred shares – 9.5 pence par value				
Opening balance and closing balance	140,139,065	24,021,395	140,139,065	24,021,395
Cancelled in year	(140,139,065)	(24,021,395)	–	–
Closing balance	–	–	140,139,065	24,021,395

	31 December 2015 Number	31 December 2015 US\$	31 December 2014 Number	31 December 2014 US\$
Deferred shares – 4.5 pence par value				
Opening balance	456,389,204	32,383,635	–	–
Cancelled in year	(456,389,204)	(32,383,635)	–	–
Created in year through share split	–	–	456,389,204	32,383,635
Closing balance	–	–	456,389,204	32,383,635

Total Share Capital		5,263,182		61,668,212
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There have been no issues of shares during the year.

18 Share capital (continued)

Share Premium

At the Annual General Meeting of Serabi Gold plc held on 11 June 2015, shareholders of the Company approved a resolution subject to the confirmation of the high court of Justice in England and Wales ("the court") that the amount standing to the credit of the share premium account of The Company at that time shall be cancelled and that the capital released shall be treated as a realised profit. On 29 July 2015, the court issued an order ("the Order") confirming the cancellation of the Company's share premium account and the Company received confirmation from the Registrar of companies of the registration of the Order.

Warrants to subscribe for ordinary shares

As part of the issue of shares that took place on 3 March 2014, the Company issued 100,000,000 warrants. Each warrant entitled the holder to subscribe for one new ordinary share for each whole warrant held at a subscription price of UK£0.06 per ordinary share at any time up to and including 2 March 2016. The warrants expired on 2 March 2016 with none having been exercised.

The Company has used the Black-Scholes model to calculate the fair value of each warrant equivalent to US\$0.01683 (UK£0.0102) per warrant. In calculating the fair value of the warrants the Company assumed an expected life of two years, a volatility rate of its share price of 50% and a risk free interest rate of 0.75%. Warrants are normally considered as part of equity but in this instance because the exercise price of the warrant is denominated in UK Sterling and the functional currency of the Company is US Dollars, under IAS32 the warrants are not considered to be equity but instead a liability of the Company at the time of issue. In accordance with IAS 32, the Company therefore, at the date of issue, established a liability for these warrants in the amount of US\$1,683,000. At 31 December 2015, the Company has revalued the warrants in accordance with fair value accounting principles using an assumed expected life ending 2 March 2016, a volatility rate of its share price of 50% and a risk free interest rate of 0.75% and determined that the value of the warrants at 31 December 2015 has reduced to US\$nil. The gain on this revaluation amounting to US\$332,173 has been recorded as finance income and the liability reduced by the same value. The warrants are classified in level 3 of the fair value hierarchy.

Options to subscribe for ordinary shares

In 2011 the Company established a share option scheme (the "Serabi 2011 Share Option Plan") the terms of which were re-approved by shareholders at the Annual General Meeting of the Company held on 24 June 2014. With the exception of replacement options issued by the Company pursuant to the acquisition of Kenai Resources Ltd in July 2013, all options granted by the Company since that time have been issued under the Serabi 2011 Share Option Plan. Certain options granted pursuant to other plans operated by the Company prior to the establishment of the Serabi 2011 Share Option Plan remain in issue as at 31 December 2014.

Details of the number of share options and the weighted average exercise price ("WAEP") outstanding under the Serabi 2011 Share Option Plan are as follows:

	31 December 2015 Number	31 December 2015 WAEP UK£	31 December 2014 Number	31 December 2014 WAEP UK£
Outstanding at the beginning of the period	34,035,000	0.0745	18,585,000	0.1173
Granted during the period	15,000,000	0.0550	17,050,000	0.0512
Expired during the period	(1,700,000)	0.0846	(1,600,000)	0.3230
Forfeited during the period	(1,000,000)	0.0500	–	–
Outstanding at the end of the period	46,335,000	0.0683	34,035,000	0.0745
Exercisable at end of the period	31,068,341	0.0827	18,235,006	0.0921

Details of the number of share options and the weighted average exercise price ("WAEP") outstanding issued as replacement options pursuant to the acquisition of Kenai Resources Ltd are as follows:

	31 December 2015 Number	31 December 2015 WAEP C\$	31 December 2014 Number	31 December 2014 WAEP C\$
Outstanding at the beginning of the period	2,533,000	0.3008	2,533,000	0.3008
Expired during the period	(960,500)	0.3118	–	–
Outstanding at the end of the period	1,572,500	0.2941	2,533,000	0.3008
Exercisable at end of the period	1,572,500	0.2941	2,533,000	0.3008

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18 Share capital (continued)**Options to subscribe for ordinary shares (continued)**

Details of the number of share options and the weighted average exercise price ("WAEP") outstanding issued under other option arrangements prior to 2011 are as follows:

	31 December 2015 Number	31 December 2015 WAEP UK£	31 December 2014 Number	31 December 2014 WAEP UK£
Outstanding at the beginning and end of the period	2,278,285	0.6862	2,278,285	0.6862
Exercisable at the end of the period	2,278,285	0.6862	2,278,285	0.6862

Options granted have no market performance criteria and have been valued using the Black-Scholes model. The fair value of options is charged to the profit and loss account or capitalised as an intangible asset as appropriate over the vesting period. The assumptions inherent in the use of these models are as follows:

Grant date	Vesting period (years)	First vesting date	Expected life (years)	Risk free rate	Exercise price	Volatility of share price	Fair value	Options vested	Options granted	Expiry
22/01/15	2	22/01/15	3	0.75%	UK£0.055	55%	UK£0.0178	5,000,005	15,000,000	21/01/18
30/09/14	2	30/09/14	3	0.75%	UK£0.055	50%	UK£0.0187	2,133,334	3,200,000	29/09/17
07/04/14	2	07/04/14	3	0.75%	UK£0.050	50%	UK£0.0132	8,400,002	12,600,000	06/04/17
18/07/13	0	18/07/13	n/a	n/a	C\$0.29411	n/a	n/a	1,572,500	1,572,500	07/06/16
26/01/13	2	26/01/13	3	1%	UK£0.061	50%	UK£0.0176	13,800,000	13,800,000	25/01/16
28/01/11	2	28/01/11	3-5	1%	UK£0.41	50%	UK£0.085	1,285,000	1,285,000	27/01/21
28/01/11	2	28/01/11	3-5	1%	UK£0.37	50%	UK£0.094	450,000	450,000	27/01/21
21/12/09	2	21/12/09	3-5	1%	UK£0.15	50%	UK£0.080	1,700,000	1,700,000	20/12/19
01/04/05	1	10/11/05	2	5.75%	UK£1.50	45%	UK£1.7152	278,360	278,360	01/04/16
01/04/05	1	1/04/06	2	5.75%	UK£3.00	45%	UK£0.9174	274,925	274,925	01/04/16
15/11/07	1	15/11/08	4-6	5.75%	UK£2.64	45%	UK£0.0931	25,000	25,000	14/11/17
								34,919,126	50,185,785	

During the year a charge of US\$404,075 (2014: US\$258,598) has been recorded in these financial statements in respect of these options of which US\$Nil (2014: US\$Nil) has been capitalised as deferred exploration expenditures.

The fair value of all options granted under all of the above plans that have lapsed during the period, totalling US\$56,740 (2014: US\$189,308) has been transferred from the Option Reserve to the Retained Surplus/(Accumulated Losses) Reserve.

19 Impairment

As detailed in the accounting policies the Directors are required to undertake a review for impairment at least annually where events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In such a situation the asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less cost to sell and value in use).

In January 2012 the Board commissioned a preliminary economic assessment of the viability of re-commencing mining operations at the Palito Mine and the independent preliminary economic assessment report ("PEA") was published in June 2012. The Company completed a share placement in January 2013, raising gross proceeds of UK£16.2 million which was used to finance the start-up of gold production operations at the Palito Mine. Mining operations commenced during 2013, and the gold recovery process plant was completed and initial testing started in December 2013. Commissioning and the ramp-up of production continued during the first two quarters of 2014 and on 23 July 2014, the Company declared commercial production for the Palito Mine effective as of 1 July 2014.

In July 2013 the Company acquired the entire share capital of Kenai Resources Ltd, a group which held the exploration licence for the Sao Chico gold project. On 3 March 2014, the Group completed a share placement raising gross proceeds of UK£10.0 million which was used to finance mine development at Sao Chico and working capital during the start-up of Palito and Sao Chico. The Company declared commercial production for the Sao Chico Mine effective as of 1 January 2016.

The Directors have considered each of the Group's deferred exploration assets and production and development assets on a project-by-project basis. It has considered two potential cash generating units for the purpose of this assessment.

Palito and Sao Chico are considered to be a single cash-generating unit. Whilst the deposits are separately located, they share significant common processing and support infrastructure and will be treated by the Company as a single operating business unit. This single cash-generating unit therefore comprises all of the Palito Mine pre-operating costs, exploration expenditures on establishing the current declared resource base, land and buildings and plant and machinery associated with the mining and gold processing operations, together with the acquisition cost of Sao Chico and the exploration, pre-development and development expenditures incurred by Serabi since acquisition.

The second cash generating unit represents the exploration expenditures on areas within the Palito environs and the wider Jardim do Ouro tenement holdings, but which have not yet been exploited and do not form part of the current declared reserves and resources. The above cash generating units were assessed for impairment indicators in accordance with the accounting policy set out in note 1(h) and the Directors are satisfied that there is no indication of impairment across these projects.

The Palito and Sao Chico mines

The carrying value of the assets relating to the Palito and Sao Chico mines is US\$42.65 million.

The Company's management has provided to the Directors an assessment of the expected future cash-flows that the Palito and Sao Chico operations can be expected to generate using management's current estimates of mining, processing and capital expenditure plans for a period starting in January 2016 and ending in December 2022. The resulting pre-tax Net Present Value of the project was in excess of the carrying value of US\$42.65 million and therefore the Directors have decided that no impairment provision is required against the carrying value of the Palito and Sao Chico mines.

The carrying value for the Group of the Palito and Sao Chico cash generating unit at 31 December 2015 comprises:

	Carrying value at 31 December 2015 US\$ million
Mining Property	21.48
Projects in Construction	11.23
Plant and Equipment	6.20
Land and Buildings	1.24
Ore Stockpiles	2.50
	42.65

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Notes to the Financial Statements continued

19 Impairment (continued)

The plan presented by management to support the impairment assessment, anticipates remaining Life of Mine ("LOM") production from the Palito Mine of 198,600 gold ounces compared with the Group's declared inventory of Measured and Indicated mineral resources of 206,000 gold ounces and Inferred resources of 393,000 gold ounces as estimated at the end of March 2008. Since mine development operations at Palito were re-commenced in 2013 and up to 31 December 2015, the Group has declared total production recovered from the Palito Mine operations of approximately 47,500 ounces. The plan also anticipates remaining LOM production from the Sao Chico Mine of 93,200 gold ounces compared with the Group's declared inventory of Measured and Indicated mineral resources of 25,275 gold ounces and Inferred resources of 85,577 gold ounces as estimated at the end of May 2012. Since mine development operations at Sao Chico were commenced in 2015 and up to 31 December 2015, the Group has declared total production recovered from the Sao Chico Mine operations of approximately 3,500 ounces.

The Net Present Value calculation used the following key assumptions:

Period of operations	1 January 2016 to 31 December 2023
Gold price	US\$1,150 for each year of the plan
Exchange rate BrR\$ to US\$	3.9042 for each year of the plan. This was the prevailing exchange rate at 31 December 2015.
Discount factor	10%
Cost estimates	Based on current estimates being used by management for budgetary purposes
Mine plan	Palito – to operate at long-term levels of approximately 127,000 tonnes per annum and during 2016 running down stockpiles of coarse ore and flotation tailings. Sao Chico – 2016 to be the first full year of production with the mine producing between 30,000 and 33,000 tonnes per annum over the LOM plan.
Average annual plant throughput rate (2017 onwards)	157,000 tonnes per annum
Average annual LOM gold production (2017 onwards)	42,000 ounces
Production period	Eight years for Palito and seven years for Sao Chico

As required by IAS 36 no benefit has been recognised for any additional value that could be generated from the assets through improving the performance of the assets through additional cash outflows. However, where programmes commenced in 2015 that will be completed in 2016, the forecasts do incorporate the benefits that are expected to be derived from these improvements. In addition the forecasts include appropriate provision for sustaining capital that the Group anticipates will be required to allow the operations to maintain the projected performance. No recognition has been taken of other mineral resources at Palito.

It is estimated that the effect of changes in key assumptions would result in the following changes in value in use:

	Improvement US\$m	Decline US\$m
Change in gold price by \$100	20.4	20.4
Variation of BrR\$: US\$ exchange rate by 10%	11.2	13.7
Variation in discount factor by 1% point	3.2	3.0
Variation in cost estimates by 10%	17.3	17.3

20 Capital management

The Group has historically sourced equity capital through share issues on the London Stock Exchange and the Toronto Stock Exchange and the Board had managed the capital structure of the Group and aligned this with the risk profiles of its underlying assets.

On 26 September 2014, the Group entered into the Sprott Facility further details of which are set out in note 16 (Interest bearing liabilities) and note 26 (Post balance sheet events). As at 31 December 2015, the amount of US\$4 million was outstanding in respect of the Sprott Facility.

On 30 December 2015, the Group entered into the 2015 Convertible Loan further details of which are set out in note 23 (Related parties).

The Group's objectives, when managing its capital are to maintain financial flexibility to achieve its development plans, safeguard its ability to continue to operate as a going concern through management of its costs whilst optimising its access to capital markets by endeavouring to deliver increases in value of the Group for the benefit of shareholders. In establishing its capital requirements the Group will take account of the risks inherent in its plans and proposed activities and prevailing market conditions.

The Group anticipates that, whilst it may seek to raise further finance in the future, it now has access to sufficient funding for its immediate needs. Gold production operations at the Palito Mine commenced in January 2014, with commercial production being declared effective as of 1 July 2014. The Sao Chico Mine has been in development during 2015 and the Company has declared commercial production to be effective from 1 January 2016. With current market conditions and prices, the Group expects to have sufficient cash flow to finance its on-going operational requirements, repay its secured and unsecured loan facilities and to, at least in part, fund exploration and development activity on its other gold properties. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Group to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

The Company's shares are listed on both AIM and the TSX which management considers increases the potential of the Group to raise finance through further issues of shares in the future. Management considers that with cash flow being generated from its operations in the near-term this also enhances the ability of the Group to raise debt finance in the future.

21 Company statement of comprehensive income and restatement

A separate statement of comprehensive income for Serabi Gold plc has not been prepared as permitted by Section 408 of the Companies Act 2006. The loss of the Company during 2015 was US\$9,136,678 (2014: loss (as amended) of US\$3,970,484).

Serabi Gold plc purchases from its subsidiary, Serabi Mineração SA, Copper/Gold concentrate. During the current financial year, Serabi Gold plc has processed credit notes issued by Serabi Mineração SA to correct the basis of invoicing during 2014 which was not in accordance with contractual terms. As a result purchases reported for 2014 were overstated by US\$1,460,311. The correction has been reported as a prior year adjustment and the loss previously reported for 2014 has been restated, increasing equity at 31 December 2014 by US\$1,460,311.

22 Commitments and contingencies

Capital commitments

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

Management estimates that the cost over the next twelve months of fulfilling the current contracted commitments on these exploration properties in which the Group has an interest is US\$45,000 (2014: US\$92,000).

Operating lease commitments

The Group has commitments under non-cancellable operating leases as follows:

	Group		Company	
	31 December 2015 US\$	31 December 2014 US\$	31 December 2015 US\$	31 December 2014 US\$
Commitments falling due:				
Within one year	166,633	155,729	64,955	59,177
Between one year and five years	78,278	213,852	72,785	157,772
Total	244,911	369,581	137,740	216,949

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Notes to the Financial Statements continued**22 Commitments and contingencies (continued)****Contingencies**

Employment legislation in Brazil allows former employees to bring claims against an employer at any time for a period of two years from the date of cessation of employment and regardless of whether the employee left the company voluntarily or had their contract terminated by the company. The Group considers that it operates in compliance with the law at all times but is aware that claims are made against all companies in Brazil on a regular basis. Whilst not accepting legal liability the Group makes provision or accrues for all known claims further claims may arise at any time.

During 2013, Serabi Mineração SA ("SMSA") was requested by the Tax Authorities for the State of Para, to provide supporting documentation in respect of certain tax reclaims made by SMSA dating back for six years. SMSA has provided all the requested information and the Group considers all claims made were in accordance with prevailing legislation. The total sum of the tax claims that are subject to this review is BrR\$449,000, which at the year-end is equivalent to US\$115,000.

23 Related party transactions

During the period the Company has made loans to subsidiaries of US\$2,708,980 (2014: US\$5,508,663) and the Company did not subscribe for any new capital issued by subsidiaries (2014: US\$Nil). There were no loans converted into new shares issued by subsidiaries during 2015 (2014: US\$Nil).

The Company has loans receivable from subsidiaries totalling US\$25,504,584 (2014: US\$22,795,604) before any provision for the impairment of these loans (see note 12).

The Company has purchased, during the year from its subsidiary Serabi Mineração SA ("SMSA"), 2,060 tonnes of copper/gold concentrate for a consideration of US\$23,237,853 (2014: US\$18,803,184).

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

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

23 Related party transactions (continued)

Key management remuneration

Key management comprises the Executive, Non-Executive Directors and country manager only. Their compensation is:

	For the year ended 31 December 2015 US\$	For the year ended 31 December 2014 US\$
Short-term employee benefits	1,421,117	1,541,671
Post-employment benefits	154,779	128,330
Share-based payments	383,980	252,666
Total	1,959,876	1,922,667

In May 2015, the Group made an unsecured interest free loan of BrR\$100,000 (US\$25,600) to its Brazilian country manager for a period of up to twelve months. As at 31 December 2015 the amount of BrR\$79,600 (US\$20,400) remained outstanding.

24 Financial instruments

The Group's and the Company's financial assets at 31 December 2015 which comprise other receivables and cash, and in the case of the Company include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's and Company's financial liabilities which comprise trade and other payables and interest bearing liabilities are classified as liabilities measured at amortised cost.

The Group and the Company have, through its arrangements with Auramet Trading LLC ("Auramet") and with Sprott Resource Lending, entered into the following derivative transactions.

Under its arrangements with Auramet it enters into short-term hedging of a significant portion (90 to 95%) of its gold sales protecting the ability of the Group against price variations between the date that it secures loan advances from Auramet for a specific shipment and the pricing that it will receive under its contractual arrangements with the refinery to whom the gold is finally sold. The arrangements are revalued at the period end to reflect prevailing prices. Any notional income or expense arising from this revaluation is taken to the income statement.

In September 2014, the Company granted a call option to Sprott over 4,812 ounces of gold at a price of US\$1,285 for a period expiring on 31 December 2015. The fair value at the date of the grant of these options was charged to the income statement over the option period. The option was revalued at each period end and any gain or loss arising on the revaluation taken to the income statement. The option expired on 31 December 2015 without any part of the option having been exercised.

The main financial risks arising from the Group's activities remain unchanged from the previous financial year namely commodity prices, currency, liquidity, credit and interest rates. The Board reviews and agrees policies for managing each of these risks and these are summarised below:

Commodity price risk

By the nature of its activities the Group and the Company are exposed to fluctuations in commodity prices and in particular the price of gold and copper as these could affect its ability to raise further finance in the future, its future revenue levels and the viability of its projects. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts, where appropriate, in future.

Whilst not representing a financial instrument at 31 December 2015, the Group carried inventory of finished goods and work-in-progress valued at US\$5.55 million (31 December 2014: US\$7.16 million) including US\$1.95 million of copper/gold concentrate representing 363 tonnes of material awaiting sale (31 December 2014: US\$3.59 million) and US\$3.60 million of other material in process (31 December 2014: US\$3.57 million). Of the copper/gold concentrate, the Group had, at the end of the quarter ended 30 September 2015, entered into arrangements fixing prices for approximately 95% of the gold content within 160 tonnes of this material. However all other inventory as at 31 December 2015, which is unsold, is subject to future variation in commodity prices and accordingly the results for the period and the equity position of the Group may be affected by any change in commodity prices subsequent to the end of the period.

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24 Financial instruments (continued)**Interest rate risk**

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

The Company has entered into an agreement with Auramet Trading LLC ("Auramet"), for a trade finance facility of US\$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 three month US\$ LIBOR plus 5%.

The Group has entered into the Sprott Facility further details of which are set out in note 17 (Interest bearing liabilities) and note 26 (Post balance sheet events). As at 31 December 2015, the amount of US\$4 million was outstanding in respect of the Sprott Facility.

The Group has entered into the 2015 Convertible Loan further details of which are set out in note 23 (Related party transactions). The Group announced on 6 January 2016 that it had made an initial draw down of US\$2 million in respect of the 2015 Convertible Loan.

Group

	Weighted average effective interest rate %	Non-interest bearing US\$	Floating US\$	Fixed interest maturity		Total US\$
				One year or less US\$	Over one to five years US\$	
2015						
Financial assets						
Cash	0.1%	–	2,191,759	–	–	2,191,759
Receivables	–	6,165,192	–	–	–	6,165,192
Total		6,165,192	2,191,759	–	–	8,356,950
Financial liabilities						
Payables	–	6,296,914	–	–	–	6,296,914
Interest-bearing liabilities	7.24%	–	–	11,385,155	128,641	11,513,796
Total		6,296,914	–	11,385,155	128,641	17,810,710

	Weighted average effective interest rate %	Non-interest bearing US\$	Floating US\$	Fixed interest maturity		Total US\$
				One year or less US\$	Over one to five years US\$	
2014						
Financial assets						
Cash	0.1%	–	9,813,602	–	–	9,813,602
Receivables	–	8,091,678	–	–	–	8,091,678
Total		8,091,678	9,813,602	–	–	17,905,280
Financial liabilities						
Payables	–	6,358,308	–	–	–	6,358,308
Interest-bearing liabilities	7.57%	–	–	16,228,220	364,655	16,592,875
Total		6,358,308	–	16,228,220	364,655	22,951,183

24 Financial instruments (continued)**Interest rate risk (continued)****Company**

2015	Weighted average effective interest rate %	Non-interest bearing US\$	Fixed interest maturity			Total US\$
			Floating US\$	One year or less US\$	Over one to five years US\$	
Financial assets						
Cash	0.1%	–	1,781,429	–	–	1,781,429
Receivables	–	19,852,074	–	–	–	19,852,074
Total		19,852,074	1,781,429	–	–	21,633,503
Financial liabilities						
Payables	–	6,818,308	–	–	–	6,818,308
Interest-bearing liabilities	7.28%	–	–	10,652,920	–	10,652,920
Total		6,818,308	–	10,652,920	–	17,471,238

2014	Weighted average effective interest rate %	Non-interest bearing US\$	Fixed interest maturity			Total US\$
			Floating US\$	One year or less US\$	Over one to five years US\$	
Financial assets						
Cash	0.1%	–	9,234,070	–	–	9,234,070
Receivables	–	17,598,173	–	–	–	17,598,173
Total		17,598,173	9,234,070	–	–	26,832,243
Financial liabilities						
Payables	–	1,457,964	–	–	–	1,457,964
Interest-bearing liabilities	7.59%	–	–	16,095,993	203,016	16,299,009
Total		1,457,964	–	16,095,993	203,016	17,756,973

Liquidity risk

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

The Group has entered into the Sprott Facility, further details of which are set out in note 17 (Interest bearing liabilities) and note 26 (Post balance sheet events). As at 31 December 2015, the amount of US\$4 million was outstanding in respect of the Sprott Facility.

The Company has a trade financing arrangement for up to US\$7.5 million with Auramet Trading LLC for the sale of its copper/gold concentrate production which is sold to a European refinery. Under the terms of this financing arrangement Auramet will advance to Serabi up to 95% of the gold content of a shipment of copper/gold concentrate secured against the final sale proceeds from the refinery. The period between the date of advance and settlement varies depending on the date of arrival at the refinery but is between 100 and 120 days. Interest is charged at 5.0% above 3 month US\$ LIBOR. The arrangements oblige the Company to fix the price of the gold that is subject to an advance payment and in so doing eliminate the pricing risk between the date of the advance and the contractual settlement terms with the refinery.

The Group has entered into the 2015 Convertible Loan, further details of which are set out in note 23 (Related party transactions). The Group announced on 6 January 2016, that it had made an initial draw down of US\$2 million in respect of the 2015 Convertible Loan.

As at 31 December 2015, in addition to the Sprott Facility and the Auramet facility, the Company had obligations under fixed rate finance lease amounting to US\$0.86 million (2014: US\$1.08 million).

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

24 Financial instruments (continued)**Liquidity risk (continued)**

The following table sets out the maturity profile of the financial liabilities as at 31 December 2015:

	2015		2014	
	Group US\$	Company US\$	Group US\$	Company US\$
Due in less than one month	3,598,089	3,157,480	4,934,049	2,877,961
Due between one month and three months	9,001,404	10,946,305	5,376,028	4,347,302
Due between three months and one year	3,081,343	37,752,959	11,047,983	10,525,024
Total due within one year	15,680,836	17,856,744	21,358,060	17,750,287
Due more than one year	2,689,985	–	1,789,453	203,016
Total	18,370,821	17,856,744	23,147,513	17,953,303

Currency risk

Although the Company is incorporated in the United Kingdom, its financial statements and those of the Group are presented in US Dollars which is also considered to be the functional currency of the Company as funding of activities of its subsidiaries is generally made in US Dollars, all sales for the Group are denominated in US Dollars and future remittances of dividends, loans or repayment of capital from the subsidiaries are expected to be received in US Dollars.

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

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

	Group	
	31 December 2015 US\$	31 December 2014 US\$
US Dollar	1,449,663	8,586,208
Canadian Dollar	11,762	106,031
Sterling	278,136	361,406
Australian Dollar	12,630	29,479
Euro	32,611	250,737
Brazilian Real	406,957	479,741
Total	2,191,759	9,813,602

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

24 Financial instruments (continued)

Currency risk (continued)

The Group seeks to manage its exposure to this risk by ensuring that the majority of expenditure and cash holdings of individual subsidiaries within the Group are denominated in the same currency as the functional currency of that subsidiary. Income is generated in US Dollars. However this exposure to currency risk is managed where the income is generated by subsidiary entities whose functional currency is not US Dollars, by either being settled within the Group or by ensuring settlement in the same month that the sale is transacted where settlement is with a third party. The following table shows a currency analysis of net monetary assets and liabilities by functional currency of the underlying companies:

	Functional Currency			Total 31 December 2015 US\$
	Brazilian Real 31 December 2015 US\$	Canadian \$ 31 December 2015 US\$	United States \$ 31 December 2015 US\$	
Currency of net monetary asset/liability				
US Dollar	–	866	(3,483,203)	(3,482,337)
Canadian Dollar	–	2,506	9,255	11,762
Sterling	–	–	(800,118)	(800,118)
Australian Dollar	–	–	9,255	9,255
Euro	(515,283)	–	(312,971)	(828,255)
Brazilian Real	6,521,166	2,506	9,255	6,521,166
Total	5,735,883	3,372	(4,577,782)	1,161,474

The above indicates that the Group's and the Company's primary exposure is to exchange rate movements between UK Pounds sterling and the US Dollar and the Euro and the US Dollar.

The table below shows the impact of changes in exchange rates on the result and financial position of the Group and the Company:

	Against Sterling US\$	Against Euro US\$
10% weakening of US Dollar	49,345	26,173
10% strengthening of US Dollar	(60,311)	(31,989)

The Group's main subsidiary operates in Brazil with its expenditure being principally in Brazilian Real and its financial statements are maintained in that currency. The Group's policy for dealing with exchange differences is outlined in the statement of Significant Accounting Policies under the heading "Foreign currencies".

The Group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and may be used where appropriate in the future.

The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates and holding surplus funds in currencies considered most appropriate to their expected future utilisation.

Credit risk

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US\$8,325,045 (2014: US\$16,585,648). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings.

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

The Group sells most of its copper/gold concentrate production to a single customer, a publicly quoted major copper smelter located in Europe. Settlement terms are in accordance with industry norms. The customer has a strong reputation within the industry and has a good credit risk history. As at the balance sheet date there were no amounts owed to the Group that were overdue.

The Group has made sales to other parties during the year. All of these transactions were completed during the year and therefore there is no credit risk associated with these sales.

The Company's exposure to credit risk amounted to US\$21,565,432 (2014 (as restated): US\$28,292,554). Of this amount US\$13,753,874 (net of impairment charge) (2014 (as restated): US\$12,505,205) is due from subsidiary companies, US\$1,781,433 represents cash holdings (2014: US\$9,234,070) and a significant portion of the remainder represented by trade debtors for the sale of copper/gold concentrate.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

25 Ultimate controlling party

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

26 Post balance sheet events

On 31 December 2015, the Group announced that it had entered into an agreement with Fratelli Investments Ltd ("Fratelli"), its major shareholder whereby Fratelli had agreed to provide a unsecured short-term working capital convertible loan facility of US\$5 million ("the Facility") to provide additional working capital facilities. On 6 January 2016, the Group announced that it had made an initial draw down of US\$2 million against the Facility.

On 1 February 2016, the Group announced that it had agreed an extended repayment period for the remainder of the loan with Sprott Resource Lending Partnership ("Sprott"), the outstanding balance of which amounted to US\$4 million as at 31 December 2015. The balance of the loan had been due to be repaid to Sprott by 31 March 2016. The Group has now agreed with Sprott that the balance of the loan shall be repaid in nine equal monthly instalments commencing 30 April 2016 and ending 31 December 2016. In the event that the Group elects to make any early repayment a penalty fee can be applied which depending on the time of repayment could be a maximum of 5% of the outstanding loan balance at that time. The interest rate applied to the loan remains at 10% per annum. The Group has granted to Sprott a call option over 2,500 ounces of gold at a strike price of US\$1,125 per ounce. Sprott has the right to exercise its call option, subject to a minimum of 500 ounces, at any time up to 30 June 2017. The call option if exercised will be settled in cash.

The Group has announced that effective from 1 January 2016 the Sao Chico Mine had entered into commercial production.

Glossary

“Ag”	means silver.
“AISC”	means All-In Sustaining Cost – a non IFRS performance measurement established by the World Gold Council.
“Au”	means gold.
“assay”	in economic geology, means to analyse the proportions of metal in a rock or overburden sample; to test an ore or mineral for composition, purity, weight or other properties of commercial interest.
“CIM”	means the Canadian Institute of Mining, Metallurgy and Petroleum.
“CIP” or “Carbon in Pulp”	means a process used in gold extraction by addition of cyanide.
“chalcopyrite”	is a sulphide of copper and iron.
“Cu”	means copper.
“cut-off grade”	the lowest grade of mineralised material that qualifies as ore in a given deposit; rock of the lowest assay included in an ore estimate.
“deposit”	is a mineralised body which has been physically delineated by sufficient drilling, trenching, and/or underground work, and found to contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures; such a deposit does not qualify as a commercially mineable orebody or as containing ore reserves, until final legal, technical, and economic factors have been resolved.
“DNPM”	means the Departamento Nacional de Producao Mineral.
“electromagnetics”	is a geophysical technique tool measuring the magnetic field generated by subjecting the sub-surface to electrical currents.
“garimpeiro”	is a local artisanal miner.
“geochemical”	refers to geological information using measurements derived from chemical analysis.
“geophysical”	refers to geological information using measurements derived from the use of magnetic and electrical readings.
“geophysical techniques”	include the exploration of an area by exploiting differences in physical properties of different rock types. Geophysical methods include seismic, magnetic, gravity, induced polarisation and other techniques; geophysical surveys can be undertaken from the ground or from the air.
“gold equivalent”	refers to quantities of materials other than gold stated in units of gold by reference to relative product values at prevailing market prices.
“gossan”	is an iron-bearing weathered product that overlies a sulphide deposit.
“grade”	is the concentration of mineral within the host rock typically quoted as grams per tonne (g/t), parts per million (ppm) or parts per billion (ppb).
“g/t”	means grams per tonne.
“hectare” or a “ha”	is a unit of measurement equal to 10,000 square metres.
“indicated mineral resource”	is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
“inferred mineral resource”	is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.
“IP”	refers to induced polarisation, a geophysical technique whereby an electric current is induced into the sub-surface and the conductivity of the sub-surface is recorded.

Glossary continued

“measured mineral resource”	is that part of a mineral resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
“mineralisation”	the concentration of metals and their chemical compounds within a body of rock.
“mineralised”	refers to rock which contains minerals e.g. iron, copper, gold.
“mineral reserve”	is the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.
“mineral resource”	is a concentration or occurrence of diamonds, natural solid inorganic material or natural fossilised organic material including base and precious metals, coal, and industrial minerals in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.
“mt”	means million tonnes.
“NI 43-101”	means Canadian Securities Administrators’ National Instrument 43-101 – Standards of Disclosure for Mineral Projects.
“ore”	means a metal or mineral or a combination of these of sufficient value as to quality and quantity to enable it to be mined at a profit.
“oxides”	are near surface bed-rock which has been weathered and oxidised by long-term exposure to the effects of water and air.
“ppm”	means parts per million.
“saprolite”	is a weathered or decomposed clay-rich rock.
“sulphide”	refers to minerals consisting of a chemical combination of sulphur with a metal.
“tailings”	are the residual waste material that is produced by the processing of mineralised rock.
“tpd”	means tonnes per day.
“vein”	is a generic term to describe an occurrence of mineralised rock within an area of non-mineralised rock.
“VTEM”	refers to versa time domain electromagnetic, a particular variant of time-domain electromagnetic geophysical survey to prospect for conductive bodies below surface.

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