


SERABI GOLD
Annual Report 2017



Welcome to Serabi Gold plc

We are engaged in the evaluation and development of gold projects in Brazil, and are currently producing approximately 40,000 ounces of gold per annum from our high-grade (8–9 grammes per tonne of gold) underground mining operations located in the Tapajos region of Para state.



OUR MISSION

Our 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.

see [page 04](#) to read more ↻



OUR FOCUS

We strive to operate efficiently and effectively with specific focus on quality, both in our mining practices and maximising the utilisation of our processing facility.


see [page 04](#) to read more ↻



OUR STRATEGY

1. Evaluate and develop the near-mine discoveries and exploration potential of the Palito Mining Complex.
2. Permit and develop the newly acquired Coringa gold project.
3. Evaluate and develop the longer term growth potential of the Jardim do Ouro and Coringa project areas.
4. Identify and acquire accretive gold opportunities in Brazil.

see [page 06](#) to read more ↻



Having recently acquired the Coringa gold project our ambition is to grow production to an annualised rate of 100,000 ounces of gold by 2020 and growing the total mineral resources to two million ounces in the same time frame.

see [page 04](#) to read more ↻

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Pathway to 100,000 ounces by 2020

40,000 ounces

Gold production guidance for 2018

30,000 ounces

Target production increase from organic growth

30,000 – 40,000 ounces

Target gold production from Coringa

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STRATEGIC REPORT

Chairman's Statement



Serabi's core business is high-grade gold production, and I am pleased to say that 2017 was another solid year from an operational perspective.

OVERVIEW

Whilst production was marginally lower than 2016, a total of over 37,000 ounces in 2017 was more than satisfying. With both the Palito and São Chico orebodies in production at planned levels, and some gold production upside as we step up the treatment of gold bearing flotation tails generated during the first year of production in 2014, we expect 2018 to be slightly better and return approximately 40,000 ounces of gold production.

Another highlight of the year was, of course, our acquisition of the neighbouring Coringa gold project. Coringa has always been an obvious acquisition for us. It is very much a Palito look-a-like requiring the same approach, project development, mining and processing we employ at Palito, so Serabi's management and team are well placed to bring this project into production in the next 24 months. We have also commenced a surface drill programme that is focusing on evaluation of the existing discoveries in and around both the Palito and São Chico orebodies. Therefore, through the combination of organic growth and the development of Coringa, we very much hope we will be increasing our current gold production levels of 40,000 ounces per annum and see a significant step change in the Group's evolution.

With the announcement at the end of March of a subscription for new shares by Greenstone Resources II LP, raising US\$15 million, Serabi is also now well-funded and able to progress its plans. Greenstone is a well respected, specialist private equity mining fund and I am delighted to welcome them as a long term strategic investor in the Company and look forward to working closely with them to unlock the full potential of Serabi's gold projects and pursue other growth opportunities.

REVIEW

Over the past three years there has been very stable production from the Palito Complex, and whilst we feel the potential from both orebodies far exceeds current production levels, the Group has remained focused on maximising cash generation and building up the working capital of the business. This allowed us to act quickly, when the opportunity unexpectedly arose, to acquire the Coringa deposit in December 2017 and the Group was able to meet the first instalment payment without needing to secure additional funding at that time. Nevertheless, it is not lost on the Board that fortunes of small producers like Serabi are very closely linked to the gold price and also, in our case, the Brazilian Real/US Dollar exchange rate. Ultimately, more production with stronger margins brings the improved economies associated with scale, and this is the logic behind the acquisition of Coringa. It reinforces the Group as very much a Brazilian focused producer and developer, and the synergies are clear, with an established experienced management and operational team in Brazil, we believe the Group is well placed to repeat the successful 2013/14 development and commissioning of Palito, at Coringa.

2017 saw some improvements in metal prices and general confidence in the sector, and in Brazil, we enjoyed exchange rates working in our favour a little more, particularly towards the end of the year. Brazil remains something of an enigma for investors, with juniors struggling to deliver, and for a country with such resource wealth, the country has been strangely light on attracting exploration investment from both junior and major mining companies. This, we feel, gives us great competitive advantage. With many years of operational experience, we are well placed to take advantage of others that find the going more challenging. We have built sound relationships with the various governing agencies and stakeholders, giving us further advantage. However, things seem to be changing for the better, as we have seen a number of companies increasing their involvement in the country over the past 12 months, some with considerable rumoured success. This renewed appetite is resulting in larger mining groups, looking to the junior sector for joint venture opportunities on projects to support their own growth. This cycle has always been the engine that drives the mining sector. It brings renewed investor interest and support for the sector to boost growth and new developments. We are seeing renewed interest from larger mining groups in the land holdings of the smaller companies in the country and keen to look at ways to work together that could accelerate evaluation of some of our tenements. This can only bode well for the region and country as a whole.

GROWTH

Nevertheless, the Serabi Board will continue to be prudent in its own strategy for growth as we seek to maximise the value that we can achieve from each dollar invested. We remain a small producer for now and will insist that management continues to follow its proven formula and systematic approach to exploration activity. We feel we have excellent potential in our tenements, at Palito, São Chico and Coringa, so anything outside these areas has to be substantially better to be included in our growth strategy. Growth will always need to be balanced with the concurrent need to continue to improve the Group's working capital position and improve its resilience to short term market movements that can negatively impact on cash flow and margin.

As well as the acquisition of the Coringa gold project, we commenced a surface drill programme at Palito in late 2017. Our exploration programme and organic growth, has effectively been on-hold since 2011 as we focused on the start-ups at both Palito and São Chico, and this has consumed our free cash flow as well as human resources. We are delighted these mine site discoveries, made in 2011/2012, are finally being tested. Just as with the initial acquisition payment for Coringa, the Group has been able to finance the initial drill from internal cash flow. The Palito resource comprises over 26 veins clustered together covering a strike length of up to one kilometre. However, we have now traced some of the veins over four kilometres so the potential to grow the resource is compelling.

It is a similar story at São Chico, a far more immature deposit than Palito in terms of geological understanding, but the orebody being mined lies within a strong regional shear zone that hosts numerous historical artisanal mines over a five kilometre strike length. In addition, recent geophysics work, undertaken in 2016, suggests the presence of additional sub-parallel structures.

Management continue to actively assess other opportunities in Brazil and the Group's track record of moving exploration projects into production makes Serabi an attractive partner for companies with less operational experience. We acquired Coringa during the year, as an asset level deal that we feel represents great value. The Group has tried to acquire this asset on other occasions in the past recognising both the potential of the project and its synergies. The previous operators put a huge amount of effort and investment into the project and we feel our patience has been rewarded by acquiring it at a very attractive price. Furthermore, we believe we have acquired an asset which has high potential and which can be a more significant gold producer than currently forecast. The acquisition of Coringa along with our existing growth opportunities starts us on the path of expansion and we will continue to pursue opportunities that will bring strong, long term returns to our existing shareholders.

LOOKING FORWARD

The next 12 months will bring different, new challenges to the Company. Whilst we need to maintain production levels, we need to expand the team to absorb and advance Coringa through permitting and into construction. The exploration team also need to meet the expectations we have for our internal growth. Overall, I feel the Company has enjoyed a very successful 2017, which will form a strong platform for further success in 2018.

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 the past year. Their hard work and determination to succeed means your Company is well positioned to reap the benefits of the higher gold price environment we expect during 2018 and beyond. Finally, thank you to our shareholders, large and small, for your patience during the last few years. I continue to believe the future is extremely bright for Serabi.

Mel Williams

Chairman

29 March 2018

STRATEGIC REPORT

Business Model

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.



Our Strengths

STRONG GOLD PRODUCTION

As a junior mining company seeking to grow and develop in Brazil, Serabi has established a track record of stable and consistent production over the last two years and the current operations are well positioned to continue to achieve similar results in the future.

EXPERIENCED EMPLOYEES

Serabi has assembled an experienced and loyal workforce, well versed in the challenges that the Group's operations might bring.

STRONG LEADERSHIP

Serabi's board combines experience across a range of disciplines, with a record of successful development of mining projects and growing and realising value for shareholders.

see our Operational Review on [pages 22 to 29](#) ↻

Our Operations

EFFICIENCY

Serabi's ethos is on quality rather than quantity. Management constantly strives to make each area work better to improve margins and maximise the use of existing mining, plant and infrastructure capabilities.

SUSTAINABILITY

The focus is to build a long term sustainable business that returns value to shareholders but considers the obligations to employees, communities and other stakeholders and provide secure long term benefit to all those associated with, or affected by, the Group's operations.

QUALITY

Serabi has established itself as one of the premier underground mining operators in Brazil.

see our Operations on [pages 10 to 13](#) ↻

Our Management Process

RISK MANAGEMENT

There are many risks inherent in mining operations which, to a greater or lesser degree, can be anticipated. Serabi has an active risk management programme seeking to assess and instigate actions to minimise risk in all areas of the business.

WORKING WITH GOVERNING AGENCIES

Serabi works closely and transparently with all key government agencies and other stakeholders to ensure that, with regards to social, environmental and safety aspects, its operations are run in compliance with and above prevailing legislation.

COMMITMENT TO REGULATION AND RESPONSIBLE PRACTICE

Serabi is committed to ensuring that its operations have minimal impact on communities and the environment. It seeks to bring positive benefit to the neighbouring communities, through providing assistance with education, healthcare and general improvements in living conditions.

Mine development completed

9,864 metres

2017	9,864
2016	11,209
2015	9,600

Plant throughput

172,565 tonnes

2017	172,565
2016	158,966
2015	130,299

Annual gold production


37,004 ounces

2017	37,004
2016	39,390
2015	32,629

see our Performance Review on **page 18** to read about our KPIs 

Serabi Achievements

- Total gold production for 2017 of 37,004 ounces.
- Mine production in 2017 totalling 168,876 tonnes at 8.92 grammes per tonne (g/t) of gold.
- 172,565 tonnes processed through the plant for the combined mining operations, with an average grade of 7.11 g/t of gold.
- 9,864 metres of horizontal mine development completed in the year.
- Completion of new estimation of Mineral Reserves and Resources for the Palito Mining Complex. Total Mineral Reserves estimated at 181,000 ounces within a total mineral resource of 538,000 ounces.
- The acquisition of Chapleau Resources Ltd and its wholly owned Coringa gold deposit with a mineral resource of 376,000 ounce.
- Concluding a new US\$8 million loan with Sprott Resource Lending Partnership ("Sprott").
- Commencement of an initial 8,000 metre surface drill programme at Palito in December 2017.
- Successful test work to evaluate the benefits of ore-sorting to improve process plant efficiency.
- Announcement in March 2018 of a share subscription by Greenstone Resources LP raising US\$15 million.
- Palito development and production continues to focus on the four main sectors of Senna, Pipocas, G3 and Mogno, whilst in the São Chico orebody, the main ramp has now reached level 10mRL, approximately 245 vertical metres below surface.

see our Operational Review on **pages 22 to 29** to read more 

Key Objectives for 2018

- Building an increase in mineral resources and setting the platform for future production growth in 2020.
- Continue the permitting process for Coringa to allow construction to commence during the first half of 2019.
- Continue, and accelerate, the current drilling programme at Palito to test the strike extension of orebodies beyond the current resource limits.
- Commence a similar drill and surface geophysics campaign at São Chico to test the five kilometre trend that hosts the São Chico deposit as well as multiple historic artisanal mines along its length.
- Optimise mine planning and development plans for the Coringa project to improve the economics and the projected life.
- Continue to evaluate M&A opportunities in the region and across Brazil.

see our Pipeline for Organic Growth on **page 07** to read more 

STRATEGIC REPORT

Business Model continued

A blend of organic growth through the continued development of the Group's existing assets and targeting opportunities that have potential for long term value improvement will be at the centre of the Company's plans.



Value Creation

SHAREHOLDERS

Generation of short term capital appreciation through investment of cash in accretive growth to grow longer term cash generation to sustain distributions to shareholders.

HOST GOVERNMENT AND GOVERNMENT AGENCIES

Generation of tax and royalty receipts to sustain a high-quality oversight and regulatory regime.

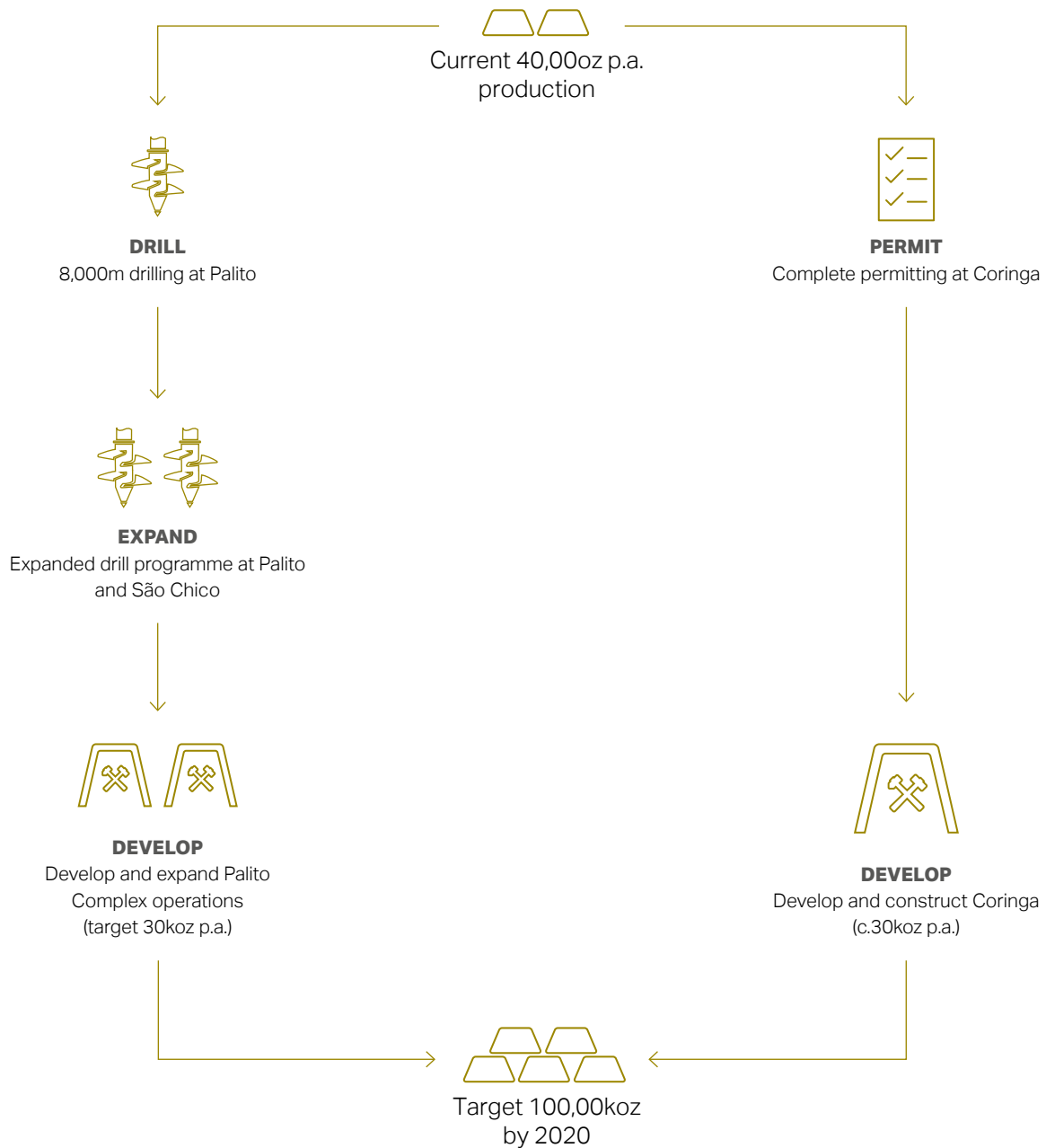
LOCAL COMMUNITIES

Provide improvements to infrastructure, education and healthcare to improve the living standards and opportunities for local populations.

EMPLOYEES

Generate a stable and secure work environment in which employees learn, are mentored and can progress and develop their careers.

Pipeline for Organic Growth



Future Growth Opportunities



NEW DISCOVERIES

New discoveries within the wider JDO region. Fly new VTEM surveys.



FOLLOW UP DEVELOPMENT

Follow up on existing geophysical anomalies close to Palito Complex.



NEW M&A



FURTHER RESOURCE EXPANSION

Further resource expansion at Coringa.

STRATEGIC REPORT

Our Business at a Glance

Our Strategy

Where we Operate

see our Management Discussion and Analysis on **pages 22 to 41** to read more 

<p>FOCUS Pursue gold mining opportunities in Brazil appropriate to the Group's size and capabilities.</p> 	<p>Management have assessed and pursued several opportunities over the past two years culminating in the acquisition of the Coringa project in December 2017. Other opportunities continue to be evaluated and considered. An 8,000 metre drilling programme commenced in the fourth quarter of 2017 to evaluate existing discoveries and expand mineral resources and ultimately production at the Palito Complex.</p>
<p>EVALUATE Identify high quality opportunities through exploration or acquisition.</p> 	<p>Management ranks acquisition opportunities against each other and also its ability to build value from investment in its own exploration tenements.</p> <p>Several acquisition opportunities are continuing to be assessed and evaluated and compared with potential returns that could be generated from organic growth opportunities.</p>
<p>DEVELOP Plan, finance and build new mines in a timely and cost effective manner.</p> 	<p>Serabi successfully brought the Palito Mine into commercial production for approximately US\$18 million, in line with the original estimates in the Preliminary Economic Assessment. The São Chico satellite mine was also brought into commercial production with low up-front capital costs.</p> <p>Technical studies including mine design, engineering and construction were largely undertaken by Serabi's own staff reducing reliance on third party consultants and ensuring that key staff took ownership.</p>
<p>OPERATE Seek continuous operational improvement to maximise value.</p> 	<p>During 2017, the Group made various improvements and increased plant capacity including:</p> <ul style="list-style-type: none"> Switching the São Chico orebody to a mechanised mining method better suited to the orebody and improving mining productivity. Undertaking test work on the introduction of ore-sorting into the process flow sheet to liberate plant capacity and increase feed-grade of ore to the mills. Completing an updated independent estimation of Mineral Reserves and Mineral Resources which will assist long term mine planning. Installing a carbon regeneration kiln to recycle carbon and reduce costs. Updating operational procedures to improve reliability and allow increased use of grid generated power and thereby reduce costs. Installing a new industry standard de-toxification plant for tailings. Building and commissioning a new mine-site laboratory.
<p>RETURN Generate value for all stakeholders (investors, government and communities) to encourage the continuation of the cycle.</p> 	<p>Continued to reduce unit cost of production on a per tonne basis to protect margins.</p>

How we Measure our Performance

see our Key Performance Indicators on **page 18** to read more [↻](#)

The Board reviews all projects that management brings to its attention and only authorises the pursuit of opportunities including organic growth opportunities, that the Board considers to have synergies, strong growth prospects and good investment return potential or will in other ways have strong potential to add value for shareholders.

Development of new opportunities or expansion of existing operations are measured against development plans and costs. Performance is judged by considering adherence to time schedules, cost estimates and performance against plan.

Operational performance is judged by considering annual and quarterly results achieved by comparison with forecasts, with a blend of measurements to ensure that efficiency is the key objective, in the use of the Group's human, equipment and financial resources.

The Board seeks to add value for all of the Group's stakeholders and recognises that stakeholders may seek returns in varying ways. Returns are evaluated by the ability of the Group to generate cash and sustainable cash flow, to reduce the investment risk for stakeholders and increase, on a sustainable basis, the value of the Group.

What we Plan to do

see our Management Discussion and Analysis on **pages 22 to 41** to read more [↻](#)

Management continues to maintain its focus on Brazil where it can leverage its existing infrastructure, local knowledge, contact base, and specialist skills, in particular, successfully developing and operating smaller scale mining operations.

A significant focus of management during 2018 will be on trying to develop opportunities within the Group's existing tenement holding. The Group has four drilled discoveries near to its existing Palito deposit and significant geophysical anomalies near to the São Chico deposit where there is also significant potential for further discoveries along strike. In addition, within the wider tenement holding, there are numerous gold occurrences and other exploration opportunities that the Group considers should be pursued as a priority.

The recently acquired Coringa project hosts a continuous seven kilometre strike of historic artisanal activity which the Group would like to commence work on evaluating further at the earliest opportunity.

Dependent on exploration success, the Group would be looking to develop new satellite orebodies in close proximity to either or both of the São Chico or Palito deposits at the earliest possible opportunity to facilitate production growth. It has already made preliminary plans that would permit the processing of increased ore volumes at low additional cost and with negligible impact on existing operations.

It will progress as quickly as possible the permitting process for the Coringa project, with the objective to commence development and construction during 2019 with first gold being produced in 2020.

Management continues to review all aspects of operational performance to achieve improvements in total gold production but simultaneously seeking to reduce costs, improve equipment utilisations rates, reduce machinery down-time and achieving better production rates per shift.

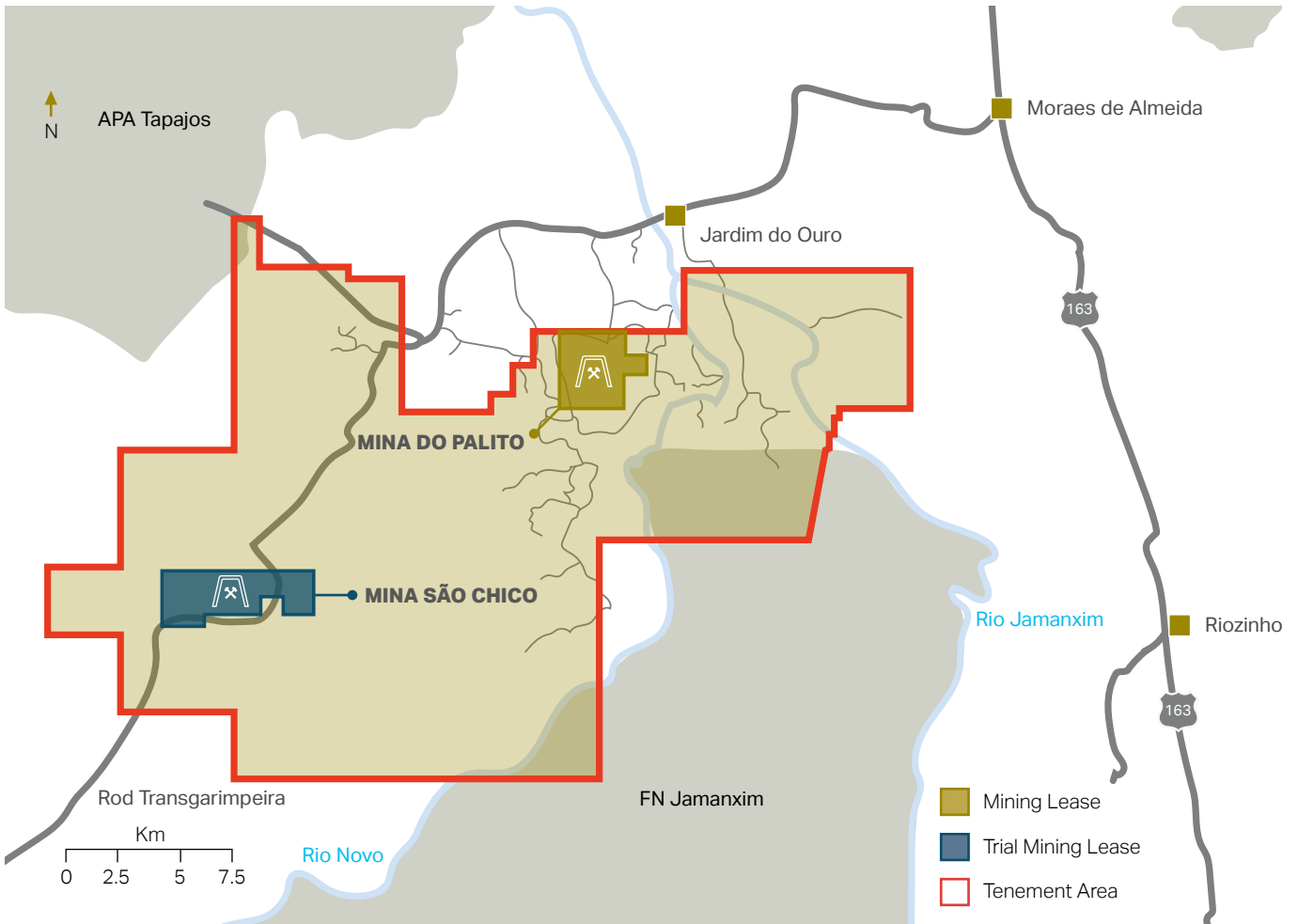
The Group has and will use existing cash flow to finance its exploration and development programmes and supplement its working capital with appropriate levels of debt and other financing instruments that are non-dilutive for shareholders.

New equity will be used to accelerate investment plans where the Group considers that those investments will be accretive to existing shareholders and the nature of the investment does not readily lend itself to alternative financing structures.

STRATEGIC REPORT

Our Current Operations – The Palito Mining Complex

The Palito Mining Complex comprises two orebodies, providing mined ore to a common plant. Extensions of the orebodies and additional satellite deposits are expected to provide future production growth and extended mine life.



37,004 ounces

Gold production for 2017

460 tonnes

Average daily mining rate for 2017

8.92 g/t

Average mined grade for 2017





Palito

The Palito orebody 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. It is a small-scale, high-grade operation using selective mining techniques with a production target of around 25,000 ounces per annum.

- 26 veins comprising the current resource of which eight are in the current mine plans.
- Fully permitted.
- Currently operating at 350 tonnes per day at 8.0-9.0 g/t gold.
- Mining is undertaken by on-lode development followed by selective open stoping between 30-40 metre vertically spaced levels.
- The mine is dry with excellent ground conditions.
- 448,000 ounces of NI 43-101 compliant mineral resources (2017).
- Experienced underground mining labour at site with proven experience in underground selective mining.
- Mains grid-power at site with back up from diesel powered generators.
- Fully functioning camp for ~250 employees, airstrip, assay laboratory, hospital and workshops all in place with year-round road access.



São Chico

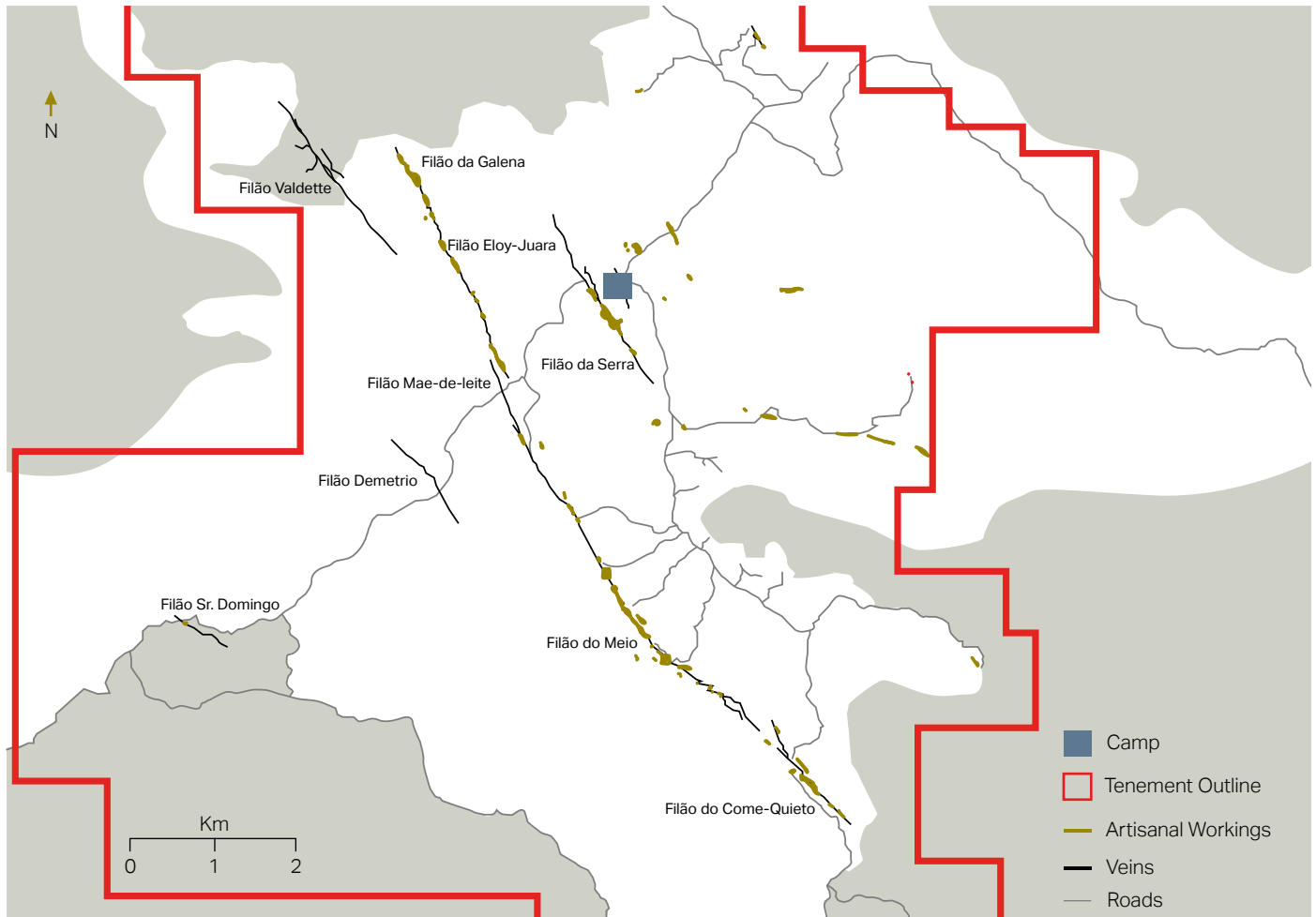
The São Chico orebody is a satellite deposit providing supplementary high-grade gold ore to the Palito processing plant to increase Serabi's overall gold production. Whilst the current NI 43-101 compliant resource is small, management is confident of the potential for this to be expanded.

- High-grade satellite to Palito currently providing ore feed of 150 tpd at 9.0 g/t of gold.
- A trial licence for mining 50,000 tonnes per year is in place.
- 90,000 ounces of NI 43-101 compliant mineral resources (2017).
- With the greater ore widths at São Chico mining is more mechanised than at Palito with open stope retreat mining methods generally being deployed with levels spaced at approximately 15 metres.

STRATEGIC REPORT

The Coringa Gold Project

Located 200km south of the Palito Complex, containing a gold resource of 376,000 ounces.



376,000 ounces

Estimated gold resource

30-40,000 ounces

Target production per annum

8.4 g/t

Average grade of indicated resources at Coringa

A major stepping stone in our 2020 goal of achieving an annualised production target of 100,000 ounces.

Coringa hosts a mineral resource estimate of 376,000 ounces of gold, including an Indicated Resource of 195,000 ounces of gold with an average grade of 8.4 g/t. Estimated mineral reserves included within the mineral resource, are 160,000 ounces of gold. Coringa is located some 70 kilometres to the south-east of the town of Novo Progresso which is approximately 130 kilometres by road to the south of Serabi's current mining operations at Palito.

Completion of the acquisition occurred on 21 December 2017 ("Closing"). Serabi has made an initial payment to the vendor on Closing of US\$5 million in cash ("Initial Consideration"). Subject to any working capital adjustment, a further US\$5 million, in cash, is payable within three months of Closing and a final payment of US\$12 million, in cash, will be due upon the earlier of either the first gold being produced or 24 months from the date of Closing (both payments together being the "Deferred Consideration"). The total proposed consideration for the acquisition amounts to US\$22 million in aggregate.



A bankable feasibility study commissioned by the previous owners and released in September 2017 reported:

- Probable mineral reserves of 161,000 ounces of gold at 6.5g/t.
- 5 year mine life with annual production of 32,000 ounces per annum.
- Capex ~ US\$28 million.
- Average estimated cash cost of US\$588 per ounce and All-In Sustaining Cost ("AISC") of US\$786 per ounce.

An earlier 43-101 compliant study issued in 2015 reported a total mineral resource of over 900,000 ounces, a significant portion of which was excluded from the latest study. Serabi's management considers that a modest drill programme could quickly allow the "lost" resources from the 2015 estimation to be reinstated increasing the mine life, the overall project economics and potentially the projected annual production rates.

Key Facts

- Located only 200 kilometres from Serabi's Palito operation and linked by paved highway, providing opportunities of synergies for management and infrastructure and potential reduction of unit operating costs.
- Past gold discoveries at Coringa including the Mae de Leite, Come Quietto, Demetrio and Valdetto veins.
- Coringa hosts an Indicated Mineral Resource of 195,000 ounces of gold at 8.36 g/t and an Inferred Mineral Resource of 181,000 ounces gold at 4.32 g/t.

Project Objectives for 2018

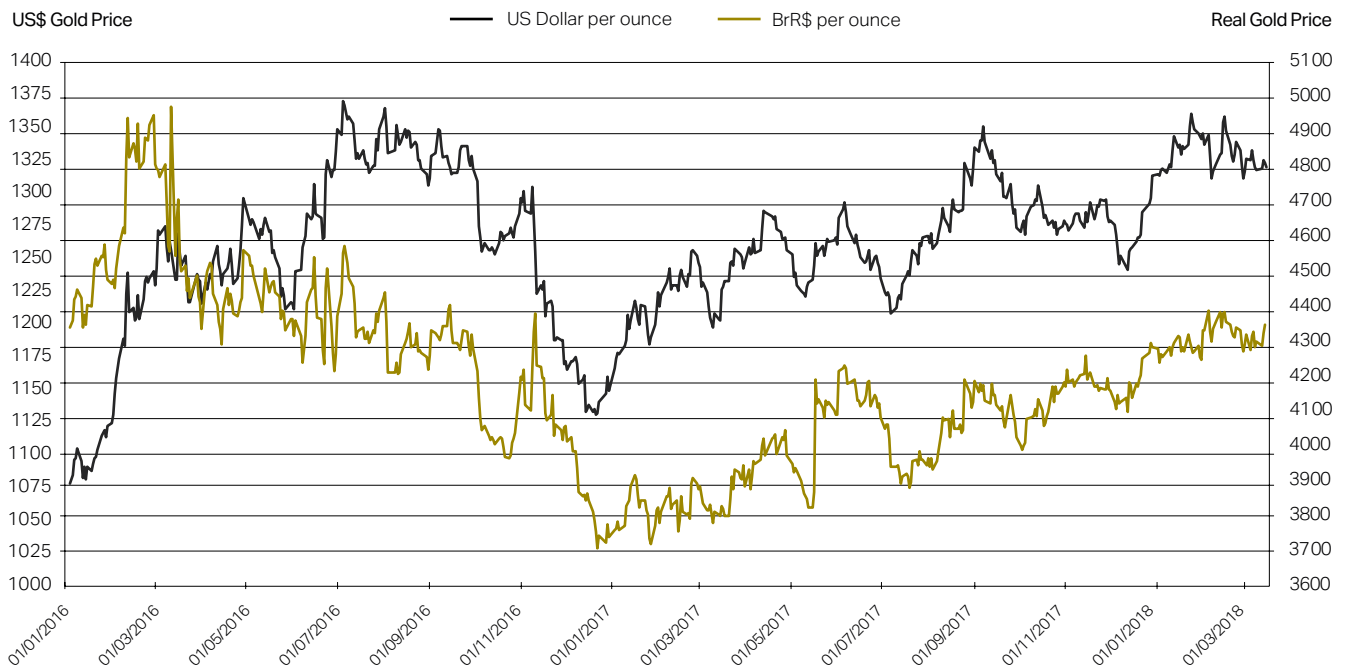
- Secure approval of Environmental Impact Assessment (EIA/RIMA) submitted in November 2017.
- Complete land access negotiations with land owners.
- Complete public hearing and consultation process.
- Obtain initial Licença Previa ("LP") confirming the selection of the best place for developing and conducting extractive activities, based on the detailed EIA/RIMA.
- Progress obtaining the Licença de Instalação ("LI"). This permit allows the construction of the mine, assuming compliance with any conditions imposed by the LP.
- Progress the issue of an initial Trial Mining Licence from the DNPM.
- Maintain dialogue and support of various other government agencies including INCRA (National Institute for Colonisation and Agrarian reform), ITERPA (Pará Land Institute), FUNAI (National Indian Foundation), ICMBio (Chico Mendes Institute for the Conservation of Biodiversity), ANA (National Water Agency), and IPHAN (National Institute of Historic and Artistic Patrimony), among others.

STRATEGIC REPORT

The Gold Market

Gold's role in managing risk is strengthened by concerns over the valuations attributed to other asset classes. Interest rates are at historically low levels and governments generally experiencing high levels of debt might be expected to pursue policies that keep interest rates low. This would bode well for gold as an asset class.

Gold Price in US\$ and BrR\$ January 2016 to Date



THE GOLD MARKET AND OUTLOOK

Having experienced the concerns at the end of 2015 when gold was predicted to fall below the US\$1,000 per ounce level for the first time since late 2009, the last quarter of 2016 also saw a steep decline from a price of US\$1,300 to around \$1,140 towards the end of December 2016. The bears were once again predicting the decline of gold. It is therefore pleasing that 2017 has seen steady improvement and having started the year at around US\$1,150 the price closed almost US\$150 per ounce up (a 13 per cent improvement) to close the year at US\$1,300 per ounce. The momentum has been maintained into the first quarter of 2018 although having reached a high over

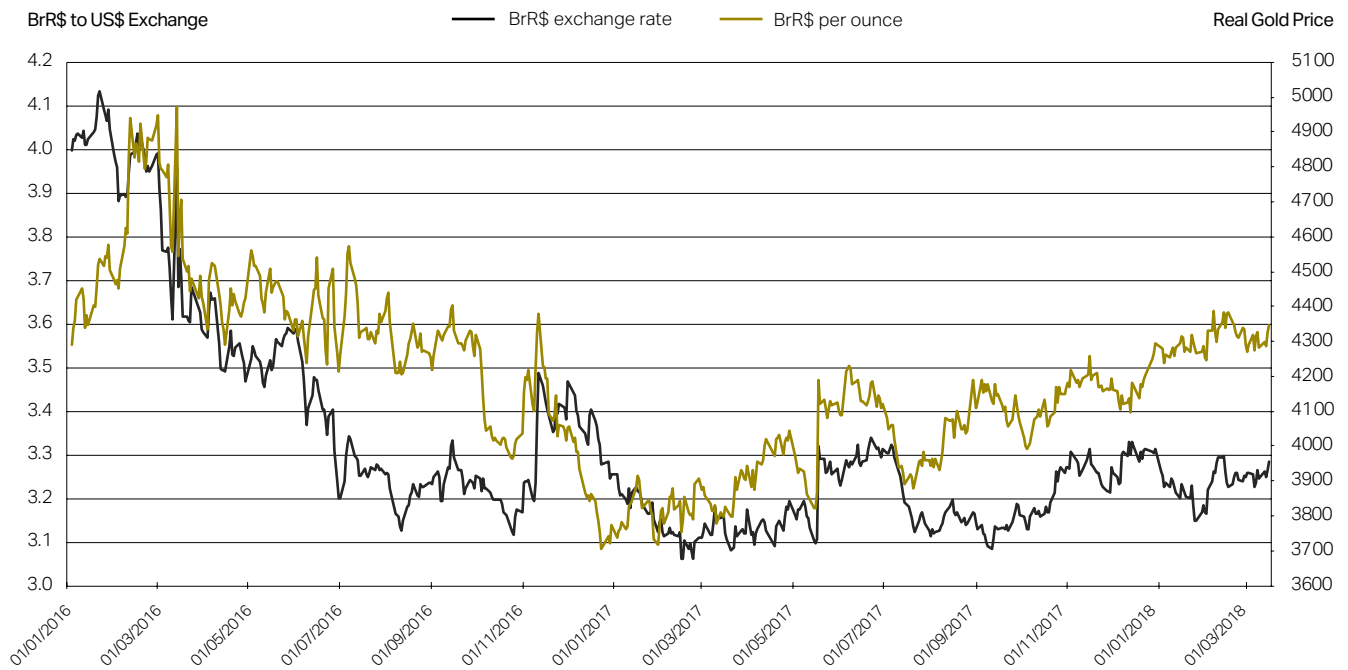
of US\$1,350 at the height of the rhetoric between the USA and North Korea earlier this year the price has since declined though remains comfortably over US\$1,300 per ounce.

Whilst 10 years have now elapsed since the global financial crisis, economic normality is now returning and 2018 is expected to see the trend in global growth continuing. With the key US and European economies expanding and unemployment levels beginning to fall whilst inflation remains low, there is cautious optimism about the future. With increasing consumer confidence, improved consumer demand for gold is expected to increase, both in the jewellery sector and in technological

applications. Interest rates are expected to remain at historically low levels and with governments, both in the developed and emerging markets, experiencing high levels of debt one might expect them to pursue policies that seek to keep interest rates low. This would bode well for gold as an asset class.

Gold's role in managing risk is also strengthened by concerns over the valuations being attributed to other asset classes some of which have hit multi year highs around the world in 2017. The search for yield has resulted in significant growth in property prices around the world with the Chinese market experience almost 100 per cent growth in the two years to the end of 2017.

BrR\$ Exchange Rate and Gold Price in BrR\$ January 2016 to Date



and some indicators are at levels not seen since the dot-com bubble of 2000. Whilst there is no immediate sign of an end to a bull market in 2018, there should be caution about valuations and should markets correct investors should benefit from exposure to gold to mitigate potential losses.

On the geo-political front, continuing concerns about Brexit, on-going Middle-East tensions and any resurgence of a fractious US – North Korea relationship all provide a positive environment for gold investment.

For Serabi however with its exposure to the Brazilian real, the Gold price in Real is a key indicator for the Company. Whilst there are

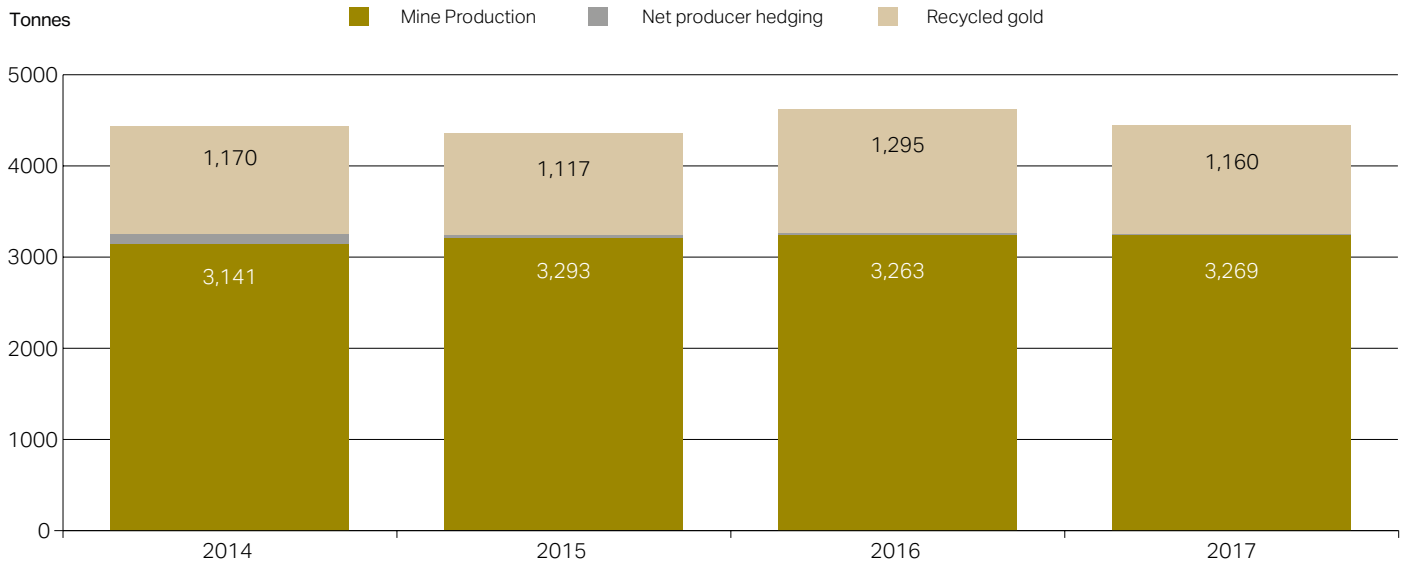
many factors influencing the Brazilian Real to US Dollar exchange rate, a key factor in the past has been the relative currency inflows into the country attracted by the high interest rates. The current government has made a priority of driving down inflation and reducing interest rates, and to this end inflation is currently down at approximately 2.84 per cent whilst interest rates during 2017 have fallen from 13.75 per cent at the start of the year to 7.0 per cent by the end of 2017. This has kept the exchange rate in a much narrower band than we have seen in the last couple of years providing some respite from the uncertainties that this creates for managing cash flow and longer-term planning. With elections due in October 2018 and the continuing fall-out

of the corruption scandals of the Lula and Rousseff administrations, it seems likely that there will be uncertainty as to where power will lie and therefore the future direction of economic and general policy post the October elections. At this time, it remains very difficult to judge which way the population will vote, with the likelihood that the outcome will be much closer than it has been for many years.

STRATEGIC REPORT

The Gold Market continued

Gold Supply 2014-2017



Source: World Gold Council

5.7 tonnes

Increase in mine production

135 tonnes

Decrease in use of re-cycled gold

6.7 %

Net decrease in demand for 2017

SUPPLY

World gold supply in 2017 declined by around 4 per cent year on year (193 tonnes) notwithstanding that mine production marginally improved compared to 2016. However, an increase of only 5.7 tonnes means that mine output essentially plateaued with new starts simply filling the reductions caused by closures and declines at older operations. Significant reductions were seen in China and Tanzania. In China improved environmental legislation is forcing marginal operations to close, whilst the on-going ban on gold concentrate exports in Tanzania has had a significant impact on gold production in the country.

The levels of re-cycled gold which had been unusually high in 2016, fell by 135 tonnes (10 per cent). This perhaps reflects that following an almost two year period of declining gold price leading into the start of 2016, the rapid improvement during the first six months of 2016 resulted in a unusual levels of recycled supply, which was always likely to result in a rebalancing during 2017 back to more normal levels.

For the first time since 2013, there has been a net de-hedging by producers which reduced supply by approximately 63 tonnes year on year. Levels of producer hedging continue to be low compared with the past.

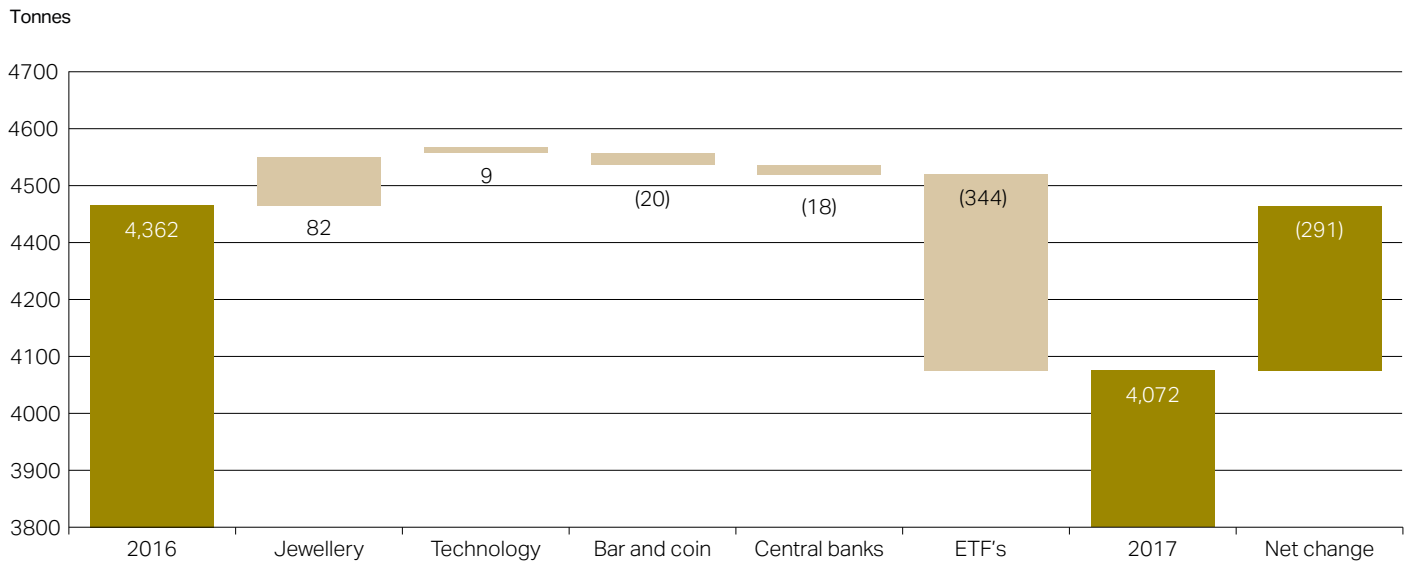
DEMAND

On the demand side of the equation only jewellery demand showed any significant improvement compared with 2016. Overall demand fell by seven per cent notwithstanding a relatively strong fourth quarter buoyed by a continued improvement in prices.

Whilst investment in gold by ETF's continued to be positive in 2017 the net increase in demand was 63 per cent below that of 2016, albeit that there had been strong sell off's in previous years, which meant that 2016 had been a year of re-balancing.

Central banks were net purchasers of gold a situation which has prevailed now for eight consecutive years, with Russia and Turkey being among the major buyers whilst many other central banks left their gold reserves untouched.

Change in Annual Gold Demand, 2017 v 2016



Source: World Gold Council



STRATEGIC REPORT

Performance Review and KPIs

The Board assesses the performance of the Group and its senior management by setting annual performance targets appropriate to the individual's areas of responsibilities. These targets focus on those areas that the Board considers are important for the short and long term success of the Group and its operations and will build value for the Group's stakeholders. In common with many similar companies in the industry, these KPI targets primarily focus on production, management of costs and safety which can be measured and the Board anticipates that, subject to global economic factors that may be outside of management's general control, attainment of the KPI targets should build returns for the Group's shareholders.

OPERATIONAL PERFORMANCE REVIEW

The Board established three key strategic objectives for 2017. The first of these was to maintain and seek to improve operational performance compared with the preceding year, which itself had been a very successful year, where guidance had been exceeded. This therefore set a high benchmark. Second, was to try and progress organic growth through re-investment of cash flow from the operations. This organic growth centres on defining and developing strike extensions of existing veins as well as follow up drilling on discoveries made previously that can increase mineral resources, supporting additional production and a longer mine life. Thirdly, the Board agreed that the Company should actively consider opportunities around Brazil and seek to make a project acquisition that provides growth and will add value for shareholders.

Whilst overall gold production was lower than the preceding year, the operations performed extremely well throughout the year. Tonnage mined and tonnage processed both increased and had it not been for an equipment commissioning issue in the second quarter which resulted in a need to rely on lower grade development ore, gold production would have been very comparable to the level attained in 2016.

On a monthly basis the Board reviews key productions statistics to ensure that operations are being undertaken in a manner that is efficient and, more particularly, sustainable. In this respect, and in common with any underground mining operation, it is critical that, on a monthly basis, mine development rates are maintained ahead of production.

Average mined grades were slightly lower than the preceding year, but this was generally expected and arises from the development of new veins within the Palito deposit. Each vein is unique in its grade and width characteristics and to maximise future flexibility, the Company took a conscious decision to start developing and producing from the Senna and Chico da Santa areas to the west and east of the Palito Main Zone and Palito West areas that formed the core of production for 2016. With development now quite well advanced in these additional zones, the Company now has significantly more options for where ore is produced allowing the opportunity for smoothing out grade fluctuations between the different ore zones of the deposit.

A surface exploration drilling programme commenced in November 2017, initially targeting step-out drilling on the known veins around the Palito orebody. Whilst a modest programme initially, it is targeted at building additional resources and identifying additional orebodies that can in time be proved to be commercial, grow production and increase the longevity of the operation. It is hoped this programme can be extended and the discoveries will be fully evaluated and drilled.

In December 2017, the Company completed the acquisition of the high-grade Coringa gold project located 200 kilometres to the south of the Palito Mine Complex. With many similarities to the Palito and São Chico deposits and with its relative proximity it will, once in production, allow the Company to benefit from synergies across the operations. In addition, the Company is of the view that the project has significant potential for resource growth making the

Mined Ore

168,876 tonnes

2017	168,876
2016	158,864
2015	135,827

Mined Grade (g/t)

8.92 g/t

2017	8.92
2016	9.74
2015	9.80

Mine Development Completed

9,864 metres

2017	9,864
2016	11,209
2015	9,600

Plant Throughput

172,565 tonnes

2017	172,565
2016	158,966
2015	130,299

Annual Gold Production

37,004 ounces

2017	37,004
2016	39,390
2015	32,629

Cash Balances

US\$4.09m

2017	US\$4.09m
2016	US\$4.16m
2015	US\$2.19m

Annual Cost Breakdown – unit costs BrR\$/tonne

Mining Cost / tonne

2017	359
2016	381
2015	472

Plant Cost / tonne

2017	124
2016	138
2015	154

Site Costs / tonne

2017	102
2016	113
2015	121

Annual Cost Breakdown BrB\$m

Mining

2017	60.12
2016	61.23
2015	52.70

Plant

2017	21.44
2016	22.26
2015	17.63

Site

2017	17.61
2016	18.16
2015	13.78

Borrowings

Secured Loans

2017	US\$5.00m
2016	US\$1.37m
2015	US\$4.00m

Trade Finance

2017	US\$0.00m
2016	US\$0.42m
2015	US\$6.65m

Finance Leases

2017	US\$1.12m
2016	US\$1.25m
2015	US\$0.86

project an attractive longer term opportunity. More details of the Coringa project are set out on pages 12 to 13.

Further details regarding the operational performance during 2017 are set out in the Operational Review on pages 22 to 29.

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 Costs and All-In Sustaining Costs ("AISC") to review the performance of the operations on a monthly basis.

Much of the Group's expenditure is incurred in Brazilian Reals and accordingly the Group has significant exposure to the fluctuations in the exchange rate between the Brazilian Real and the US Dollar which is the reporting currency of the Group. In order for the Board to assess underlying performance, and in particular, operational performance and cost control, it considers the production costs in local currency. During 2016 the Brazilian Real strengthened by 20 per cent but during 2017 has remained fairly static by comparison with the volatility that had been seen in the preceding two years having traded within a range of about 3.05 to US\$1.00 and \$3.30 to US\$1.00 through the year.

Notwithstanding the increased mine and process tonnages achieved during 2017, costs in Brazilian real terms have reduced and when considered on a unit cost of production basis (cost per tonne) have shown good improvement. The Company continues to look for both cost and operational efficiencies, and through a focus on quality, hopes that it can continue to improve margins by making each part of its operations operate in a manner that maximises utilisation and productivity rates.

Having settled, during 2016, much of its debt the Company's focus during 2017 was to be one of consolidating its position and establishing the financial foundations for growth. During June 2017, the Company negotiated a loan with Sprott Resource Lending to provide it with additional working capital allowing the Company the opportunity to start committing to capital and development programmes as well as providing financial flexibility to look at other opportunities.

The strong cash position that was established allowed the Company to pursue and complete the purchase of the Coringa project and make the initial US\$5 million acquisition payment from existing funds.

Further details regarding the financial performance during 2017 are set out in the Financial Review on pages 34 to 41.

STRATEGIC REPORT

Principal Risks and Uncertainties

The Board considers that the following risks are those which present the most significant uncertainty for the Company at the current time.

There are many risks inherent with mining operations which to a greater or lesser degree companies can anticipate, plan for and seek to mitigate. These risks may impact on a company only in the short term or may have longer term implications for the success and development of the enterprise and its mining projects.

RISK	COMMENT	MITIGATION
Changes in gold prices.	<p>The profitability of the Group's operations is dependent upon the market price of gold. Gold prices fluctuate widely and are affected by numerous factors beyond the control of the Group.</p> <p>Reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Group's investment in mining properties and increased amortisation, reclamation and closure charges.</p>	<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 the results of operations.	<p>The Group's major products are traded in prices denominated in US Dollars. The Group incurs most of its expenditures in Brazilian Reals although it has a reasonable level of expenses in US Dollars, UK Pounds and other currencies.</p>	<p>Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.</p>
Availability of working capital.	<p>The Company is reliant on generating regular revenue and cash flow from its operations on a monthly basis to meet its monthly operating costs, meet debt repayment requirements and to fund capital investment and exploration programmes. It has no overdraft or stand-by credit facilities in place in the event of any operational difficulties or other events that may reduce or delay revenue receipts in the short term.</p>	<p>Management, in designing and planning the Group's operations, incorporates contingency planning. The Group has multiple mining faces to minimise geological and mining risk to operations, it has a modular plant to ensure gold processing can be maintained to the greatest extent possible at all times and deals with customers for its products who have good credit and standing in the industry. Management also manage the Group's commitments and obligations to maximise the level of cash holdings at any time and works closely with existing and potential lenders and other potential financing partners to ensure that, to the greatest extent possible, it can have access to additional cash resources or defer debt repayment obligations should any unexpected need arise.</p>
<p>No guarantee that the Group's applications for exploration licences and mining licences will be granted.</p> <p>Existing exploration licences may not be renewed or approved or converted into mining licences.</p> <p>Title to any of the Group's mineral properties may be challenged or disputed.</p>	<p>There is no guarantee that any application for mining licences, the renewal of existing exploration licences or the granting of new exploration licences will be approved by the Departamento Nacional do Produção Mineral ("DNPM"). The DNPM can refuse any application. Persons may object to the granting of any exploration licence and the DNPM may take those objections into consideration when making any decision on whether or not to grant a licence.</p> <p>The exploration licence for the São Chico property expired in March 2014. The Group applied for a full mining licence and the application and all supporting information and reports have been made in accordance with prescribed regulations. The Group has received no indications that the full mining licence will not be granted.</p> <p>At the current time mining operations at the São 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> <p>The Group is in the process of applying for a mining licence in respect of the Coringa gold project. There can be no certainty that a mining licence will be issued or as to the time frame in which it will be issued.</p>	<p>Management maintains on-going dialogue with the DNPM and other relevant government bodies regarding its operations to ensure that such bodies are well informed and also to help ensure that the Group is informed at an early stage of any issues of concern that such bodies may have.</p> <p>The Group employs staff and consultants who are experienced in Brazilian mining legislation to ensure that the Group is in compliance with legislation at all times.</p>

RISK	COMMENT	MITIGATION
Other permits and licences required to conduct operations may not be renewed or may be revoked or suspended.	<p>The Group requires a number of permits and licences to be able to undertake its operations and these are issued by a variety of agencies and departments.</p> <p>The Group is required to provide regular reports and may be subject to inspections to ensure that it is in compliance with its obligations in respect of any licence or permit. Failure to comply with the obligations can result in fines, obligations to undertake remedial action and, in cases where a breach is deemed significant, in suspension until remedied.</p> <p>Permits and licences are issued for fixed periods and therefore subject to regular renewal. The renewal process may impose additional obligations on the Group that had not been imposed under previous licences and permits.</p>	<p>Management maintains on-going dialogue with the all government bodies involved with the granting and control of mining operations to ensure that such bodies are well informed of the Group's activities and plans and also to help ensure that the Group is informed at an early stage of any issues of concern that such bodies may have.</p> <p>The Group employs personnel and consultants experienced in the various aspects of the licencing and permitting process to ensure that it maintains compliance with its obligations.</p>
The Coringa gold project is an advanced stage development project requiring permitting and construction before production can commence.	<p>The Group acquired the Coringa gold project in December 2017.</p> <p>The Group is at the early stages of obtaining all the necessary permits and licences (including a mining licence and operational licence) required to allow mine development and plant construction to commence and there can be no certainty that it will be granted all the necessary licences and permits or as to the time frame in which these will be issued.</p>	<p>The Group has been operating in the region for a number of years in general is dealing with the same government agencies and bodies that have oversight of the operations in the Palito Mining Complex.</p> <p>The Group considers that it has developed good relations and understanding with the government bodies and agencies who will grant these licences and these same bodies have been supportive of Serabi's acquisition of the project.</p>

By order of the Board

Clive Line
Company Secretary
29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review

Management continues to evaluate the Group's options for expanding its gold production in the Palito Complex. An initial surface drilling programme commenced in November 2017 as the start of a larger programme which, it is hoped, will provide sufficient confidence to justify commencement of new mine portals and underground exploration development drives.

Highlights

37,004 ounces

Total production for 2017

40,000 ounces

Forecast production for 2018

Operational Highlights

- Total gold production for 2017 of 37,004 ounces.
- Mine production in 2017 totalling 168,876 tonnes at 8.92 g/t of gold.
- 172,565 tonnes processed through the plant for the combined mining operations, with an average grade of 7.11 g/t of gold.
- 9,864 metres of horizontal mine development completed in the year.
- Completion of new estimation of Mineral Reserves and Resources for the Palito Mining Complex.
- Total Mineral Reserves estimated at 181,000 ounces within a total mineral resource of 538,000 ounces.

OUTLOOK AND STRATEGY

Operations

The Palito Mine is currently operating across four key mining sectors and the current mining plans for the next two years take into account only eight of the 26 veins that comprise the Measured, Indicated and Inferred resources of the Palito Mine. Underground drilling of the Palito orebody is helping to identify mineralisation at depth, making the rate and location of future mine development more efficient and also identifying additional smaller parallel vein structures that could be accessed from existing mine development.

Within the Palito orebody, the G3 vein is the most developed of the 26 veins, developed to a depth of approaching 300 metres and over a strike length of over one kilometre. Management consider that there is strong potential for the Palito veins to continue both at depth and along strike to the southeast and the northwest, as far as the Currutela and Copper Hill discoveries respectively, opening up a potential four kilometre strike length of mineralisation.

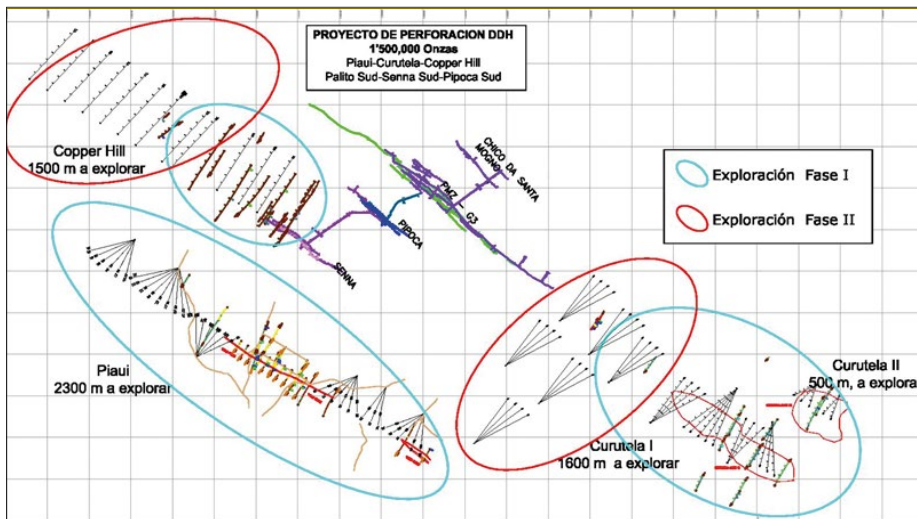
At São Chico the mine development has, to date, focused on the central ore shoot of the Main Vein. The São Chico orebody, whilst contributing to the Group's gold production, was primarily in development during 2015 and much of 2016, as the Group sought to ensure that it secured a rolling medium-term production plan for up to two years into the future. It was only in the second half of 2016 that levels of stoping activity began to increase. The Group is driving development galleries east and west towards additional ore shoots that have been identified by surface drilling. Management is confident that these ore shoots will provide additional mineable ore at São Chico. Underground drilling is

being undertaken at São Chico for short term operational and mine planning purposes focusing on the deeper part of the mine, and the depth of the central ore zone.

The Group has been conducting extensive test work to assess the benefits of ore-sorting to further enhance ore feed grade and reduce waste entering the process plant. This will also free plant capacity for future organic growth. Tests on the Palito ore have been extremely encouraging and the final design and acquisition process is being completed. With the time for manufacture, shipping and commissioning it is not expected that this process change will have any significant impact during 2018.

Near-Term Production Growth for the Palito Complex

Management continues to evaluate the Group's options for expanding its gold production in the Palito Complex and also the wider JDO Project area. Mine-site geophysical studies undertaken during the third quarter of 2016 over the Currutela and Piauí discoveries and other areas close to the current Palito orebody are now being followed up with an initial 8,000 metre surface drilling programme which commenced in November 2017. This is the first phase of a larger exploration and evaluation drill programme that management would like to undertake and which it feels could, on or before completion, provide sufficient confidence to justify commencement of new mine portals and underground exploration development drives. These would be used to access and fully evaluate any new discoveries that are considered to have potential to be commercially viable. In time, these discoveries could become new near-mine satellite deposits adding incremental production.



Palito Complex Exploration

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

All exploration activity had been on-hold since the end of 2011 when the Group took the strategic decision to focus its immediate efforts on bringing the Palito Mine back into production. Whilst currently the immediate focus of management is to evaluate the near-mine potential within two to three kilometres of its existing operation, on a wider regional basis the Group is developing plans to progress the evaluation of its whole tenement package.

The Group has flown 14,650 hectares of airborne electro-magnetic (“VTEM”) geophysical surveys and these initial aerial surveys have highlighted many areas of interest and exploration opportunities to pursue in due course as and when adequate funding is available. The Group is cognisant that the exploration tenements it holds are only granted for limited terms and is

therefore keen to implement a regional exploration programme to highlight the tenement areas that should be prioritised as having the highest potential as soon as it can make available adequate funds. With a number of historic garimpo operations lying within the Group’s tenements, management is confident that, in the fullness of time, it will be able to make further discoveries all of which could have the potential to be additional satellite operations lying within 15 kilometres of its current Palito or São Chico operations and contribute further resource and production growth.

Through this combination of near-mine and regional exploration and evaluation, the Group expects to establish a strong pipeline of development opportunities that will allow the Group to grow its production base at a low capital cost, leverage off existing infrastructure and resources to minimise development and operational costs and, with high-grades and low volumes, have a low environmental impact.

Except for the 8,000 metre programme that commenced in November 2017 at Palito, at this current time, no other surface drilling or other surface exploration activities are currently committed on any other exploration properties of the Group.

Coringa

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

Management has, and will continue to evaluate, other value adding, cost effective opportunities within Brazil that it considers could increase the resource base and longer-term production potential of the Group as well as having the potential to be value enhancing for its shareholders. These opportunities will always be assessed, and only considered, if they outrank existing organic growth options.

2018 PRODUCTION GUIDANCE

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review continued

OPERATIONAL REVIEW FOR THE YEAR**Overview**

Total gold production for the fourth quarter of 2017 was 9,337 ounces of gold resulting in total gold production for the year of 37,004 ounces. Whilst this level of gold production is approximately six per cent lower than for 2016, this reduction was primarily the result of an operational issue experienced during April and much of May (and fully described in the Company's Management Discussion and Analysis for the second quarter of 2017, issued on 14 August 2017), which has now been resolved. The Group has designed and is constructing an independent feed system to increase the processing of historic flotations tailings, produced during 2014. Independently feeding this directly into the plant, management anticipates will increase the levels that can be treated each month increasing total gold production.

The successful outcome of the ore-sorting test work will bring feed grade improvement as well as liberating some plant capacity for future organic growth. Final design specifications are being agreed although with manufacturing and other lead time involved it is not expected that this process enhancement will have any impact until 2019.

The Group is in the process of commissioning a new de-toxification plant based on the INCO process. This will see further reductions of cyanide levels in the discharges and significantly below the levels prescribed by legislation.

Mining Operations

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

There were improvements in the average grades mined from both orebodies during the third and fourth quarters. The fourth quarter also saw the highest level of mined tonnage achieved since operations

restarted with over 49,000 tonnes being mined during the period. Mine development from the São Chico orebody in particular has been very encouraging, and there are no indications that the payability of ore development is diminishing with depth. In addition, development is now comfortably ahead of stoping, with over two years of ore now developed and 'blast ready' at current production rates.

At the Palito orebody, eight veins out of the 26 veins that comprise the total geological resource, are now in various stages of development and production. The Pipocas, G3, and Senna veins remain the backbone of the sources of ore, with smaller contributions from the newly developed Jatoba, Mogno, Zonta and G1 veins. As has been previously reported, the G3 vein has been intersected on the -50mRL, the lowest level in the mine, and development on this level has been on-going through the second half of the year. The mineralised vein remains strong, with very good grades being encountered. The Pipocas vein is in development on the 30mRL and 0mRL levels, with deepening underway to access the -30mRL level.

Performance of the combined mining operations of both the Palito and São Chico orebodies has resulted in approximately 170,000 tonnes of ore being extracted during 2017 which compares with a total of approximately 159,000 tonnes produced in 2016, representing an improvement of six per cent. This increase in output has been





assisted by the continued development of the São Chico orebody where there are now a number of faces available and with mining operations (stopping and development) now active over eight different levels.

Mined grades achieved for 2017 averaged 8.92 g/t, and whilst slightly lower than reported for 2016, they are slightly above the reserve grade for the two orebodies estimated by SRK in the Palito Complex Technical Report issued in January 2018. Lower grades from the Palito orebody were expected and reflect variances arising from normal mine scheduling, whilst the lower grades from the São Chico orebody were the consequence of the commissioning problems with the new remote-controlled scoop fleet during the second quarter and the resultant increase in the higher level of development ore mining than was undertaken to compensate for lost stope mining and to provide the necessary mill feed.

With both of the Palito and São Chico orebodies, development is slightly ahead of production, and as a result the Group has been able to reduce the levels of development mining activity during 2017 by almost 12 per cent compared with rates for 2016.

At the end of 2017 combined coarse ore stocks were approximately 15,000 tonnes with an average grade of 3.0 g/t of gold (31 December 2016: approximately 21,000 tonnes with an average grade of 4.0 g/t of gold).

Palito Orebody

Mining of the Palito orebody is now very much in regime. During 2016, the Group focused on opening up new sectors in the mine as well as continuing to develop the existing sectors.

Up until 2016, mining operations at Palito had focused on the G1, G2 and G3 vein complex ("the Main Zone") as well as the Palito West sector. During 2016, the Group continued development of these two sectors but also gave increased priority to developing and accessing previously drilled, but undeveloped sectors in the upper levels, namely Senna and Chico da Santa. Chico da Santa lies to the east of the Main Zone, with the Senna zone located to the west.

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

The Senna zone was mined during 2008 and 2009 as a small open pit where approximately 25,000 tonnes of oxide ore with a grade of 3.0 g/t gold was extracted. It is now in underground development and to date has been very successful. Mine development on the 250mRL, 237mRL, 225mRL, 210mRL and 185mRL is on-going with the ramp now being taken down to the 170mRL. The adjacent Zonta vein is also under development on levels 225mRL, 210mRL and 185mRL. All ore being mined from the Senna sector is currently from development activity with stoping yet to start. Based on the ore grades recovered from the open pit operation and deeper exploration drill-holes, management is hopeful of the long term potential within the Senna zone which, whilst part of the main Palito Mine complex, has the benefit of an independent access from surface.

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

Opening up new sectors of the Palito orebody has created options and flexibility, an essential part of any small underground mining operation. Underground diamond drilling is being used to evaluate numerous known, but underexplored, veins and together with these new sectors, the Group plans to open up numerous new mining faces in the upper levels. These have the advantage of being in close proximity to existing mine infrastructure and will not require any new ramp development.

Such lateral development also reduces the requirement to continue to deepen the mine at the rates that were previously necessary. This could be expected to extend the life of the operation with the identification of mining areas that are not currently part of the mining plans and will also increase the amount of ore that can be recovered in each vertical metre of mine development, which can improve margins and reduce costs.

In the longer term, management anticipates that the Palito orebody will expand along strike as well. To the south this will be towards the Palito South and Currutela prospects. Recent underground development and surface drilling on the Pipocas vein is suggesting good potential to the north and further to the north there is also the Copper Hill geophysical anomaly which offers the exciting possibility of a significant discovery.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review continued

At this time, drill intersections on the Pipocas north area show the vein continuing north approximately 250 metres from the most northerly exposure underground. Assay analysis is currently in progress. The Group has undertaken mine development on G3 towards the Palito South area, primarily on the 114mRL, which has been driven approximately 700 metres further south than any other underground working at Palito. Diamond drilling from surface is now underway to test the down-dip continuity of the G3 vein at depth.

São Chico Orebody

Underground development of the São Chico orebody commenced in the fourth quarter of 2014. During 2015, approximately 2,800 metres of development were completed allowing mining on three levels. During January 2015, the ramp development intersected the principal vein, the Main Vein, approximately 30 vertical metres below the portal entrance. The initial sampling confirmed a payable intersection with a true width of 3.6 metres and a gold grade of 42.0 g/t.

Since this time, the Main Vein has continued to be developed and evaluated with a combination of 'on-lode' development and underground drilling. The main ramp has now reached the 26mRL, approximately 225 metres below surface and will continue to be deepened during 2017. Development has been completed, or is active, on the 86mRL, 70mRL, 56mRL, 40mRL, 26mRL, and the new 10mRL, whilst stoping activity is currently focused on the 128mRL, 116mRL and 100mRLs.

During 2016, the decision to implement sublevel open stoping as the principal mining method was taken, which resulted in the development of sublevels with 15 metre vertical spacings floor to floor. Each sublevel is advanced three metres at a time and channel sampled. The closer sample spacing that this allows has greatly increased the understanding of the orebody and the increased level of mine development has enabled the Group to define a clear 24 month mine plan.

The Main Vein or ore zone at São Chico can vary from one metre to eight metres wide, but most commonly is a 2.5 metre wide alteration zone, which itself is structurally continuous. However, the gold grades within this alteration zone are quite erratic and are hosted in three steeply plunging pay-shoots. In these pay-shoots, the grades are often truly spectacular, very often being in excess of 100 g/t of gold.



Outside the pay-shoots the vein is continuous but with low gold grades and, as a result, it is unavoidable that, as the mine development passes between the pay-shoots, lower grade mineralisation has to be mined. Whilst the alteration zone itself is readily identifiable, the high-grade within it is much less so, and as a result, on-lode development levels are mined 15 vertical metres apart, along which regular channel sampling is made. This is further complemented by in-fill drilling between these levels to best define the high-grade gold mineralisation. This approach allows the Group's mining personnel to readily identify stoping blocks and optimise mining of the high gold grade zones.

The central pay-shoot is the most established of these three high-grade shoots, and is some 100 to 150 metres long. The Group has, and will continue to focus in the near-term, on developing this part of the Main Vein, and some consistent higher-grade development ore is being generated as a result. Access to the other pay-shoots along the strike will not be lost and these will be available for development in future periods.

During the second quarter of 2016, the Group commenced underground exploration drilling of the central pay-shoot targeting its down dip extension. The on-going drilling programme is

confirming the belief that the São Chico Main Vein, is a regional shear structure. This bodes well for the continuation and strike extension outside the immediate and current mine limits.

Plant Operations

Total gold production for 2017 was 37,004 ounces of gold, generated from the processing of the run of mine ("ROM") ore from the Palito and São Chico orebodies, combined with the surface coarse ore stockpiles and the stockpiled flotation tailings accumulated from the processing of Palito Mine production in 2014.

Gold production for 2017 came from the processing of 172,565 tonnes from the Palito and São Chico orebodies with an average grade of 7.11 g/t of gold (12 months to 30 December 2016: 158,966 tonnes at 8.11 g/t of gold). The 8.6 per cent increase in processed ore reflects the increased plant capacity installed and available from the second half of 2016, and the introduction of the gravity circuit and ILR for treating the São Chico ore.

The Group made the decision before the end of 2015 to acquire a third ball mill and modify the plant to increase nominal daily plant throughput capacity from an average of 400 tonnes per day ("tpd") to at least

Summary Production Statistics for the Four Quarters Ending 31 December 2017 and 31 December 2016

2017		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total 2017
Horizontal development – Total	Metres	2,251	1,855	2,996	2,762	9,864
Mined ore – Total	Tonnes	36,918	41,684	41,263	49,011	168,876
	Gold grade (g/t)	10.12	7.80	9.80	8.25	8.92
Milled ore	Tonnes	41,722	43,294	44,205	43,345	172,565
	Gold grade (g/t)	7.09	6.26	7.21	7.27	7.11
Gold produced	Ounces	9,861	8,148	9,657	9,337	37,004
2016		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total 2016
Horizontal development – Total	Metres	2,925	2,941	2,649	2,694	11,209
Mined ore – Total	Tonnes	37,546	33,606	43,133	44,579	158,864
	Gold grade (g/t)	11.02	9.56	9.61	8.94	9.74
Milled ore	Tonnes	36,615	39,402	42,464	40,485	158,966
	Gold grade (g/t)	8.58	8.17	8.08	7.60	8.11
Gold produced	Ounces	9,771	9,896	10,310	9,413	39,390

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

(2) Gold production totals for 2017 include treatment of 4,568 tonnes of flotation tails (2016 full year: 16,716 tonnes).

500 tpd. Further improvements undertaken within the process plant during 2016 included the installation of additional flotation capacity and automation, along with new carbon screens within the CIP tanks to improve inter-tank flow rates. A carbon regeneration kiln was installed, commissioned and became operational during the fourth quarter of 2016. This kiln regenerates fouled carbon reducing the need to purchase fresh carbon and has improved gold recoveries by 1.0-2.0 per cent since being installed.

Since the Group's operations began, they have been limited by the capacity of its process plant and the Group has not yet been able to run down the surface ore stocks, a legacy of the fact that mine production began six months before the ore processing.

Plant performance during the fourth quarter was excellent, with approximately 43,000 tonnes of ROM ore milled. The Group still has approximately 15,000 tonnes of coarse ore in stockpiles and an estimated 50,000 tonnes of flotation tails stockpiled (with an average grade of around 2.7 g/t of gold), levels that have been fairly static since 2014. This reflects that the operation remains somewhat constrained by the capacity of the plant.

To date the Group has tried to pump the flotation tailings in a wet form to the CIP plant, but this has proved to be slow and labour intensive. Passing the material 'dry' through the ore feed system has to date been restricted by belt capacity and would therefore only displace higher grade ore. An independent feed system has now been designed and is in construction allowing this material to be added to the current dry mill feed, and therefore increase the levels that can be treated each month.

An encouraging development this year has been the test work undertaken by the Group on ore sorting of the Palito and São Chico ores. Current mining operations whilst excellent and employing the most selective methods possible, nonetheless result in a minimum stope mining width of generally 1.0 metre. The veins being mined have an approximate width of 0.5 to 0.7 metres, and therefore there remains considerable dilution from stope mining with even higher levels in the development mining activities. Having undertaken test work initially in Brazil and more recently on bulk samples at the manufacturer's facilities in Poland, excellent results have been achieved using X-ray scanning using relative atomic densities to physically separate the sulphide bearing ore and granite waste. The contrast and results have been quite remarkable.

The intention now is to introduce an X-ray ore sorter after the main crushing plant that will separate material ahead of milling and remove from the mill feed a significant percentage of the waste that would otherwise have formed part of the feed into the plant. Not only will this reduce process costs per ounce recovered, it will also liberate capacity in a mill constrained operation. In this way it is hoped that, using this technology, the plant can be debottlenecked, mill feed grade elevated as a result, and plant capacity freed up for the future organic growth with the added benefit of potentially reducing the surface stockpiles of ore. This equipment is built to order and it is anticipated it will take between nine months and a year before it can be fabricated, installed and commissioned. Payback of the estimated US\$1.2 million cost is however expected to be less than 12 months.

Palito Complex Exploration and Licensing Matters

The Group undertook a surface diamond drill programme in March 2015 at the São Chico Mine and the completed programme consisted of 42 diamond drill holes totalling 7,204 metres. A further 30 underground diamond drill holes were completed during 2015 totalling an additional 1,459 metres of drilling. The drill programme was a combination of in-fill and step-out drilling and the results from this, in conjunction with the on-lode

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review continued



development mining that took place during the remainder of 2015, greatly enhanced the understanding of the orebody and facilitated mine planning for 2016 and 2017. It built on the results and understanding gained from the 2011 and 2013 drilling campaigns and reported numerous high-grade intersections, with some gold grades in excess of 100 g/t, and indications that the grade and resource potential continues at depth.

Further details are set out in a news release issued by the Group on 21 October 2015, which is available on the Group's website www.serabigold.com and has been filed on SEDAR. The understanding of the orebody has also been assisted by paragenetic studies on mine ore samples including detailed petrological descriptions, SEM and QemScan analysis.

In February 2014, the Final Exploration Report ("FER") for the São 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 São Chico exploration licence into a mining licence. As the next major step in the conversion procedure, Serabi submitted, in September 2015, the Plano Aprovimemento 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. Prior to its expiry in December 2017, a submission has been made for a further extension of the Guia de Utilização for a period of one additional year. The issuing of the mining licence also requires the submission of a risk assessment and management plan, safety assessments, environmental and social impact studies, closure and remediation plans all of which have been submitted to the relevant government bodies. Any further reports requested or updates to existing reports will be submitted promptly upon request.

Two geophysical exploration programmes commenced during the second half of 2016, over each orebody. The first of these programmes involved using down-the-hole electromagnetics ("DHEM") in the discovery holes drilled by the Group in 2011 at the Currutela, Piaui and Palito South prospect areas and other areas of interest close to the Palito orebody. DHEM provides data to model the likely geographical location and extent of the sulphide rich zones intersected in the 2011 drill holes. The second programme was undertaken at São Chico using surface induced polarisation ("IP") and, included areas immediately around the São Chico

orebody. Some large anomalies parallel to the São Chico orebody have been identified and will require further testing by surface drilling. Both geophysical programmes are using well established techniques to identify conductive bodies and sulphide mineralisation as pathfinders to locating gold occurrences which are associated with these features.

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

As noted earlier, an initial 8,000 metre drill programme focused on four key areas around the current Palito orebody commenced in late November 2017. This is the first phase of a larger exploration and evaluation drill programme that management would like to undertake and which it feels could, on or before completion, provide sufficient confidence to justify commencement of new mine portals and underground exploration development drives. Drilling to date has focused on the Pipocas vein to the north and south and while assays received are still to be received, encouraging intersections have been made particularly to the north of the current mine workings.

JARDIM DO OURO EXPLORATION

With the addition of the new tenement to the west and south at São Chico, the JDO Project covers a total area of over 45,000 hectares, incorporating the Palito and São Chico mining licence areas. The Palito mining licence was granted on 23 October 2007 covering an area of 1,150 hectares, whilst the São Chico licence is in the process of being converted into a full mining licence. The remainder of the tenement area comprises exploration licences either granted or in application. The JDO Project is located in the Tapajós Mineral Province in the south east part of the Itaituba Municipality in the west of Pará State in central north Brazil.

The focus of the Group has been on the identification and development of satellite ore deposits located in close proximity to Palito. The Group completed two airborne geophysical VTEM surveys in 2008 and 2010 over a total area of 14,650 hectares. From these surveys the Group identified a number of geophysical anomalies which it considers worthy of further investigation. During 2010 and 2011 the Group undertook a 12,000 metre drilling campaign over nine of these anomalies, which resulted in the discovery of the Palito South, Currutela and Piauí prospects. The São Chico orebody is located in the south west corner of the JDO Project area. During 2013 the Group completed a 6,000 metre drilling programme which more than doubled the known 150 metre strike extension of the principal mineralised structure ("the Main Vein") at São Chico and confirmed the presence of a number of parallel mineralised structures. The development mining activities undertaken during 2015 and 2016, in conjunction with the 7,000 metre surface drilling programme, has provided essential data for the further evaluation of the Main Vein and the immediate parallel structures.

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

CORINGA PROJECT DEVELOPMENT AND LICENCING

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

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

On 27 September 2017, Anfield announced that it understood the Brazilian Ministério Público Federal ("MPF") was bringing an action against SEMAS, the DNPM and Chapleau Brazil. The action seeks to nullify the operating licence previously granted to Chapleau Brazil by SEMAS and states that SEMAS should not have granted the licence without requiring Chapleau Brazil to prepare a full socio-economic analysis and Environmental Impact Assessment ("EIA") for Coringa. Anfield and its legal counsel believe that Chapleau Brazil has complied with all applicable regulations. At an initial hearing the court denied a request from the MPF to cancel the operating licence and requested submissions from SEMAS, DNPM and Chapleau Brazil. A further hearing has not yet been scheduled. Anfield and Chapleau Brazil, in the meantime, continued to progress the completion of a full EIA and this was submitted to SEMAS for approval on 24 November 2017.

Serabi and its legal advisers have considered the position adopted by the MPF and believe that the completion of the EIA should significantly address the main concerns of the MPF and have concluded, based on the current available information, that there is a low risk of significant delay to the licensing and permitting process.

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

OTHER EXPLORATION PROSPECTS

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

The Sucuba Project is located in the state of Para, and the Group holds two exploration permits covering an area of 10,449 hectares. The Pizon Project, located in the state of Amazonas, represents 4,733 hectares in one exploration licence and the Modelo Project, also in Amazonas, represents 2,971 hectares in one exploration licence. The Group has not engaged in any exploration activity at any of these projects during the past 12 months and has currently not budgeted for any exploration activity during the next 18 months. These projects are non-core for the Group and it is the intention to relinquish these upon their expiry.

Mike Hodgson
Chief Executive
29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Group Mineral Reserves and Resources



Mineral Resource Statement, Palito Mine, Para State, Brazil, as of June 30, 2017

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

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

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



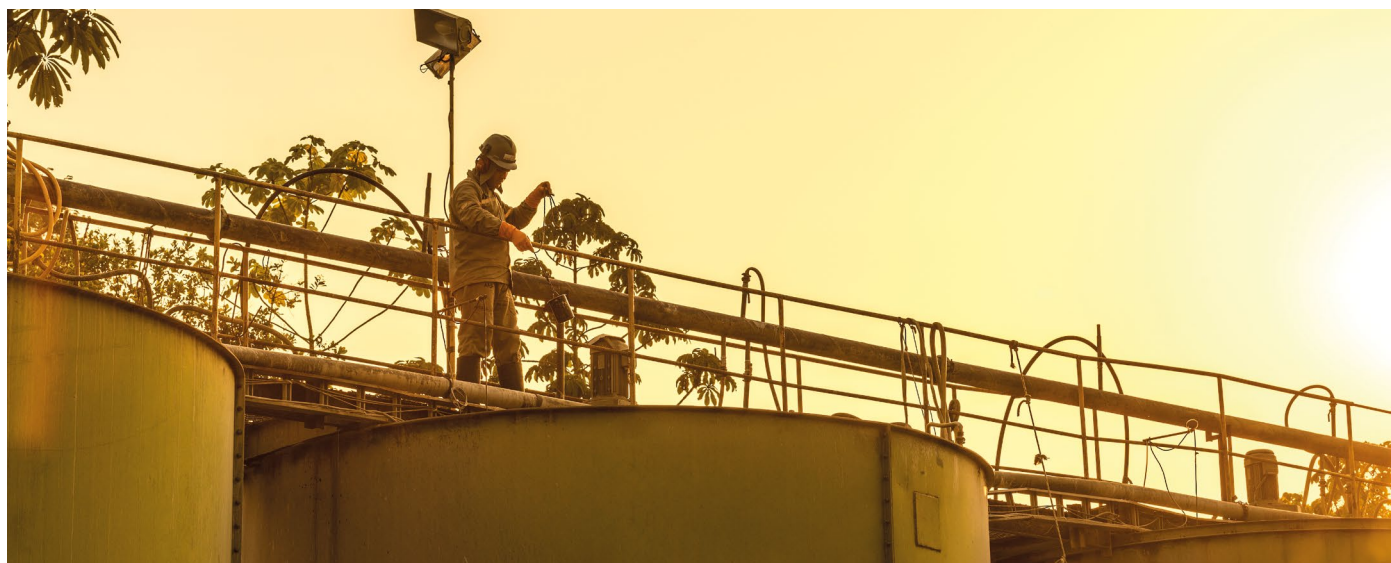
Mineral Reserves Statement, Palito Mine, Para State, Brazil, as of June 30, 2017

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

1. Mineral Reserves have been rounded to reflect the relative accuracy of the estimates. Proven Underground Mineral Reserves are reported within the Measured classification domain, and Probable Underground Mineral Reserves are reported within the Indicated classification domain. Proven and Probable Underground Mineral Reserves are inclusive of external mining dilution and mining loss and are reported at a cut-off grade of 3.70 g/t gold assuming an underground extraction scenario, a gold price of US\$1,250/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 91%. Proven Mineral Reserves surface stockpiles and tailings are reported at a cut-off grade of 1.95 g/t gold assuming a gold price of US\$1,250/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 78%.
2. Serabi is the operator and owns 100% of the Palito Mine such that gross and net attributable mineral reserves are the same. The mineral reserve estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Timothy Olson of SRK Consulting (US) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Mineral Reserves and Resources continued



Mineral Resource Statement, São Chico Mine, Para State, Brazil, as of June 30, 2017

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

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

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

Mineral Reserves Statement, São Chico Mine, Para State, Brazil, as of June 30, 2017

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

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

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



Mineral Resource Statement, Coringa Gold Project, Para State, Brazil, as of May 3, 2017

Classification	Quantity	Grade	Contained Metal
	000't	g/t	Gold 000'oz
Measured	–	–	–
Indicated	726	8.36	195
Measured and Indicated	726	8.36	195
Inferred	1,301	4.32	181

1. Mineral Resources have been rounded. Mineral Resources are not Mineral Reserves and have not demonstrated economic viability. Mineral Resources are reported inclusive of Mineral Reserves. All figures are rounded to reflect the relative accuracy of the estimates. A base cut-off grade of 2.0 g/t gold has been estimated assuming an underground extraction scenario, on-site operating and processing costs of US\$80 per tonne, a gold price of US\$1,300/oz, and metallurgical recovery of 95%. Estimations were made from 3D block models.
2. Serabi is the operator and owns 100% of the Coringa gold project such that gross and net attributable mineral resources are the same. The mineral resource estimate was prepared in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 3 May 2017, and approved by Robert Sim, P.Geo., of SIM Geological Inc. and Bruce M. Davis, Ph.D., FAusIMM of BD Resource Consulting Inc. who are Qualified Persons under the Canadian National Instrument 43-101.

Mineral Reserve Statement, Coringa Gold Project, Para State, Brazil, as of July 1, 2017

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

1. The reserves summarized in the table above include diluting material, thus the grades are fully diluted.
2. Probable Reserves are reported based on Indicated resources inside of mining shapes and after it was demonstrated that it can be mined at a profit.
3. Indicated resources below the mining cut-off grade, and inside of mining solids are also included in reserves as internal dilution.
4. Mineral Reserves have been rounded to reflect the relative accuracy of the estimates. Probable Underground Mineral Reserves are inclusive of external mining dilution and mining loss and are reported assuming an underground extraction scenario, a gold price of US\$1,250/oz and metallurgical recovery of 96% for the Serra vein and 94% for the Meio vein.
5. Serabi is the operator and owns 100% of the Coringa gold project such that gross and net attributable mineral reserves are the same. The mineral reserve estimate was prepared in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 1 July 2017, and approved by Neil Prenn, P.E. and Edwin Peralta, P.E., of Mine Development Associates who are Qualified Persons under the Canadian National Instrument 43-101.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The twelve month period ended 31 December 2017 has seen higher levels of gold bullion production than the same period of 2016 offset by lower levels of production of copper/gold concentrate reflecting the variations in the ore sources and grades being mined during 2017 compared with 2016. These changes do not have any direct effect on the overall levels of gold production achieved by the Group.

TWELVE MONTH PERIOD ENDED 31 DECEMBER 2017 COMPARED TO TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016

Gold production for the twelve month period ended 31 December 2017 was 37,004 ounces which is approximately six per cent less than the same period in the previous year (39,390 ounces). The Group experienced shortfalls in gold production during April 2017 and May 2017 resulting from commissioning problems with some new mining fleet however, gold production returned to previous levels from the start of the third quarter of 2017 and continued for the rest of the year. However, as a result, both production and sales of gold have decreased in comparison with corresponding twelve month period of 2016. Reflecting the decrease in production the total amount of ounces sold during the 12 months of 2017 was 37,161 ounces, which is approximately 4 per cent less than the 38,561 ounces sold during the 12 months of 2016.

The Group has recognised a gross profit for the twelve month period ended 31 December 2017 of US\$5,019,087 (2016: US\$11,302,587) and an operating loss of US\$691,959 (2016 operating profit of: US\$6,023,906).

The gross profit of US\$5,019,087 for the period ended 31 December 2017 can be analysed as seen to the right.

Revenue

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

During the twelve month period ended 31 December 2017 the Group has recognised total sales of US\$48,449,868 (2016: US\$52,593,751). The sales were split between sales of copper/gold concentrate of

US\$15,620,204 (2016: US\$26,368,676) and sales of gold bullion of US\$32,829,664 (2016: US\$26,225,075).

During 2017 the Group produced 1,420 wet tonnes of copper/gold concentrate containing an estimated 10,050 ounces (2016: 2,039 wet tonnes containing 17,571 ounces) although revenue has been recognised for 1,440 tonnes containing an estimated 11,195 ounces (2016: 2,240 wet tonnes containing 17,569 ounces) which were delivered in accordance with the sales contract to the end customer. The unsold material is held as inventory.

The amount of gold sold as concentrate has therefore reduced by approximately 42 per cent and production of gold in concentrate

has decreased by 43 per cent. This reduction in the both the production and sale of gold in concentrate has been partly offset by an increase in the production and sale of gold in the form of bullion. The concentrate sales revenue recognised during 2017 included adjustments for shipments sold during the last four months of 2016 but for which final settlement details, including pricing and gold content, were only finalised during 2017. This adjustment was US\$0.21 million with the equivalent adjustment recognised during 2016, relating to gold sold during the last quarter of 2015 being approximately US\$0.53 million. In addition, following a change in purchaser and contract terms for the Group's production of copper/gold concentrate, the Group recognised during September 2016 the

Gross Profit	Full Year 2017 US\$	Full Year 2016 US\$	Variance US\$
Concentrate Sold (Ounces)	11,195	17,569	(6,374)
Bullion Sold (Ounces)	25,966	20,992	4,974
Total Ounces	37,161	38,561	(1,400)
Revenue from Ordinary Activity			
Gold (in Concentrate)	13,661,002	23,676,825	(10,015,823)
Copper (in Concentrate)	1,852,679	2,498,933	(646,254)
Silver (in Concentrate)	106,523	192,918	(86,395)
Total Concentrate Revenue	15,620,204	26,368,676	(10,748,472)
Gold Bullion	32,829,664	26,225,075	6,604,589
Total Sales	48,449,868	52,593,751	(4,143,883)
Costs of Sales			
Operational Costs	(29,568,195)	(29,082,200)	(485,995)
Stock Impairment Provision	(950,000)	–	(950,000)
Shipping Costs	(1,344,154)	(1,889,111)	544,957
Treatment Charges	(543,338)	(1,085,039)	541,701
Royalties	(559,811)	(850,076)	290,265
Amortisation of Mine Property	(7,787,166)	(6,308,840)	(1,478,226)
Depreciation of Plant & Equipment	(2,678,117)	(2,075,898)	(602,219)
Total Operating Costs	(43,430,781)	(41,291,164)	(2,139,517)
Gross Profit	5,019,087	11,302,587	(6,283,400)

Key Operating Statistics and Costs	12 months ended December 2017	12 months ended December 2016	Variance	Variance %
Tonnes Mined	168,876	158,884	10,012	6%
Tonnes Milled	172,565	158,966	13,599	9%
Ounces Produced	37,004	39,390	(2,386)	(6%)
	12 months ended December 2017	12 months ended December 2016	Variance	Variance %
	US\$'000	US\$'000	US\$'000	%
Operating Costs				
Labour	12,860	12,140	720	6%
Mining Consumables & Maintenance	9,358	9,699	(341)	(4%)
Plant Consumables	4,176	4,209	(33)	(1%)
General Site	3,174	3,034	140	5%
	29,568	29,082	486	2%

sale of an additional shipment of copper/gold concentrate having the effect of recognition of additional revenue of US\$1.9 million.

The Group also sold 25,966 ounces of gold bullion generating revenue of US\$32,829,664 during the 2017 (2016: 20,992 ounces (US\$26,225,075)). Gold bullion production for 2017 was approximately 26,954 ounces by comparison with the same period in 2016 when production was approximately 21,819 ounces.

Operating Costs

Operating costs for the 12 months ended 31 December 2017 of US\$29,568,195 (2016: US\$29,082,200) comprise all mining costs at both the Palito and São Chico Mines, plant processing costs, as well as all general site costs incurred on both mine sites during the 12 month period in the production of the final sales products as shown in the table above.

Labour Costs

Labour costs have increased by US\$0.720 million for the twelve month period ended 31 December 2017 in comparison to the same period in the previous year due to each Brazilian employee receiving an eight per cent increase in salary in May 2017 as a result of the national collective agreement in Brazil.

Mining Costs

Mining consumables and maintenance for the twelve month period ended 31 December 2017 have decreased by US\$0.34 million in comparison to the same twelve month period from 2016. The main area of cost saving relates to power generation and supply during the first nine months of the year, however due

to global prices the cost savings the Group were enjoying in power generation reversed in the fourth quarter of 2017.

Plant Processing Costs

Plant costs are roughly in line with the previous year. There was a cost saving in power supply costs during the first three quarters of 2017 in comparison to the same period of the previous year, however this was offset by an increase in maintenance costs resulting from the aging of the equipment and an increased mining fleet.

General Site Costs

General site costs for the twelve month period ended 31 December 2017 increased by three per cent versus the same period in the previous year reflecting general increases in inflation between the two periods.

Provision for Impairment of Inventory

The Group calculates unit costs of mined production on a cost per tonne basis irrespective of grade and has established stockpiles of low grade run of mine ore which are available for processing in the future. The Group has assessed the likely future value of these stockpiles and made a general impairment provision of US\$0.95 million during the 12 months of 2017 against the carrying value of these coarse ore stockpiles.

Shipping Costs

Shipping costs of US\$1,344,154 (2016: US\$1,889,111), show a decrease of 29 per cent for the year ended 31 December 2017 in comparison to the same period in the previous year. This covers domestic road and river freight in Brazil for the copper/gold concentrate and international sea freight

from Belem to the final destination. During the twelve month period ended 31 December 2017 1,440 tonnes departed from the port of Belem, in comparison to the 2,240 tonnes which departed from Belem in the previous year, a decrease of 36 per cent.

Treatment Charges

Treatment Charges of US\$543,338 (2016: US\$1,085,039) are the costs for the processing of copper/gold concentrate and include US\$482,772 of charges levied by the refinery, (2016: US\$1,006,524), and US\$60,566 for the cost of weighing, sampling and assay analysis carried out by a third party on behalf of the Group (2016: US\$78,515). The treatment charges have decreased by 50 per cent as a result of the decrease in the volume and value of sales of concentrate. The treatment charges of copper concentrate levied by the refinery are a best estimate based on volume and values of sales achieved during the period and are subject to amendment with the final invoiced treatment charges usually agreed approximately three months after the arrival of the goods.

Royalty Charges

Royalty payments of US\$559,811 (2016: US\$850,076) comprise statutory levies payable in Brazil on both copper/concentrate sales as well as bullion sales. Rates are uniform across all mining operations and currently comprise a 1.5 per cent royalty on gold production, (this increased during December 2017 from the previous rate of 1.0 per cent) and a 2.0 per cent royalty on copper production. The decrease by comparison with the same period in 2016 reflects an overall decrease in gold and copper sold during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review continued

Amortisation Charges

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

The total amortisation charge for the Palito and São Chico Mines for the 12 month period ended 31 December 2017 is US\$7,787,166 million (2016: US\$6,308,940 million).

The charge reported in the Income Statement is however adjusted to reflect the level of sales rather than the level of production, with part of the depreciation charge being carried in inventory and released to the income statement when the goods are sold. The increase in the amortisation charge of US\$1.48 million notwithstanding the lower levels of gold production and therefore depletion in the period has been affected by the relative strength of the Brazilian Real against the US Dollar compared with the same twelve month period in 2016. The average exchange rate for the full year of 2017 was BrR\$3.19:US\$1.00, compared with BrR\$3.48:US\$1.00 for the same period in 2016 which represents an eight per cent

strengthening of the Brazilian Real against US Dollar. The amortisation charge is also impacted by the lower levels of work-in-progress inventories held at the end of the current year compared with levels at 31 December 2016.

Depreciation Charge

Depreciation charges of US\$2.68 million (2016: US\$2.08 million) are in respect of mining and processing plant and equipment and is an increase of US\$0.60 million. The increase is primarily due to the movement in the exchange rate. It is also impacted by an increased mobile fleet acquired for both the Palito and São Chico Mine operations partly offset by reduced depreciation charges for equipment that remains operational but is reaching the end of its useful life.

Operating Loss

The Group has recognised an operating loss before interest and other income of US\$0.69 million, (2016: operating profit of US\$6.02 million) reflective of the lower level of gross profit from operations and after incurring US\$5.50 million (2016: US\$4.96 million) in administrative expenses as well as US\$0.38 million (2016: US\$0.35 million) on share based payments. The deemed value assigned to these share options is amortised over the expected option life and is calculated using the

Black Scholes model. The charge for the 12 months to 31 December 2017 is in respect of options granted between January 2015 and 31 December 2017. The Group also reported a profit of US\$0.17 million from the disposal of assets (2016: US\$0.03 million).

Administration costs of US\$5.50 million for the twelve month period ended 31 December 2017 are comparable with the amount of US\$4.96 million in administration costs incurred during the twelve month period ended 31 December 2016. Corporate costs in Brazil have decreased by US\$0.26 million during 2017 in comparison to the same period in the previous year reflecting the settlement during 2016 of one off old tax bills relating to the period between 2008-2013. Corporate costs incurred in the United Kingdom for the year ended 31 December 2017 have increased by US\$0.66 million in comparison to the same period of the previous year reflecting costs related to the compilation of a new technical report as well as due diligence work done on the acquisition of Chapleau Resources. Additional consultancy and professional fees were incurred on the evaluation of other opportunities during the year.

The Company recorded a foreign exchange loss of US\$214,488 for the year ended 31 December 2017 which compares with a foreign



exchange loss of US\$236,619 recorded for the year ended 31 December 2016. These foreign exchange losses are primarily incurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest charges for the 12 month period to 31 December 2017 were US\$839,056 compared with US\$3,917,108 for 2016. An analysis of the composition of these charges is set out in the table below.

The interest on the secured loan of US\$314,732, (2016: US\$281,333) is the cost of 12 months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership, with the increase reflecting the higher levels of loan principal outstanding during the period. On 30 June 2017, the Group entered into a new loan agreement with Sprott to increase the loan facility from US\$1.37 million to US\$5.00 million.

The expense on the unwinding of the discount on the rehabilitation provision of US\$335,204 is as a result of changes in the discount rate used in calculating the net present value of the future estimated rehabilitation costs which the Group will incur upon mine closure.

The charge on the revaluation of derivatives of US\$59,255 (2016: US\$1,474,618) represents the charge arising on the revaluation of the derivative provision at the 31 December 2017. The initial value of provision as at 30 June 2017 was US\$650,000. This was revalued to US\$709,255 on 31 December 2017.

For the 12 months to 31 December 2016 the expense on the revaluation of derivatives of US\$1,474,618 represented the loss arising from a period-end revaluation of the fair value of the call options provided to Sprott Resource Lending Partnership LLP and the equity element of convertible loan stock. These revaluations reflect in the case of the call options the higher gold price prevailing at the period end and in the case of the convertible loan stock the higher share price prior to exercise of the conversion rights in August 2016.

The amortisation of fair value of derivatives of US\$130,000 represents six months amortisation charge of the fair value ascribed to the gold call options granted to Sprott on 30 June 2017. As part of the new loan arrangement the Group granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,320 which expire on 31 December 2019. On 30 June 2017, the date these call options were granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 was recognised in the accounts.

LIQUIDITY AND CAPITAL RESOURCES

Non-Current Assets

On 31 December 2017, the Group's net assets amounted to US\$60.77 million, which compares to US\$63.38 million as reported at 31 December 2016. The Group has also reported a loss after taxation of US\$2.40 million in the twelve month period since 31 December 2016.

On 21 December 2017 ("Closing"), the Group finalised the acquisition of Chapleau Resources for a total amount of US\$22 million, with US\$5 million being paid in cash on 21

December 2017. A further US\$5 million in cash is payable within three months of Closing and a final payment of US\$12 million in cash will be due upon the earlier of either the first gold being produced or 24 months from the date of Closing. As a result of the acquisition of Chapleau there is a US\$5 million payable included within the Group's current liabilities, a US\$10 million deferred payable included within long term liabilities as well as a US\$14.03 million increase in Deferred Exploration costs and a US\$6.21 million increase in Fixed Assets.

Non-current assets totalling US\$77.29 million at 31 December 2017 (31 December 2016: US\$58.64 million), are primarily comprised of property, plant and equipment, which as at 31 December 2017 totalled US\$48.98 million, (31 December 2016: US\$45.40 million), including US\$6.21 million of assets acquired as part of the Chapleau acquisition, as well as development and deferred exploration costs with a value of US\$23.90 million, (31 December 2016: US\$10.00 million), including US\$14.03 million of assets acquired as part of the Chapleau acquisition. The Group has also a provision for a deferred tax asset of US\$2.94 million (31 December 2016: US\$3.25 million) and a long term receivable in respect of state taxes due in Brazil of US\$1.47 million (31 December 2016: US\$ nil).

The Group's property, plant and equipment includes the value of its mine assets relating to the Palito Mining Complex at 31 December 2017 of US\$28.41 million (2016: US\$31.79 million). This includes US\$4.36 million of additions from the Palito and São Chico ore bodies incurred during the year. Assets in construction as at 31 December 2017 and relating to the Palito Mining Complex had a book value of US\$3.69 million (2016: US\$2.83 million).

The Group owns land, buildings, plant and equipment with a cost of US\$11.19 million (31 December 2016: US\$10.78 million). During 2017 the Group has acquired additional plant and machinery to the value of US\$2.19 million in relation to its ongoing operations at the Palito Mining Complex with a further US\$0.52 million of plant and equipment acquired as part of the acquisition of Chapleau Resources.

The gross value ascribed to the Palito Mining Complex is now being amortised over the expected recoverable ounces of each orebody. An amortisation charge totalling US\$7.4 million has been recorded for the twelve month period to 31 December 2017 (2016: US\$6.1 million). The increase of US\$1.3 million in the amortisation charge for

Net Interest Charges	12 months Ended December 2017 US\$	12 months Ended December 2016 US\$
Interest on secured loan	(314,732)	(281,333)
Charge on revaluation of derivatives	(59,255)	(1,474,618)
Amortisation of fair value of derivatives	(130,000)	(355,663)
Unwinding of the discount on the rehabilitation provision	(335,204)	-
Interest on trade finance facility	-	(294,398)
Interest on convertible loan	-	(137,049)
Settlement of hedging arrangements	-	(1,338,426)
Asset finance charges	-	(36,194)
	(839,191)	(3,917,681)
Interest Income	135	573
Net finance expense	(839,056)	(3,917,108)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review continued

2017 arises because the total base value of the mining property has increased significantly during the twelve month period and also because the average exchange rate from US Dollar to Brazilian Real for 2017 was US\$1.00 to BR\$ 3.19 in comparison to US\$1.00 to BR\$3.48 for the same 12 month period in 2016.

Deferred exploration costs as at 31 December 2017 totalled US\$23.90 million (31 December 2016: US\$10.00 million), which relates to US\$9.87 million capitalised exploration expenditures around the Palito Mine, São Chico Mine and the wider Jardim do Ouro project area as well as US\$14.03 of assets acquired as part of the Chapleau acquisition. During 2017 the Group capitalised costs of US\$2,487 (2016: US\$525,444) on exploration and evaluation expenditure.

Working Capital

The Group had a working capital position of US\$1.03 million at 31 December 2017 compared to US\$8.88 million at 31 December 2016, the decrease of US\$7.85 million being detailed in the table to the right.

Inventory

The level of inventory held by the Group at 30 December 2017 has decreased by US\$1.18 million since 31 December 2016. A breakdown of the Group's inventories at the 31 December 2017 and at 31 December 2016 is set out in the table below.

The Group has made a provision during the year of US\$950,000 against the value of its stockpiles of mined ore.

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 31 December 2017 of US\$2.58 million (31 December 2016: US\$2.38 million) have increased by approximately US\$0.21 million or nine per cent. The Group acquires stocks of certain materials including reagents, explosives and other

Working Capital	December 2017 US\$	December 2016 US\$	Variance US\$
Current assets			
Inventories	6,934,438	8,110,373	(1,175,935)
Trade and other receivables	1,277,142	1,233,049	44,093
Prepayments	3,237,412	3,696,550	(459,138)
Cash and cash equivalents	4,093,866	4,160,923	(67,057)
Total current assets	15,542,858	17,200,895	(1,658,037)
Current liabilities			
Trade and other payables	5,347,964	4,941,775	406,189
Acquisition payment due	5,000,000	–	5,000,000
Interest-bearing liabilities	2,845,712	2,964,057	1,006,517
Derivative financial liabilities	709,225	–	709,255
Accruals	614,198	415,810	198,388
Total current liabilities	14,517,129	8,321,642	6,195,487
Working capital	1,025,729	8,879,253	(7,853,524)
Non-current liabilities			
Trade and other payables	2,753,409	2,211,078	542,331
Acquisition payment due	9,997,961	–	9,997,961
Provisions	2,047,131	1,851,963	195,168
Interest-bearing liabilities	2,749,412	77,798	2,671,614
Total non-current liabilities	17,547,913	4,140,839	13,407,074

consumables in quantities that are sufficient for up to three to four months' consumption requirements to minimise freight and other logistics costs and improve pricing. The levels of inventory have increased reflecting a requirement to keep on hand higher levels of items related to equipment and plant maintenance.

The value of the stock of surface ore has decreased by 61 per cent from US\$2.83 million to US\$1.09 million as the Group reflecting reduced volume of the stockpile and the US\$950,000 impairment provision. The total coarse ore stockpile tonnage has decreased

from 21,429 tonnes at 31 December 2016 to 14,957 tonnes at 31 December 2017, a decrease of 30 per cent. The Group deemed it necessary to establish the impairment provision to reflect the reducing grade of the stockpiles which has decreased from 3.58 g/t at 31 December 2016 to approximately 2.64 g/t at 31 December 2017.

The value of finished goods awaiting sale at 31 December 2017 of US\$1.74 million compares with the value at 31 December 2016 of US\$1.57 million. The total value of finished goods held in stock at 31 December 2017 comprises 142 bags of copper/gold concentrate (31 December 2016: 162 bags) and bullion on hand for smelting which, at 30 September 2017, was 39,893 grammes valued at US\$1.08 million in comparison to 13,508 grammes at 31 December 2016 valued at US\$0.33 million.

During 2014 the Group had established a stockpile of partly processed material which having only passed through the flotation processing circuit, retained a gold grade of approximately 2.5 g/t. At 31 December 2016, there were approximately 20,800 tonnes

Inventory	31 December 2017 US\$	31 December 2016 US\$	Variance US\$	Variance %
Stockpile of mined ore	1,091,656	2,829,600	(1,737,944)	(61%)
Finished goods awaiting sale	1,741,860	1,572,774	169,086	11%
Other material in process	1,019,593	618,350	401,243	65%
Stockpile of flotation tails	494,117	708,775	(214,657)	(30%)
	4,347,226	5,729,500	(1,382,273)	(24%)
Consumables	2,587,212	2,380,873	206,339	9%
Total Inventory	6,934,436	8,110,372	(1,175,934)	(14%)



of flotation stockpile on site with a value of US\$0.71 million. During 2017 the Group processed approximately 5,000 tonnes of this stockpile leaving approximately 14,700 tonnes at 30 December 2017 with a value of US\$0.49 million.

The valuation attributable to gold locked up within the processing plant has increased to US\$1.02 million as at 31 December 2017 (31 December 2016: US\$0.62 million) reflecting normal operational variances.

Taxes Receivable after more than 12 months

The Group, in common with all businesses in Brazil, subject to a number of State and Federal taxes on goods that it purchases. As an exporter of goods it is exempt from any sales taxes on its products. As a result, it is due tax rebates by both Federal and State tax bodies. In general, the Company is able to utilise its tax debts by way of offset against other taxes that it owes. The Group has however determined that certain State taxes that it is able to recover and is owed at 31 December 2017 are not expected to be recovered through such an offset arrangement during the next 12 months and has therefore categorised the balance

owed in respect of these State taxes as being due in more than 12 months. The Group has received legal advice confirming that these taxes owed to the Group by the State of Para are fully recoverable.

Trade Receivables

Trade and other receivables at 31 December 2017 of US\$1.28 million have increased by US\$0.05 million from US\$1.23 million at 31 December 2016.

As at 31 December 2017 the Group was owed US\$1.22 million from the sale of its copper concentrate in comparison to US\$1.05 million as at 31 December 2016.

Also included within trade and other receivables are trade advances for freight and insurance which have decreased from US\$0.18 million at 31 December 2016 to US\$0.05 million at 31 December 2017.

Prepayments

Prepayments have decreased by US\$0.46 million from US\$3.70 million at 31 December 2016 to US\$3.24 million at 31 December 2017. Prepayments are composed of recoverable

taxes ICMS (state taxes) and PIS and Cofins (Federal taxes) that remain to be recovered at the period end. The ICMS tax recoverable tax actually increased by US\$0.99 from 31 December 2016 to 31 December 2017, however as the Group is now of the opinion that outstanding balance is recoverable in less than one year, an amount of US\$1.47 million has been reclassified into non-current assets.

Cash at Bank

Between 31 December 2016 and 31 December 2017, cash balances have decreased by approximately US\$0.07 million.

The Group increased the interest-bearing loan by a further US\$3.63 million from US\$1.37 million at 31 December 2016 to US\$5.00 million at 31 December 2017 and also paid US\$5.00 million for the acquisition of Chapleau Resources as the first instalment of the total consideration of US\$22 million payable.

Current Liabilities

Current liabilities have increased by US\$6.20 million from US\$8.32 million at 31 December 2016 to US\$14.52 million at 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review continued

Trade Creditors

Trade and other payables amounting to US\$5.35 million at 31 December 2017 compare with an amount owed by the Group of US\$4.94 million at 31 December 2016, an increase of US\$0.41 million. This increase in trade creditors is as a result of timing differences between the two period ends.

Acquisition Payment Due

The amount due on acquisition of US\$5.00 million relates to the second instalment due on the acquisition of Chapleau Resources. The Group completed the acquisition of Chapleau Resources on 21 December 2017 for a total amount of US\$22 million, making an initial payment of US\$5.00 million upon closing.

A further US\$5.00 million is due three months after closing and the balance, a further US\$12.00 million, is due upon the earlier of either the first gold being produced or 24 months from the date of closing.

Interest-Bearing Liabilities

On 30 June 2017 the Group entered into a new loan agreement with Sprott for US\$5.00 million expiring 31 December 2019 with the loan repayments commencing over 24 months starting in January 2018. Of the total loan US\$2.5 million is due in more than 12 months. The total loan balance shown in the table above is US\$4.48 million with the balance of US\$0.52 million representing the unamortised portion of the fair value derivative relating to the gold call options granted as part of the loan.

Obligations under Finance Leases

Obligations under finance leases for less than one year have decreased by US\$0.31 million from US\$1.17 million at 31 December 2016 to US\$0.87 million at 31 December 2017. During 2017, the Group purchased one new underground loader, however this was offset by lease repayments totalling approximately US\$0.64 million. All finance leases are held by Serabi Mineracao SA ("SMSA") in Brazil but are denominated in Euro or US Dollar before being converted to Brazilian Reals, the functional currency for SMSA.

Derivative Financial Liabilities

By way of a fee for the loan agreement with Sprott the Group has granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,320 which expire on 31 December 2019. On 30 June 2017, the date these call options were granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 has been recognised in the accounts. At 31 December 2017, the derivative provision was revalued to US\$709,255 with the increase in the provision of US\$59,255 being reflected as an expense in the income statement.

Non-Current Liabilities

The Group makes provision for the future estimated rehabilitation costs for its mine sites at Palito and São Chico. The value of the rehabilitation provision carried by the Group at 31 December 2017 was US\$2.01 million. The value at 31 December 2016 was US\$1.82 million. There has been a small increase in some of the cost assumptions underlying the provision and changes to the discount, exchange rate and inflation factors used to estimate the future value of the liability.

The amount due on acquisition of US\$10.00 million relates to the net present value of the US\$12 million due upon the earlier of either the first gold being produced or 24 months from the date of closing.

The property acquisition payment due by the Group has increased by US\$0.45 million as a result of a change in the discount rate used and changes in the exchange rate.

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

Non-IFRS Financial Measures

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

Total Cash Cost and All-In Sustaining Cost

The table overleaf 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.

Clive Line

Finance Director
29 March 2018

Total Cash Cost and All-In Sustaining Cost	12 months ended December 2017 (US\$)	12 months ended 31 December 2016 (US\$)
Total operating costs (calculated on a sales basis)	32,015,498	32,906,426
Add/(subtract)		
Finished goods and WIP inventory stock adjustment	(347,562)	(914,050)
Grossing up of revenue for metal deductions	555,476	1,022,048
By-product credits	(2,663,981)	(2,691,851)
Total cash cost of production	29,559,430	30,322,573
Corporate G&A	5,343,871	4,962,524
Share-based remuneration	381,362	350,899
Capitalised cost for mine development	4,362,192	2,366,486
All-In Sustaining Cost of production	39,646,855	38,002,482
	12 months ended 31 December 2017 (ounces)	12 months ended 31 December 2015 (ounces)
Gold ounces produced	37,004	39,390
	12 months Ended 31 December 2017 (US\$)	12 months ended 31 December 2016 (US\$)
Total Cash Cost of production (per ounce)	US\$799	US\$700
Total All-In Sustaining Cost of production (per ounce)	US\$1,071	US\$965

COMMUNITY AND SOCIAL RESPONSIBILITY

Social and Environmental Activities

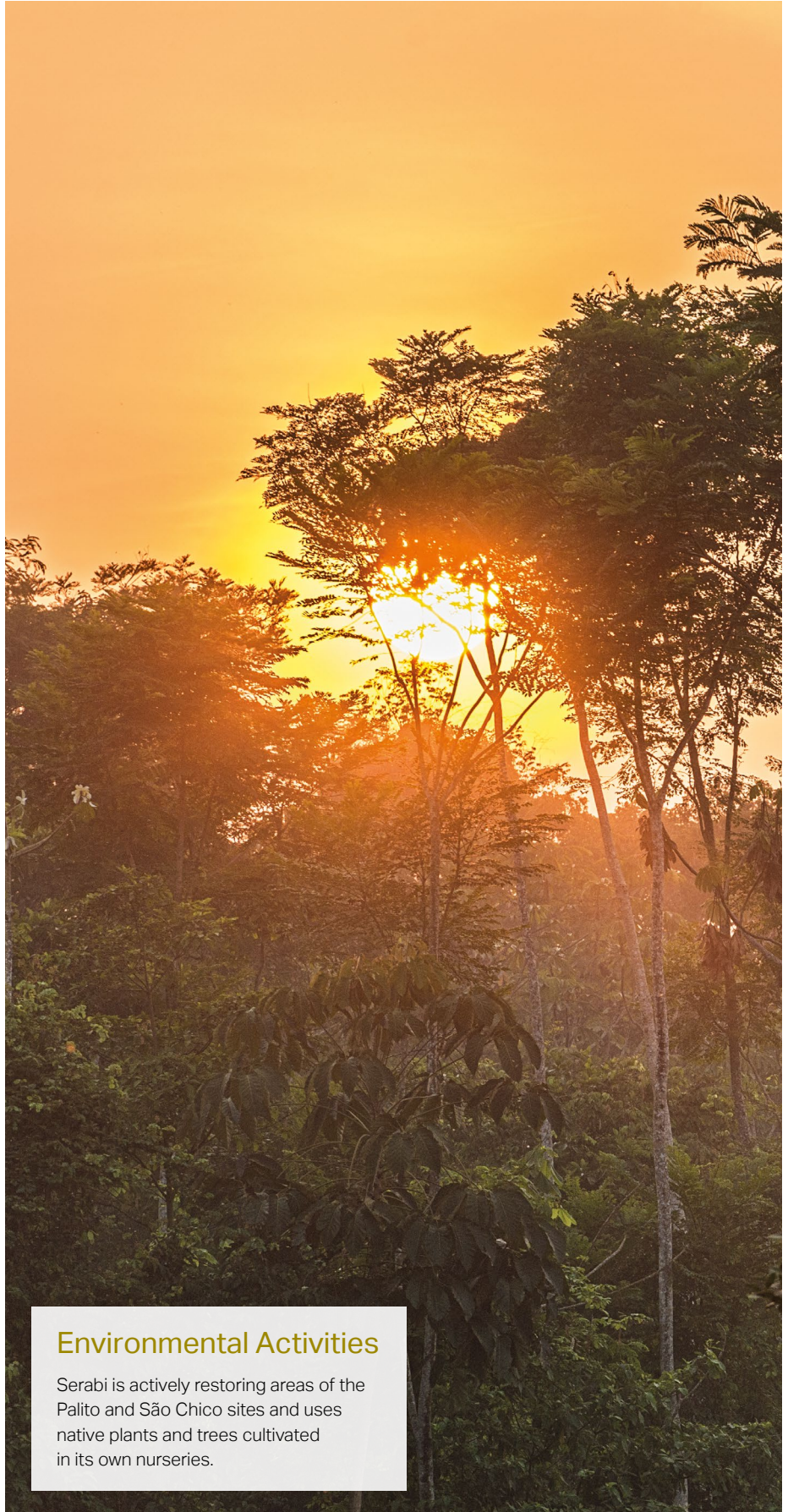
Serabi has been active in the Tapajos region and the area around the towns of Jardim do Ouro and Moraes d'Almeida, in particular, for over 12 years, during which time it has established strong relationships with these local communities.

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 that issue and regulate environmental permits. Serabi seeks to work closely and transparently with Secretaria de Estado de Meio Ambiente e Sustentabilidade ("SEMAs"), the environmental agency for the State of Pará, 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 São Chico Mines with SEMAs. 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.



Environmental Activities

Serabi is actively restoring areas of the Palito and São Chico sites and uses native plants and trees cultivated in its own nurseries.

It has established schools at Jardim do Ouro and the village of São Chico and continues to provide support to these 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 planted as areas are returned to their native form.

Site Rehabilitation Works Completed in 2017

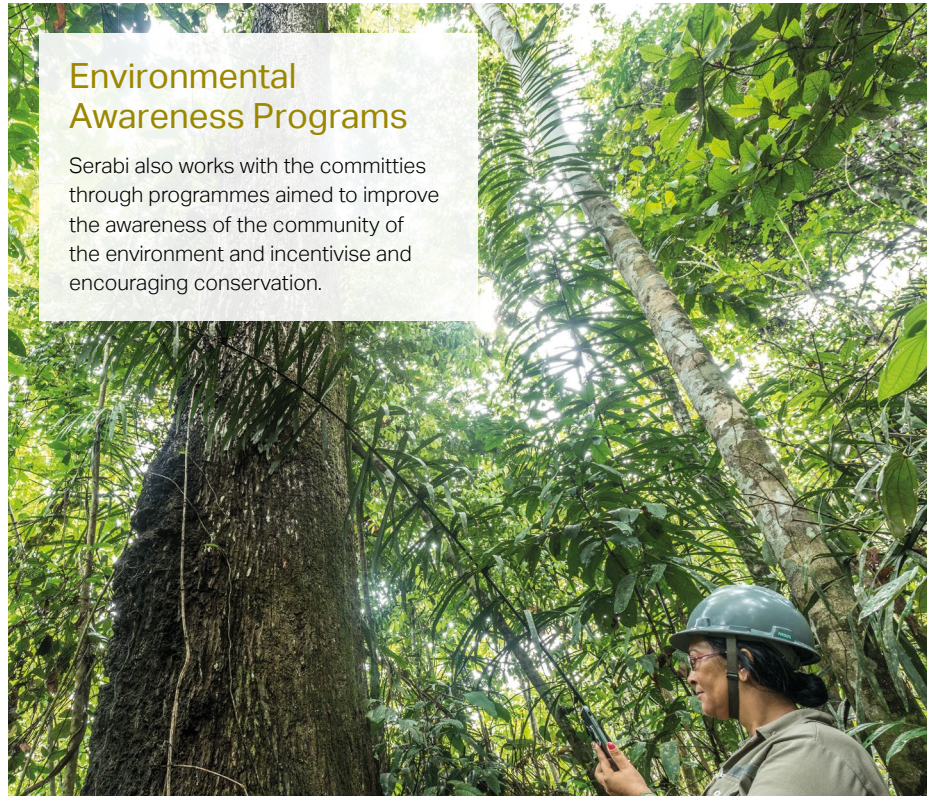
During 2017 the Company was very active in remediation works at both the Palito and São Chico mine-sites, concentrating at Palito on the restoration of some old open pit mine workings in the Senna area and at São Chico the remediation of areas that had been damaged by historical artisanal activity with an area of approximately 55,000m² affected and needing to be re-contoured using material from the mine excavations.

The preparatory earthworks have resulted in a completing levelling of the area using reclaimed soil and the Company is now completing the remediation works by planting of native forest trees. Use of a blend of native trees and grasses ensures that, to the greatest extent possible, the degraded areas are being returned to a state consistent with their native appearance.

Soils around the mine site are generally of low fertility and susceptible to erosion. In general restoration techniques, including the planting of native grasses, are used that can improve the structural conditions of the soil and its capacity for water percolation, and, in so doing, diminish the effects of erosion and leaching.

In total an area of over 3 hectares has been replanted at Palito to date and a further area of approximately 2.5 hectares at São Chico using over 25 different forest and fruit species which have been cultivated in the Company's own nursery and over 9,000 seedlings have now been planted.

At São Chico, work has focused on the remediation and re-contouring of areas that were subject to historic artisanal activity, with sterile waste from the mining activities being placed at the base of the south facing slopes in preparation for the topographical restoration.



Environmental Awareness Programs
 Serabi also works with the communities through programmes aimed to improve the awareness of the community of the environment and incentivise and encouraging conservation.



Community Infrastructure Improvements
 The Company has installed public lighting in São Chico community and also electrical installations in the schools of the Jardim do Ouro and helped establish a microsystem for water collection for the Jardim do Ouro community.
 Serabi has established initiatives aimed at promoting the health and safety of workers and a local medical clinic to support the health of local communities and also provides a dental care programme for the employees and communities of the Palito and São Chico mine.

COMMUNITY AND SOCIAL RESPONSIBILITY

Social and Environmental Activities continued

Our People

Local suppliers and services are prioritised to generate more employment opportunities for the community. Last year more than 80 per cent of service contractors were sourced from the local communities.

Accident prevention – Constant training is provided to employees to raise awareness and encourage safe practices.



Social Development Programme - 2017

Serabi has continued partnering with the State Government in the provision of materials and equipment to upgrade sections of the Transgarimpeira Highway, which runs from Moraes de Almeida past Palito and São Chico and continues south west towards the village of Creporizinho. The works undertaken by Serabi include resurfacing, rebuilding of bridges and improvements to the layout of particular sections that were accident blackspots. This was all targeted to provide improved transport access for a number of the communities along this road including the citizens of Jardim do Ouro and São Chico.

Serabi continues to support its community medical and dental programmes. 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 pre-natal and post-natal care.

The Company has also been active in the community putting together programmes supported by the Ministry of Culture to improve cultural understanding and awareness. These programmes are aimed at encouraging children, in particular, in the pursuit of art and music, and helping bring communities closer together and nearly R\$90,000.00 was committed to support this activity.

Environmental Training

Serabi places great importance on ensuring that its operations are run in a manner that creates the minimum possible risk to the environment and the neighbouring communities and has daily monitoring programmes in place. While the Group employs a specialist team to implement and manage these and all its other environmental and safety programmes, it places responsibility also on each employee to observe and report any weaknesses, potential problems or failings in its programmes. Regular training campaigns are run internally at both the Palito and São Chico Mines for all employees to both increase awareness in general of environmental issues, preventative actions and contingency planning in the event of any issue arising.

As part of the Group's community engagement programmes it also provides educational sessions to the local communities with a strong focus on the children who, in the longer term, will be those most affected by the decisions and actions taken today.



Community Engagement

Education – Serabi has established schools at Jardim do Ouro and the village of São Chico and continues to provide support through the provision of computers, book, uniforms, outdoor playground and gymnasium.

Culture awareness – Serabi has established programmes contributing to the better understanding the arts and culture, such as dance, arts and music aimed at bringing communities closer together. which represented nearly R\$90,000.00 in funds being spent.

Future Plans

During the coming 12 months, Serabi will continue to work closely with its local communities to improve the overall quality of life of the population through both improved education as well as financial assistance. Programmes that the Group would like to implement during 2018 include:

- Expansion of the water supply system within the town of Jardim do Ouro;
- Continued improvement of the roads and streets within Jardim do Ouro;
- Expansion of the water supply system within the São Chico village;
- Improved illumination of the roadway within the São Chico village; and
- Improving and expanding the electrical distribution system to the village of São Chico.

CORPORATE GOVERNANCE

Board of Directors and Senior Management

Melvyn Williams

Non-executive Chairman

**Appointed:** March 2011

Experience: Mel Williams was, until June 2011, the Chief Financial Officer 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).

Qualifications: He is a Chartered Certified Accountant and received an MBA from Cranfield in the United Kingdom. Mel is also a director of Western Troy Capital Resources.

Mike Hodgson

Chief Executive

Appointed: February 2007

Experience: Mike has worked in the mining industry for over 30 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: He 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: He graduated with 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's degree in Financial Economics from Universidad Católica de Chile.

T Sean Harvey

Non-executive

**Appointed:** March 2011

Experience: Sean spent 10 years working in investment and merchant banking, primarily focused on the basic industry (mining) sector and for the last 17 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.

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.

Mark Sawyer

Non-executive

Appointed: March 2018

Experience: Mark co-founded Greenstone Resources in 2013 after a 16 year career in the mining sector. Prior to establishing Greenstone, Mr Sawyer was GM and Co-Head Group Business Development at Xstrata plc where he was responsible for originating, evaluating and negotiating new business development opportunities for Xstrata. Prior to Xstrata Mr Sawyer held senior roles at Cutfield Freeman & Co (a boutique corporate advisory firm in the mining industry) and at Rio Tinto plc.

Qualifications: Mark qualified as a lawyer and has a law degree from the University of Southampton.

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 10 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.

Our Diverse Board

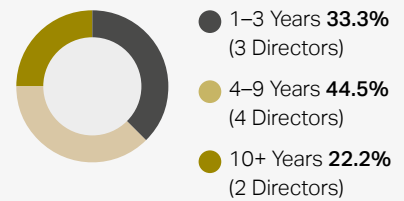
Nationalities



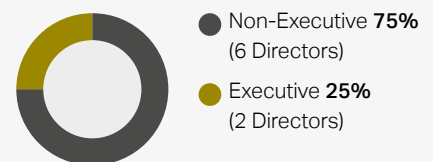
Background experience

- Geology
- Mine Engineering
- Investment Banking
- Corporate Finance
- Accounting
- Asset and Investment Management

Tenure



Composition



Committee Membership

- A Audit Committee
- R Remuneration Committee
- Chairman
- Member

The Directors give due regard to the principles set out in The UK Corporate Governance Code published in April 2016 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 2017 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.

CORPORATE GOVERNANCE

Report on Corporate Governance

BOARD OF DIRECTORS

The Board of Directors is responsible for the management of the Group on behalf of its 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 seven 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 2017, the Board met 18 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 Mel Williams as Chairman include 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
Melvyn Williams	Non-executive Chairman	30 March 2011	Independent	Member	Chair
Sean Harvey	Non-executive Director	30 March 2011	Independent	Member	Member
Nicolas Bañados	Non-executive Director	13 May 2013	Not independent ⁽¹⁾	–	Member
Felipe Swett	Non-executive Director	30 September 2014	Independent	Chair	–
Eduardo Rosselot	Non-executive Director	20 October 2012	Not independent ⁽²⁾	–	–
Aquiles Alegria	Non-executive Director	7 July 2014	Independent	–	–
Mark Sawyer	Non-executive Director	23 March 2018	Not independent ⁽³⁾	–	–
Michael Hodgson	Chief Executive	1 February 2007	Executive	–	–
Clive Line	Financial Director	14 March 2005	Executive	–	–

(1) Mr Banados 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.

(3) Mr Sawyer is appointed as a representative of Greenstone Resources II LP and is an officer and shareholder of Greenstone Management Ltd and Greenstone Capital LLP which provide management and advisory service to Greenstone Resources II LP. 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
Mel Williams	17	4	3
Michael Hodgson	16	n/a	n/a
Clive Line	18	n/a	n/a
Aquiles Alegria	13	n/a	n/a
Sean Harvey	18	4	3
Nicolas Bañados	18	n/a	3
Eduardo Rosselot	17	n/a	n/a
Felipe Swett	17	4	n/a

n/a - indicates that a Director was not a member of the committee at any time during the year
Mr Sawyer was only appointed to the Board after the end of the year, on 23 March 2018.

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 Felipe Swett and also comprises Sean Harvey and Mel Williams. 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.

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 2017, the Committee met on four 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 2017, 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;
- determination of the potential recoverability of past tax losses; and
- determination of the appropriate accounting treatment for Chapleau Resources Ltd.

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

CORPORATE GOVERNANCE

Report on Corporate Governance continued

AUDIT COMMITTEE (CONTINUED)**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 Banados.

Operations

The Remuneration Committee meets at least twice a year, or more frequently as required. In 2017, the Remuneration Committee met three times. 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 the preceding year against pre-determined targets. It also established and recommended targets in respect of the 2017 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 52 to 56.

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.

PROJECT STEERING COMMITTEE

Purpose

In March 2018, the Group established a Project Steering Committee, the role of which is to recommend a governance and reporting framework for the Group's portfolio of producing assets, its existing exploration portfolio, the recently acquired Coringa Gold Project and assess and review any proposed Mergers and Acquisitions.

Composition

The Project Steering Committee is chaired by the Chief Executive Officer and certain of the Group's substantial shareholders are entitled to appoint nominees to the Project Steering Committee with the Board appointing other qualified representatives.

Responsibilities

The Project Steering Committee will make recommendations to the Board on matters including, but not limited to:

- the overall development strategy that might enhance value for shareholders whilst ensuring the Asset Portfolio is developed in accordance with a credible financing plan;
- monitor performance against target cost, schedule and HSE and project controls through formal monthly reviews;
- matters which may or will require further approvals from the Board such as capital overruns and major contract awards;
- material changes to the approved scopes, cost and/or schedule when risk or opportunity events occur;
- the permitting plan and progress in respect of material permits, including any material communication received from government or permitting agencies in respect of key permits and approvals;
- overall HSE performance including system implementation and review of material incidents (high potential risk incidents, lost time injuries and reportable environmental incidents);
- stakeholder management and progress against key elements of the stakeholder plan;
- the execution plan including contracting strategy, detailed permitting register, controls/reporting, critical path, control budget and use of contingency;
- the staffing plan; and
- the financing plan and strategy including equity, debt, royalty or off-take financing.

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 2018 Annual General Meeting to be held on 14 June 2018 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

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 programmes 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 programme 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 programme 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 2017 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. Details regarding the operation of each of the compensation elements are set out below the table.

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 assessment of an individual's performance and contribution to the Group. 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 that 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 benefit 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 individual's 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 cost 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 programme 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\$	Other US\$	For the year to	For the year to
								31 December 2017 Total US\$	31 December 2016 Total US\$
Michael Hodgson	221,073	–	–	135,466	10,302	91,400	5,072	463,313	479,917
Clive Line	198,254	–	–	94,826	–	68,199	4,057	365,256	383,219
Aquiles Alegria	–	27,982	–	–	–	29,153	–	57,135	53,506
Nicolas Bañados	–	31,825	–	–	–	30,496	–	62,321	57,920
T Sean Harvey	–	39,683	–	–	–	35,898	–	75,581	77,697
Eduardo Rosselot	–	29,673	60,000	–	–	18,909	–	108,582	109,718
Felipe Swett	–	33,551	–	–	–	29,153	–	62,704	58,059
Melvyn Williams	–	43,729	–	–	–	29,153	–	73,569	66,613
Total	419,327	206,443	60,000	230,292	10,302	332,968	9,129	1,268,460	1,286,649

DIRECTORS AND THEIR INTERESTS**Ordinary Shares and Options**

The Directors of the Company, who held office during the year and as of 31 December 2017, had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Shares held at 31 December 2017	Shares held at 31 December 2016	Share options held at 31 December 2017	Share options held at 31 December 2016	Option price	Exercise period
Michael Hodgson	441,320	441,320	500,000	500,000	UK£0.150	21 Dec 09 to 20 Dec 19
			600,000	600,000	UK£0.410	28 Jan 11 to 27 Jan 21
			–	4,000,000	UK£0.050	07 Apr 14 to 06 Apr 17
			3,900,000	3,900,000	UK£0.055	22 Jan 15 to 21 Jan 18
			4,000,000	4,000,000	UK£0.050	16 May 16 to 15 May 19
Clive Line	766,653	766,653	500,000	500,000	UK£0.150	21 Dec 09 to 20 Dec 19
			600,000	600,000	UK£0.410	28 Jan 11 to 27 Jan 21
			–	2,800,000	UK£0.050	07 Apr 14 to 06 Apr 17
			2,800,000	2,800,000	UK£0.055	22 Jan 15 to 21 Jan 18
			3,000,000	3,000,000	UK£0.050	16 May 16 to 15 May 19
T Sean Harvey	1,200,000	1,200,000	–	1,700,000	UK£0.050	07 Apr 17 to 06 Apr 20
			1,600,000	1,600,000	UK£0.055	07 Apr 14 to 06 Apr 17
			1,600,000	1,600,000	UK£0.050	22 Jan 15 to 21 Jan 18
			1,600,000	1,600,000	UK£0.050	16 May 16 to 15 May 19
			1,600,000	–	UK£0.050	07 Apr 17 to 06 Apr 20
Melvyn Williams	295,000	295,000	–	1,400,000	UK£0.050	07 Apr 14 to 06 Apr 17
			1,300,000	1,300,000	UK£0.055	22 Jan 15 to 21 Jan 18
			1,300,000	1,300,000	UK£0.050	16 May 16 to 15 May 19
			1,300,000	–	UK£0.050	07 Apr 17 to 06 Apr 20
			1,300,000	–	UK£0.055	30 Sept 14 to 29 Sept 17
Aquilés Alegria	100,000	100,000	–	1,000,000	UK£0.055	22 Jan 15 to 21 Jan 18
			1,000,000	1,000,000	UK£0.050	16 May 16 to 15 May 19
			1,000,000	–	UK£0.050	07 Apr 17 to 06 Apr 20
			1,000,000	–	UK£0.055	30 Sept 14 to 29 Sept 17
			1,000,000	1,000,000	UK£0.055	22 Jan 15 to 21 Jan 18
Felipe Swett	–	–	–	1,000,000	UK£0.055	16 May 16 to 15 May 19
			1,000,000	1,000,000	UK£0.050	07 Apr 17 to 06 Apr 20
			1,000,000	–	UK£0.050	07 Apr 14 to 06 Apr 17
			1,000,000	–	UK£0.055	22 Jan 15 to 21 Jan 18
			1,000,000	1,000,000	UK£0.050	16 May 16 to 15 May 19
Eduardo Rosselot	–	–	–	1,200,000	UK£0.050	07 Apr 14 to 06 Apr 17
			1,800,000	1,200,000	UK£0.055	22 Jan 15 to 21 Jan 18
			1,000,000	1,000,000	UK£0.050	16 May 16 to 15 May 19
			1,000,000	–	UK£0.050	07 Apr 17 to 06 Apr 20
			1,000,000	–	UK£0.055	30 Sept 14 to 29 Sept 17
Nicolas Bañados ⁽¹⁾	22,443,947	22,443,947	–	1,200,000	UK£0.055	22 Jan 15 to 21 Jan 18
			1,000,000	1,000,000	UK£0.055	22 Jan 15 to 21 Jan 18
			1,000,000	1,000,000	UK£0.050	16 May 16 to 15 May 19
			1,000,000	–	UK£0.050	07 Apr 17 to 06 Apr 20
			1,000,000	–	UK£0.050	07 Apr 17 to 06 Apr 20

(1) Mr. Bañados has a direct interest in 144,282 Existing Ordinary Shares. Mr Bañados is the beneficial owner of 50 per cent. of the share capital of Asesorías e Inversiones Asturias Limitada which beneficially owns: (1) directly 159,665 Existing 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 Existing Ordinary Shares.

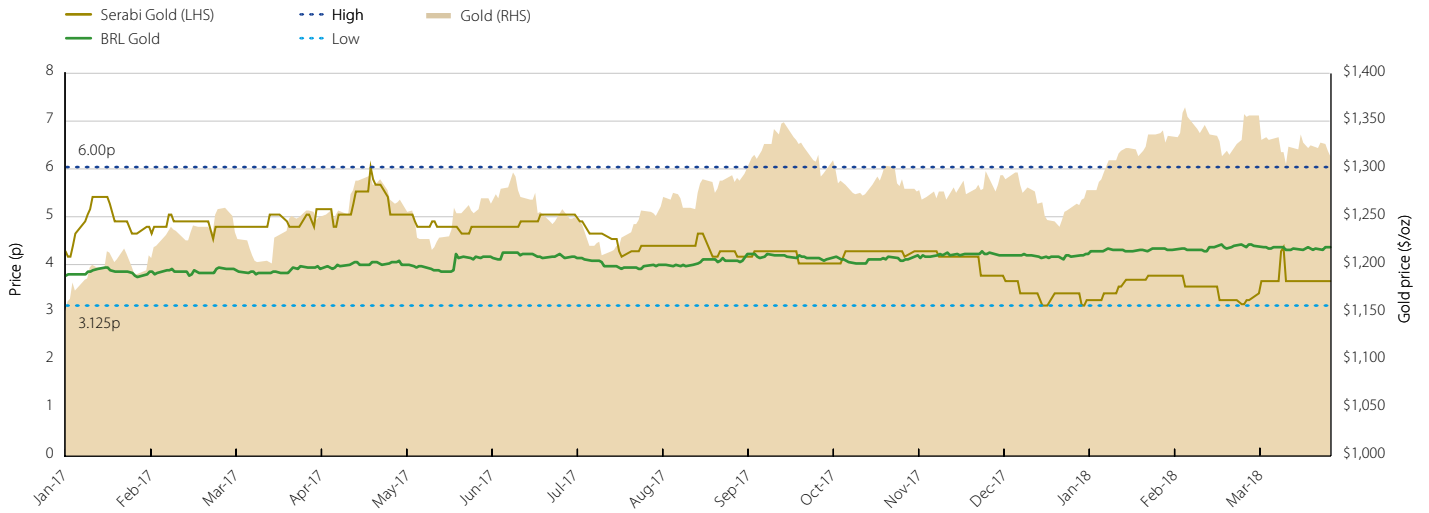
During the year ended 31 December 2017 the Company's shares have traded between 3.125 pence and 5.750 pence.

CORPORATE GOVERNANCE

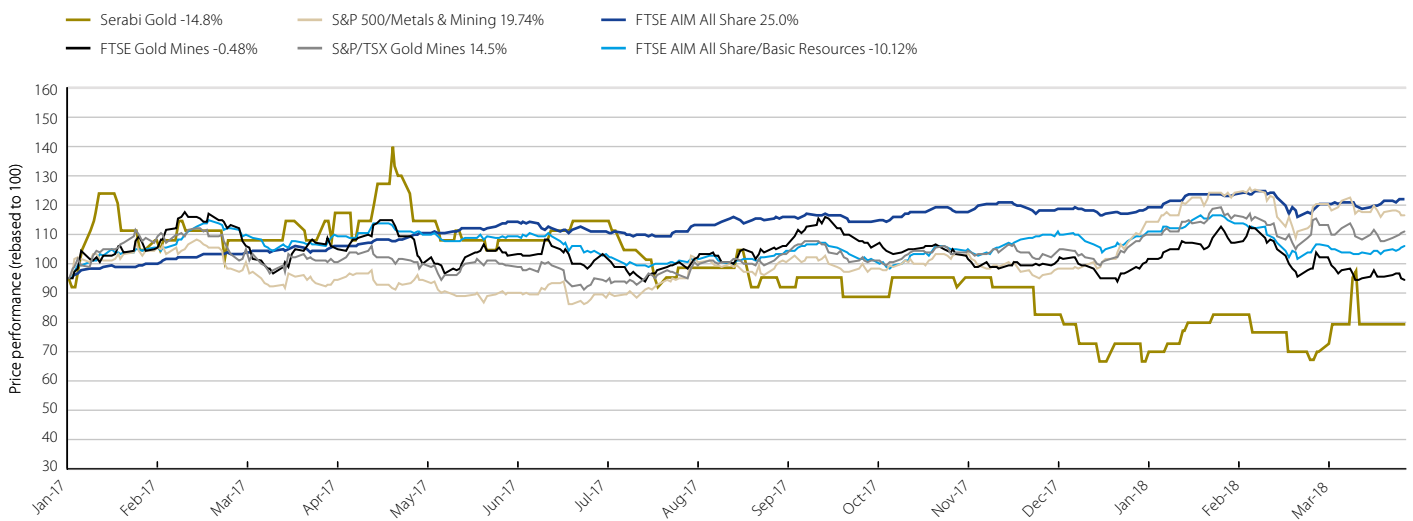
Directors' Remuneration Report continued

SHARE PRICE PERFORMANCE

Share Performance Against Gold Price – 2017 to date



Share Performance Against Industry Indices – 2017 to date



CORPORATE GOVERNANCE

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their report together with the audited financial statements for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The Group loss for the year after taxation amounts to US\$2,397,903 (2016: profit of US\$4,430,292). The Directors do not recommend the payment of a dividend.

The results for the year are set out on page 69 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 2018 the Company was aware of the following holdings of three per cent or more in the Company's issued share capital:

Name	Number of shares held	Percentage
Fratelli Investments Limited	386,375,734	55.1%
Anker Holding AG	49,485,000	7.1%
Drake PIPE Fund	45,979,686	6.6%
Eldorado Gold Corporation	34,090,000	4.9%
FIP Santa Monica	22,443,947	3.2%

On 23 March 2018, the Company announced a subscription for new Ordinary shares by Greenstone Resources II LP ("Greenstone") for 297,759,419 new Ordinary Shares which will result when the subscription completes, which is expected to be on or around 12 April 2018, in Greenstone becoming interested in 29.82% of the enlarged issued share capital of the Company and the above percentages being reduced accordingly.

SHARE CAPITAL

Details of the share capital and movements in share capital during the period are disclosed in note 20 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 and other employees.

Date of issue	Number issued	Price	Expiry
7 April 2017	15,650,000	5.00 pence	06 April 2020

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 FINANCE

On 23 March 2018 the Company entered into a Subscription Agreement with Greenstone Resources II LP ("Greenstone"). Greenstone has conditionally agreed to subscribe ("the Subscription") for 297,759,419 New Ordinary Shares ("the Subscription Shares") at a price of 3.6 pence per share (the "Subscription Price"). The New Ordinary Shares to be issued pursuant to the Subscription will rank pari passu with the existing Ordinary Shares. Application will be made to the London Stock Exchange for the Subscription Shares to be admitted to trading on AIM ("Admission") and listed for trading on the TSX. Completion of the Subscription and Admission is expected to take place at 8:00 a.m. on or around 12 April 2018.

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 loan facilities and to fund planned exploration and development activity on its other gold properties. However additional funding will be required to bring the newly acquired Coringa gold project into production including the final acquisition payment. The secured loan facility is repayable by 30 June 2020 and at 31 December 2017, the amount outstanding under this facility was US\$4.48 million (2016: US\$1.37 million).

The Directors consider that the Group's operations are performing at the levels that they anticipate but the Group remains a small-scale gold producer. Any unplanned interruption or reduction in gold production, unforeseen reductions in the gold price or appreciation of the Brazilian currency, could adversely affect the level of free cash flow that the Group can generate on a monthly basis. Nonetheless with the proceeds to be received from the Subscription, the Directors consider that they will nonetheless be able to meet its financial obligations as they fall due.

On this basis, the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis.

CORPORATE GOVERNANCE

Directors' Report continued

FOR THE YEAR ENDED 31 DECEMBER 2017

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 20 to 21.

MANAGEMENT OF FINANCIAL RISKS

Capital management and financial risk disclosures are provided within notes 23 and 26 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 46 and 47.

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 48 to 51.

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 48 to 51.

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 Market Abuse Regulations 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 2017, using the criteria, having taken account of the size and nature of the Group, put forward by the Financial Reporting Council in their revised guidance for directors on internal controls for UK listed companies (issued 2005).

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

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 was renewed at the start of 2018 for a two year period. 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.

POST BALANCE SHEET EVENTS

On 22 January 2018, the Group increased its loan with Sprott by US\$3 million ("The New Loan") and at the same time extended the final repayment period on its existing US\$5 million loan (The Existing Loan) with Sprott by six months from 31 December 2019 to 30 June 2020. The New Loan may be repaid, at the Company's request and with the agreement of Sprott (the "Extension Option") in equal monthly instalments commencing 30 September 2018 with a final payment due 22 months later on 30 June 2020. If the Extension Option is not exercised the New Loan must be repaid in full on 30 September 2018. Notwithstanding the above, both the New Loan and the Existing Loan may be repaid by Serabi in full without penalty at any time.

On 23 March 2018 the Company entered into a Subscription Agreement with Greenstone resources II LP ("Greenstone"). Greenstone has conditionally agreed to subscribe ("the Subscription") for 297,759,419 New Ordinary Shares ("the Subscription Shares") at a price of 3.6 pence per share (the "Subscription Price"). The New Ordinary Shares to be issued pursuant to the Subscription will rank pari passu with the existing Ordinary Shares. Application will be made to the London Stock Exchange for the Subscription Shares to be admitted to trading on AIM ("Admission") and listed for trading on the TSX. Completion of the Subscription and Admission is expected to take place at 8:00 a.m. on or around 12 April 2018.

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

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 2018

FINANCIAL STATEMENTS

Independent Auditor's Report

TO THE MEMBERS OF SERABI GOLD PLC

OPINION

We have audited the financial statements of Serabi Gold plc (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2017 which comprise the group statement of comprehensive income, the group and company balance sheets, the group and company statements of changes in equity, the group and company statements of cash flows and notes to the financial statements including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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.

SEPARATE OPINION IN RELATION TO IFRSS AS ISSUED BY THE IASB

As explained in note 1 (a) to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of Our Report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

FINANCIAL STATEMENTS

CARRYING VALUE OF MINING PROPERTIES

KEY AUDIT MATTER	<p>As at 31 December 2017, the Group's mining properties and assets under construction totalled \$48.98m and details of these assets and the related critical judgements and estimates are disclosed in notes 1(x) and 21.</p> <p>Each year management are required to assess whether there has been any indication that the mining assets may be impaired and consider whether the carrying value exceeds the recoverable amount by considering the future discounted cash flows.</p> <p>The recoverable amount of the assets is dependent on the life of mine plan and various significant judgements and estimates, including the gold price and discount rates. The subjectivity of the judgements and estimates and the significant carrying value of the assets make this a key area of focus for the financial statements and the audit.</p>
AUDIT RESPONSE	<p>Our audit work included:</p> <ul style="list-style-type: none"> • We reviewed Management's assessment of the indicators of impairment against IAS 36 and found that the carrying amount of the net assets of the entity is more than its market capitalisation. <p>We carried out detailed testing of the value in use model as a result of this. This work included the following:</p> <ul style="list-style-type: none"> • We confirmed the mathematical accuracy and appropriateness of the model. • We obtained an understanding of the operational plans for the Palito and São Chico mines. • We assessed the reasonableness of the key inputs and assumptions used by Management with the respective mine plans for Palito and São Chico by reference to our understanding of operations and historic results. • We further sensitised the key assumptions, focusing on the impact of a change in gold price, increasing operating costs, increasing sustaining capital expenditure and changes in discount rate. To determine adverse variances that would eliminate the headroom, we considered changes to each assumption independent of one another. • We reviewed RNS announcements, Board minutes and press releases for information inconsistent with the impairment review as well as holding a number of discussions with Management regarding key assumptions. • We evaluated the adequacy of the disclosures provided within the financial statements in relation to impairment assessment.

FINANCIAL STATEMENTS

Independent Auditor's Report continued

TO THE MEMBERS OF SERABI GOLD PLC

GOING CONCERN

KEY AUDIT MATTER	<p>Management is required to consider the entity's ability to continue as a going concern for a period of at least 12 months from the date the financial statements are approved. Refer to note 1(a) for Management's and the Directors' assessment.</p> <p>On 21 December 2017, Serabi Gold plc completed the acquisition of Chapleau Resources Limited, which holds the Coringa Gold Project. An initial payment of \$5m was made before the year ended 31 December 2017. There is a further \$5m consideration payable within three months of completion. This payment has been delayed until the subscription described below has been received by Serabi.</p> <p>Since the year-end Serabi has increased its secured facility by \$3m, and extended the final repayment period to 30 June 2020. In addition, the Group had cash reserves of \$4.1m at 31 December 2017.</p> <p>On 23 March 2018, the Company announced a subscription of \$15m by Greenstone Resources LP for 297,759,419 new ordinary shares (the 'Subscription'). The proceeds will be received in April.</p> <p>The Directors consider that the Group's operations are performing at the levels that they anticipate but the Group remains a small-scale gold producer. Any unplanned interruption or reduction in gold production, unforeseen reductions in the gold price or appreciation of the Brazilian currency, could adversely affect the level of free cash flow that the Group can generate on a monthly basis. With the proceeds to be received from the Placing and the Subscription, the Directors consider that they will nonetheless be able to meet the Group's contractual commitments as they fall due. For these reasons Management has concluded that it is appropriate to prepare the financial statements on a going concern basis. The projection of future performance requires a number of estimates and assumptions and actual outcomes may vary from those projected.</p>
AUDIT RESPONSE	<p>Our audit work included:</p> <ul style="list-style-type: none"> • A review of management's assessment that going concern is an appropriate basis of preparation. • Corroboration of the management's cash flow forecasts for the group, which include the 12 months from the date of approval of these financial statements, to supporting information and historic data. • Challenging and corroborating management's assumptions included in the cash flow forecasts and discussing with management their future plans for the group and ensuring that all contractually committed amounts are included within the projections; • Reviewing the terms of the group's current debt facility including historical compliance and expected future compliance with covenants. • Reviewing agreements in respect of the announced finance raising and confirming that all conditions precedent have been satisfied, that the funds are receivable and the chances of default are remote. • Evaluating the adequacy of disclosures made in the financial statements in respect of going concern.

ACQUISITION OF CORINGA

KEY AUDIT MATTER	<p>On 22 December 2017 Serabi completed the acquisition of Chapleau Resources Limited which holds the Coringa Gold Project for total consideration of \$22m payable in instalments.</p> <p>The underlying project is an advanced exploration stage project and there is judgement involved as to whether the transaction represents a business combination or an asset acquisition and the related accounting treatment and valuation of assets and liabilities can differ significantly.</p>
AUDIT RESPONSE	<p>Our audit work included:</p> <ul style="list-style-type: none"> • We have reviewed management's assessment that the transaction is an asset acquisition and challenged the judgements included. • We have reviewed the acquisition agreements and confirmed the amounts payable and that these have been appropriately discounted in the parent company balance sheet. • We have confirmed the tangible assets acquired and the value allocated to them to provisional external valuation reports. We have confirmed the exploration licence acquired to legal opinions and assessed the reasonableness of the value allocated to the exploration and evaluation assets by reference to comparable transactions.

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Our basis for the determination of materiality has changed from prior year. We consider EBITDA to be the most significant determinant of the group's financial performance used by shareholders, approximate to operating cash generation, rather than revenue which was the basis used for 2016. The benchmark percentage for calculating materiality has changed to 5% of EBITDA from the prior year of 1.5% of Revenue.

Whilst materiality for the financial statements as a whole was \$500,000 (based on 30 September 2017 EBITDA figure of \$10.06m) (2016: \$700,000), each significant component of the group was audited to a lower level of materiality. The parent company materiality was \$375,000 (2016: \$525,000) with the other components varying from \$375,000 to \$220,000. These materiality levels were used to determine the financial statement areas that are included within the scope of our audit work and the extent of sample sizes during the audit.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at 75% (2016: 75%) of the above materiality levels given there has been limited experience of past misstatements

We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of \$25,000 (2016: \$25,000). We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit scope focussed on the group's principal operating locations and legal structure. The group has operating entities based in the UK and Brazil. The parent company, Serabi Mineração SA, containing the Palito and São Chico gold mines, were the entities that were deemed to be significant components by virtue of size.

The parent entity was subject to a full scope audit by the group auditor.

For Serabi Mineração SA and Gold Aura do Brasil Mineração Ltda, the BDO network firm in Brazil completed a full scope audit reporting to the group auditor. We determined our level of involvement in the component to require a visit from the group audit team to review the audit work papers and attend the component clearance meeting along with the component auditor, local and group management.

For the components acquired in the acquisition of the Coringa project in December 2017, the BDO network firm in Brazil performed specific assurance procedures.

The remaining non-significant subsidiaries of the group were principally subject to analytical review procedures.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

FINANCIAL STATEMENTS

Independent Auditor's Report continued

TO THE MEMBERS OF SERABI GOLD PLC

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Stuart Barnsdall (Senior Statutory Auditor)

For and on behalf of BDO LLP

London, UK

29 March 2018

FINANCIAL STATEMENTS

Independent Auditor's Report continued

IN RESPECT OF CANADIAN NATIONAL INTRUSTMENT 52-107
(ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS)**OPINION**

We have audited the financial statements of Serabi Gold plc and its subsidiaries (the "group") for the year ended 31 December 2017 which comprise the group statement of comprehensive income, the group balance sheet, the group statement of changes in equity, the group statement of cash flows and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the IAASB. Our audit opinion does not cover the parent company financial statements.

In our opinion:

- the group financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017 and 31 December 2016 and its financial performance and its cash flows for the years then ended; and
- the group financial statements have been properly prepared in accordance with IFRSs as issued by the IAASB.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by IAASB and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the group financial statements in the UK, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CARRYING VALUE OF MINING PROPERTIES

KEY AUDIT MATTER	<p>As at 31 December 2017, the Group's mining properties and assets under construction totalled \$48.98m and details of these assets and the related critical judgements and estimates are disclosed in notes 1(x) and 21.</p> <p>Each year management are required to assess whether there has been any indication that the mining assets may be impaired and consider whether the carrying value exceeds the recoverable amount by considering the future discounted cash flows.</p> <p>The recoverable amount of the assets is dependent on the life of mine plan and various significant judgements and estimates, including the gold price and discount rates. The subjectivity of the judgements and estimates and the significant carrying value of the assets make this a key area of focus for the financial statements and the audit.</p>
AUDIT RESPONSE	<p>Our audit work included:</p> <ul style="list-style-type: none"> • We reviewed Management's assessment of the indicators of impairment against IAS 36 and found that the carrying amount of the net assets of the entity is more than its market capitalisation. <p>We carried out detailed testing of the value in use model as a result of this. This work included the following:</p> <ul style="list-style-type: none"> • We confirmed the mathematical accuracy and appropriateness of the model. • We obtained an understanding of the operational plans for the Palito and São Chico mines. • We assessed the reasonableness of the key inputs and assumptions used by Management with the respective mine plans for Palito and São Chico by reference to our understanding of operations and historic results. • We further sensitised the key assumptions, focusing on the impact of a change in gold price, increasing operating costs, increasing sustaining capital expenditure and changes in discount rate. To determine adverse variances that would eliminate the headroom, we considered changes to each assumption independent of one another. • We reviewed RNS announcements, Board minutes and press releases for information inconsistent with the impairment review as well as holding a number of discussions with Management regarding key assumptions. • We evaluated the adequacy of the disclosures provided within the financial statements in relation to impairment assessment.

FINANCIAL STATEMENTS

Independent Auditor's Report continued

IN RESPECT OF CANADIAN NATIONAL INSTRUMENT 52-107
(ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS)

GOING CONCERN

KEY AUDIT MATTER	<p>Management is required to consider the entity's ability to continue as a going concern for a period of at least 12 months from the date the financial statements are approved. Refer to note 1(a) for Management's and the Directors' assessment.</p> <p>On 21 December 2017, Serabi Gold plc completed the acquisition of Chapleau Resources Limited, which holds the Coringa Gold Project. An initial payment of \$5m was made before the year ended 31 December 2017. There is a further \$5m consideration payable within three months of completion. This payment has been delayed until the subscription below has been received by Serabi.</p> <p>Since the year-end Serabi has increased its secured facility by \$3m, and extended the final repayment period to 30 June 2020. In addition, the Group had cash reserves of \$4.1m at 31 December 2017.</p> <p>On 23 March 2018, the Company announced a subscription of \$15m by Greenstone Resources LP for 297,759,419 new ordinary shares (the 'Subscription'). The proceeds will be received in April.</p> <p>The Directors consider that the Group's operations are performing at the levels that they anticipate but the Group remains a small-scale gold producer. Any unplanned interruption or reduction in gold production, unforeseen reductions in the gold price or appreciation of the Brazilian currency, could adversely affect the level of free cash flow that the Group can generate on a monthly basis. With the proceeds to be received from the Placing and the Subscription, the Directors consider that they will nonetheless be able to meet the Group's contractual commitments as they fall due. For these reasons Management has concluded that it is appropriate to prepare the financial statements on a going concern basis. The projection of future performance requires a number of estimates and assumptions and actual outcomes may vary from those projected.</p>
AUDIT RESPONSE	<p>Our audit work included:</p> <ul style="list-style-type: none"> • A review of management's assessment that going concern is an appropriate basis of preparation. • Corroboration of the management's cash flow forecasts for the group, which include the 12 months from the date of approval of these financial statements, to supporting information and historic data. • Challenging and corroborating management's assumptions included in the cash flow forecasts and discussing with management their future plans for the group and ensuring that all contractually committed amounts are included within the projections; • Reviewing the terms of the group's current debt facility including historical compliance and expected future compliance with covenants. • Reviewing agreements in respect of the announced finance raising and confirming that all conditions precedent have been satisfied, that the funds are receivable and the chances of default are remote. • Evaluating the adequacy of disclosures made in the financial statements in respect of going concern.

ACQUISITION OF CORINGA

KEY AUDIT MATTER	<p>On 22 December 2017 Serabi completed the acquisition of Chapleau Resources Limited which holds the Coringa Gold Project for total consideration of \$22m payable in instalments.</p> <p>The underlying project is an advanced exploration stage project and there is judgement involved as to whether the transaction represents a business combination or an asset acquisition and the related accounting treatment and valuation of assets and liabilities can differ significantly.</p>
AUDIT RESPONSE	<p>Our audit work included:</p> <ul style="list-style-type: none"> • We have reviewed management's assessment that the transaction is an asset acquisition and challenged the judgements included. • We have reviewed the acquisition agreements and confirmed the amounts payable and that these have been appropriately discounted in the balance sheet. • We have confirmed the tangible assets acquired and the value allocated to them to provisional external valuation reports. We have confirmed the exploration licence acquired to legal opinions and assessed the reasonableness of the value allocated to the exploration and evaluation assets by reference to comparable transactions.

FINANCIAL STATEMENTS

OTHER INFORMATION

The other information comprises the information included in the annual report and the management discussion and analysis, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the group's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the group and the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).
- Are required to report on consolidated financial statements, obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the audit opinion.

FINANCIAL STATEMENTS

Independent Auditor's Report continued

IN RESPECT OF CANADIAN NATIONAL INTRUSTMENT 52-107
(ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditors' report is Stuart Barnsdall.

BDO LLP

London, United Kingdom

29 March 2018

FINANCIAL STATEMENTS

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Group	
		For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
CONTINUING OPERATIONS			
Revenue		48,449,868	52,593,751
Cost of sales		(32,015,498)	(32,906,426)
Provision for impairment of inventory	11	(950,000)	–
Depreciation and amortisation charges		(10,465,283)	(8,384,738)
Gross profit		5,019,087	11,302,587
Administration expenses		(5,500,275)	(4,962,524)
Share-based payments		(381,362)	(350,899)
Gain on disposal of fixed asset		170,591	34,742
Operating (loss)/profit	3	(691,959)	6,023,906
Foreign exchange loss		(214,488)	(236,619)
Finance expense	4	(839,191)	(3,917,681)
Finance income	4	135	573
(Loss)/profit before taxation		(1,745,503)	1,870,179
Income tax (expense)/benefit	5	(652,400)	2,560,113
(Loss)/profit for the period from continuing operations⁽¹⁾		(2,397,903)	4,430,292
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(591,720)	8,618,687
Total comprehensive (loss)/profit for the period⁽¹⁾		(2,989,623)	13,048,979
(Loss)/profit per ordinary share (basic)	7	(0.34c)	0.66c
(Loss)/profit per ordinary share (diluted)	7	(0.34c)	0.61c

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

FINANCIAL STATEMENTS

Group Balance Sheet

AS AT 31 DECEMBER 2017

	Notes	Group	
		2017 US\$	2016 US\$
Non-current assets			
Deferred exploration costs	8	23,898,819	9,990,789
Property, plant and equipment	9	48,980,381	45,396,140
Taxes receivable	12	1,474,062	–
Deferred taxation	5	2,939,634	3,253,630
Total non-current assets		77,292,896	58,640,559
Current assets			
Inventories	11	6,934,438	8,110,373
Trade and other receivables	12	1,277,142	1,233,049
Prepayments	13	3,237,412	3,696,550
Cash and cash equivalents	14	4,093,866	4,160,923
Total current assets		15,542,858	17,200,895
Current liabilities			
Trade and other payables	15	5,347,964	4,722,139
Interest-bearing liabilities	17	2,845,712	2,964,057
Acquisition payment outstanding	22	5,000,000	–
Derivative financial liabilities	18	709,255	–
Accruals		614,198	635,446
Total current liabilities		14,517,129	8,321,642
Net current assets		1,025,729	8,879,253
Total assets less current liabilities		78,318,625	67,519,812
Non-current liabilities			
Trade and other payables	15	2,753,409	2,211,078
Provisions	16	2,047,131	1,851,963
Acquisition payment outstanding	22	9,997,961	–
Interest-bearing liabilities	17	2,749,412	77,798
Total non-current liabilities		17,547,913	4,140,839
Net assets		60,770,712	63,378,973
Equity			
Share capital	20	5,540,960	5,540,960
Share premium reserve		1,722,222	1,722,222
Option reserve		1,425,024	1,338,652
Other reserves		4,015,369	3,051,862
Translation reserve		(31,199,568)	(30,607,848)
Retained surplus		79,266,705	82,333,125
Equity shareholders' funds attributable to owners of the parent		60,770,712	63,378,973

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018 and signed on its behalf by:

Clive Line

Finance Director

29 March 2018

Company Number 5131528

FINANCIAL STATEMENTS

Company Balance Sheet

AS AT 31 DECEMBER 2017

	Notes	Company	
		2017 US\$	2016 US\$
Non-current assets			
Deferred exploration costs	8	1,568,365	1,568,365
Property, plant and equipment	9	6,903,394	6,770,252
Investments in subsidiaries	10	86,598,833	66,600,872
Other receivables	12	7,606,894	7,606,894
Total non-current assets		102,677,486	82,546,383
Current assets			
Trade and other receivables	12	1,241,352	1,075,532
Prepayments	13	107,756	104,666
Cash and cash equivalents	14	2,936,579	3,612,495
Total current assets		4,285,687	4,792,693
Current liabilities			
Trade and other payables	15	12,046,338	6,222,345
Interest-bearing liabilities	17	1,980,000	1,787,096
Derivative financial liabilities	18	709,255	–
Acquisition payment outstanding	22	5,000,000	–
Accruals		709,949	635,446
Total current liabilities		20,445,542	8,644,887
Net current liabilities		(16,159,855)	(3,852,194)
Total assets less current liabilities		86,517,631	78,694,189
Non-current liabilities			
Interest-bearing liabilities	17	2,500,000	–
Acquisition payment outstanding	22	9,997,961	–
Total non-current liabilities		12,497,961	–
Net assets		74,019,670	78,694,189
Equity			
Share capital	20	5,540,960	5,540,960
Share premium reserve		1,722,222	1,722,222
Option reserve		1,425,024	1,338,652
Distributable surplus		65,331,464	70,092,355
Equity shareholders' funds attributable to owners of the parent		74,019,670	78,694,189

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 2017 was US\$5,055,881 (2016: US\$7,379,966).

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018 and signed on its behalf by:

Clive Line

Finance Director

29 March 2018

Company Number 5131528

FINANCIAL STATEMENTS

Statements of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Share capital US\$	Share premium US\$	Share option reserve US\$	Other reserves US\$	Translation reserve US\$	(Accumulated losses)/ retained surplus US\$	Total equity US\$
Equity shareholders' funds at 31 December 2015	5,263,182	–	2,747,415	450,262	(39,226,535)	77,549,321	46,783,645
Foreign currency adjustments	–	–	–	–	8,618,687	–	8,618,687
Profit for year	–	–	–	–	–	4,430,292	4,430,292
Total comprehensive loss for the year	–	–	–	–	8,618,687	4,430,292	13,048,979
Transfer to taxation reserve	–	–	–	2,690,401	–	(2,690,401)	–
Release of fair value provision on convertible loan	–	–	–	–	–	1,195,450	1,195,450
Warrants lapsed	–	–	–	(88,801)	–	88,801	–
Shares issued in period	277,778	1,722,222	–	–	–	–	2,000,000
Share options lapsed in period	–	–	(1,759,662)	–	–	1,759,662	–
Share option expense	–	–	350,899	–	–	–	350,899
Equity shareholders' funds at 31 December 2016	5,540,960	1,722,222	1,338,652	3,051,862	(30,607,848)	82,333,125	63,378,973
Foreign currency adjustments	–	–	–	–	(591,720)	–	(591,720)
Loss for year	–	–	–	–	–	(2,397,903)	(2,397,903)
Total comprehensive income for the year	–	–	–	–	(591,720)	(2,397,903)	(2,989,623)
Transfer to taxation reserve	–	–	–	963,507	–	(963,507)	–
Share options lapsed in period	–	–	(294,990)	–	–	294,990	–
Share option expense	–	–	381,362	–	–	–	381,362
Equity shareholders' funds at 31 December 2017	5,540,960	1,722,222	1,425,024	4,015,369	(31,199,568)	79,266,705	60,770,712

Other reserves comprise a merger reserve of US\$361,461 and a taxation reserve of US\$3,653,908 (2016: merger reserve of US\$361,461 and taxation reserve of US\$2,690,401).

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 is comprised 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. The Group has also established a taxation reserve. The reserve is used to accumulate taxation savings received by the Group as a result of a lower taxation rate being applied in Brazil through its eligibility for a tax incentive programme ("SUDAM") SUDAM reduces the Group's effective tax rate from approximately 34 per cent to approximately 15.25 per cent. The regulations of the incentive programme require the Group to accumulate incentives received through tax savings in a taxation reserve.
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.

FINANCIAL STATEMENTS

Company	Share capital US\$	Share premium US\$	Share option reserve US\$	Other reserves US\$	(Accumulated losses)/ retained surplus US\$	Total equity US\$
Equity shareholders' funds at 31 December 2015	5,263,182	–	2,747,415	88,801	74,428,408	82,527,806
Loss for the year	–	–	–	–	(7,379,966)	(7,379,966)
Comprehensive loss for year	–	–	–	–	(7,379,966)	(7,379,966)
Shares issued in period	277,778	1,722,222	–	–	–	2,000,000
Release of fair value provision on convertible loan	–	–	–	–	1,195,450	1,195,450
Warrants lapsed	–	–	–	(88,801)	88,801	–
Share options lapsed in period	–	–	(1,759,662)	–	1,759,662	–
Share option expense	–	–	350,899	–	–	350,899
Equity shareholders' funds at 31 December 2016	5,540,960	1,722,222	1,338,652	–	70,092,355	78,694,189
Loss for the year	–	–	–	–	(5,055,881)	(5,055,881)
Comprehensive loss for year	–	–	–	–	(5,055,881)	(5,055,881)
Share options lapsed in period	–	–	(294,990)	–	294,990	–
Share option expense	–	–	381,362	–	–	381,362
Equity shareholders' funds at 31 December 2017	5,540,960	1,722,222	1,425,024	–	65,331,464	74,019,670

Other reserves comprise a warrant reserve of US\$nil (2016: US\$88,801).

FINANCIAL STATEMENTS

Cash Flow Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group		Company	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
	Cash outflows from operating activities			
Operating profit/(loss)	(2,397,903)	4,430,292	(5,055,880)	(7,379,963)
Net financial expense	1,053,544	4,153,727	514,811	4,105,778
Depreciation – plant, equipment and mining properties	10,465,283	8,384,738	526,465	573,166
Provision for impairment of inventory	950,000	–	–	–
Other provisions	156,404	–	–	–
Taxation (benefit)/expense	652,400	(2,560,113)	–	–
Share-based payments	381,362	350,899	381,362	350,899
Interest paid	(747,072)	(2,049,900)	(273,636)	(2,018,161)
Foreign exchange	(178,753)	(1,045,460)	(75,889)	(85,241)
Finance charges	–	(37,500)	–	(37,500)
Changes in working capital				
(Increase)/decrease in inventories	(287,898)	153,314	–	1,148,634
(Increase)/decrease in receivables, prepayments and accrued income	(1,968,858)	4,177,110	(168,909)	4,951,640
Increase/(decrease) in payables, accruals and provisions	165,249	195,845	(79,711)	(346,429)
Increase/(decrease) in short term intercompany payables	–	–	5,562,619	(415,775)
Net cash flow from operations	8,243,758	16,152,952	1,331,232	847,048
Investing activities				
Acquisition of subsidiary net of cash acquired	(4,994,665)	–	(5,000,000)	–
Purchase of property, plant, equipment and projects in construction	(2,144,753)	(3,042,043)	–	–
Mine development expenditure	(4,362,192)	(2,366,486)	(660,181)	(697,036)
Geological exploration expenditure	(2,487)	(525,444)	–	–
Proceeds from sale of assets	214,566	34,742	–	–
Interest received and other finance income	135	573	135	573
Net cash outflow on investing activities	(11,289,396)	(5,898,658)	(5,660,046)	(696,463)
Financing activities				
Convertible loan received and subsequent conversion to ordinary shares	–	2,000,000	–	2,000,000
Draw-down of short term loan facility	3,628,511	–	3,628,511	–
Repayment of short term secured loan	–	(3,111,111)	–	(3,111,108)
Receipt from repayment of intercompany loan	–	–	–	9,318,311
Payment of finance lease liabilities	(644,340)	(755,858)	–	(200,404)
Receipts for short term trade finance	–	15,146,817	–	15,146,817
Repayment of short term trade finance	–	(21,384,139)	–	(21,384,139)
Net cash (outflow)/inflow from financing activities	2,984,171	(8,104,291)	3,628,511	1,769,477
Net (decrease)/increase in cash and cash equivalents	(61,467)	2,150,003	(700,303)	1,920,062
Cash and cash equivalents at beginning of period	4,160,923	2,191,759	3,612,495	1,781,433
Exchange difference on cash	(5,590)	(180,839)	24,387	(89,000)
Cash and cash equivalents at end of period	4,093,866	4,160,923	2,936,579	3,612,495

See note 19 for further information on the analysis of net debt.

FINANCIAL STATEMENTS

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1 SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of Preparation**

Serabi Gold plc (the "Company") is a public limited company incorporated and domiciled in England, 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 57.

The consolidated 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 parent company financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Accounting Standards Issued but not Adopted

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

IFRS 9 Financial Instruments
IFRS 15 Revenue from Contracts
IFRS 16 Leases

The only standard that is anticipated to be significant or relevant to the Group is IFRS 9 "Financial Instruments". The new standard will replace existing accounting standards. It is applicable to financial assets and liabilities and will introduce changes to existing accounting concerning classification, measurement and impairment (introducing an expected loss method).

IFRS 15 'Revenue from Contracts with Customers' is not expected to have a material impact on the Group at this stage of the Group's operations. IFRS 16 will require the recognition of an asset and liability with respect to the material operating lease commitments that the Group have. Management are currently considering the impact that this will have on the financial statements.

The revenue contracts held by the Group usually contain a single performance criteria that is satisfied at a point in time. The Group will adopt the above standards at the time stipulated by that standard. The Group does not at this time anticipate voluntary early adoption of any of the standards.

Going Concern and Availability of Finance

On 23 March 2018 the Company entered into a Subscription Agreement with Greenstone resources II LP ("Greenstone"), Greenstone has conditionally agreed to subscribe ("the Subscription") for 297,759,419 New Ordinary Shares ("the Subscription Shares") at a price of 3.6 pence per share (the "Subscription Price"). The New Ordinary Shares to be issued pursuant to the Subscription will rank pari passu with the existing Ordinary Shares. Application will be made to the London Stock Exchange for the Subscription Shares to be admitted to trading on AIM ("Admission") and listed for trading on the TSX. Completion of the Subscription and Admission is expected to take place at 8:00 a.m. on or around 12 April 2018.

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 loan facilities and to fund planned exploration and development activity on its other gold properties. However additional funding will be required to bring the newly acquired Coringa gold project into production including the final acquisition payment. The secured loan facility is repayable by 30 June 2020 and at 31 December 2017, the amount outstanding under this facility was US\$4.48 million (2016: US\$1.37 million).

The Directors consider that the Group's operations are performing at the levels that they anticipate but the Group remains a small-scale gold producer. Any unplanned interruption or reduction in gold production, unforeseen reductions in the gold price or appreciation of the Brazilian currency, could adversely affect the level of free cash flow that the Group can generate on a monthly basis. Nonetheless with the proceeds to be received from the Subscription, the Directors consider that they will nonetheless be able to meet its financial obligations as they fall due.

On this basis, the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis.

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. Based on the circumstances of the acquisition an assessment will be made as to whether the acquisition represents an acquisition of an asset or the acquisition of asset. In the event of a business 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. In the event of an asset acquisition assets and liabilities are assigned a carrying amount based on relative fair value.

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 2017 was 1.3579 (2016: 1.2275). The Brazilian Real/US Dollar exchange rate at 31 December 2017 was 3.3074 (2016: 3.2585).

(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 forecasted 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.

FINANCIAL STATEMENTS

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 the best estimate of the forecast metal prices for the expected date of settlement (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 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.

At each balance sheet date the Company reviews the potential recoverability of investments in subsidiaries and intercompany debts by reviewing the underlying value of the assets of those subsidiaries and the future cash generation of those subsidiaries to determine whether there is any indication that those assets have suffered impairment or the debts may not be repaid. As with the Group each subsidiary is reviewed 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 and this determination and the indicators of impairment are consistent with those applied to the Group.

(i) Share capital and Share Premium

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.

Where the Group secures borrowings which include any rights of conversion into equity, the fair value of such conversion rights is estimated and reported as a financing cost. In the event that the conversion rights are not exercised this financing costs will reverse as a movement in reserves.

Interest on borrowings used specifically to fund the acquisition of non-current assets is capitalised as part of the acquisition cost of the asset otherwise borrowing costs are expensed as incurred. Borrowing costs comprise interest and other costs that the Group incurs in connection with the borrowing of finance.

FINANCIAL STATEMENTS

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 graded vesting 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 is 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 São 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 best estimates of forecast prices for the expected date of settlement. 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 is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(s) 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.

FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Investments in Subsidiaries

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

(u) 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.

(v) 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.

(w) 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.

(x) 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.

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.

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(x) Critical Accounting Estimates and Judgements (continued)****Impairment of Mining Assets and Other Property, Plant and Equipment**

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

In the event that there is an indication of impairment, mining assets are assessed for impairment through an estimation of the value in use of the cash generating units ("CGU's"). The value in use calculation requires the entity to estimate the future cash flows expected to arise from a CGU and a suitable discount rate in order to calculate present value. A CGU is a group of assets that generates cash inflows from continuing use. Given their interdependences and physical proximity, the Palito and São Chico Mines are considered to be one single CGU. Management consider that there was an indicator of impairment. Details of the estimates used are included within note 21.

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

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 21 regarding the key assumptions made in assessing the value in use.

Mineral Resources

Quantification of mineral resources requires a judgement on the reasonable prospects for eventual economic extraction. These judgements are based on assessments made in accordance with the provisions of Canadian National instrument 43-101. These factors are a source of uncertainty and changes could result in an increase or decrease in mineral resources and changes to the categorisation or mineral resources between Mineral Reserves, Measured and Indicated Mineral Resources and Inferred Mineral Resources. Only Mineral Reserves have been established to have economic viability and only at the time that such estimation is undertaken, any change in the underlying factors under which the economic assessment was made may give rise to management making a judgement as to whether it is reasonable that such Mineral Reserves should be used for the purposes of forecasts. This would, in turn, affect certain amounts in the financial statements such as depreciation, which is calculated on projected life of mine figures, and carrying values of mining property and plant which are tested for impairment by reference to future cash flows based on projected life of mine figures (see note 21).

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

Recoverability of Deferred Exploration Expenditure (note 8)

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

Recoverability of Debts Including Recoverable Taxes

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

FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(x) Critical Accounting Estimates and Judgements (continued)****Acquisition of Chapleau (note 22)**

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

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

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

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

Inventory Valuation (note 11)

Valuations of gold in stockpiles and in circuit, require estimations of the amount of gold contained in, and recovery rates from, the various work in progress. These estimations are based on analysis of samples and prior experience. A judgement is also required about when stockpiles will be used and what gold price should be applied in calculating net realisable value; these are both sources of uncertainty. The balance that is most subject to changes in estimates is the stockpile of mined ore which has been impaired in the year.

Utilisation of Historic tax Losses and Recognition of Deferred Tax Assets

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

The amounts recognised in the consolidated financial statements in are derived from the Group's best estimation and judgement as set out in note 5.

Restoration, Rehabilitation and Environmental Provisions (note 16)

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

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

2 SEGMENTAL ANALYSIS

The following information is given about the Group's reportable segments further details of which are set out in note 1(s).

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:

	2017			2016		
	Brazil US\$	UK US\$	Total US\$	Brazil US\$	UK US\$	Total US\$
Revenue	32,829,665	15,620,203	48,449,868	26,225,075	26,368,676	52,593,751
Intragroup sales	12,104,907	(12,104,907)	–	20,552,303	(20,552,303)	–
Operating expenses	(27,599,361)	(4,416,137)	(32,015,498)	(26,900,469)	(6,005,957)	(32,906,426)
Provision for Impairment	(950,000)	–	(950,000)	–	–	–
Depreciation and amortisation	(9,938,818)	(526,465)	(10,465,283)	(7,632,981)	(751,757)	(8,384,738)
Gross profit/(loss)	6,446,393	(1,427,306)	5,019,087	12,243,928	(941,341)	11,302,587
Administration expenses	(2,737,714)	(2,762,561)	(5,500,275)	(2,864,336)	(2,098,188)	(4,962,524)
Share-based payments	–	(381,362)	(381,362)	–	(350,899)	(350,899)
Proceeds from sale of assets	170,591	–	170,591	34,742	–	34,742
Operating profit/(loss)	3,879,270	(4,571,229)	(691,959)	9,414,334	(3,390,428)	6,023,906
Foreign exchange gain/(loss)	(184,299)	(30,189)	(214,488)	906,425	(1,143,044)	(236,619)
Finance expense	–	(839,191)	(839,191)	(31,739)	(3,885,942)	(3,917,681)
Finance income	–	135	135	–	573	573
Profit/(loss) before taxation	3,694,971	(5,440,474)	(1,745,503)	10,289,020	(8,418,841)	1,870,179
Income tax (expense)/benefit	(652,400)	–	(652,400)	2,560,113	–	2,560,113
(Loss)/profit for the period	3,042,571	(5,440,474)	(2,397,903)	12,849,133	(8,418,841)	4,430,292

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

	Total non-current assets	
	31 December 2017 US\$	31 December 2016 US\$
Brazil – operations	48,980,381	45,396,140
Brazil – exploration	23,898,819	9,990,789
Brazil – taxes receivable	1,474,062	–
Brazil – deferred tax	2,939,634	3,253,630
Brazil – total	77,292,896	58,640,559
UK	–	–
	77,292,896	58,640,559

An analysis of total assets by location is as follows:

	Total assets	
	31 December 2017 US\$	31 December 2016 US\$
Brazil	83,090,310	69,489,023
UK	9,745,444	6,352,431
	92,835,754	75,841,454

FINANCIAL STATEMENTS

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 2017 US\$	For the year ended 31 December 2016 US\$
Brazil	2,487	525,444

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 2017 US\$	For the year ended 31 December 2016 US\$
Brazil	7,712,624	6,282,145
	7,712,624	6,282,145

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 2017 US\$	31 December 2016 US\$
Brazil	32,829,664	26,225,075
UK	15,620,204	26,368,676
Total	48,449,868	52,593,751

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

	31 December 2017		31 December 2016	
	US\$	%	US\$	%
Customer 1 – Brazil	31,358,718	64.7%	26,225,075	49.9%
Customer 2 – Brazil	1,470,946	3.0%	–	–
Customer 3 – UK	15,620,204	32.3%	6,750,002	12.8%
Customer 4 – UK	–	–	19,618,674	37.3%
Total	48,449,868	100.0%	52,593,751	100.0%

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Notes to the Financial Statements continued

3 OPERATING PROFIT

a. Group Operating (Loss)/Profit for the year is stated after charging the following:

	Group	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Staff costs	13,677,076	11,995,399
Depreciation (property, plant and equipment)	2,678,117	2,075,898
Amortisation of the mine asset	7,787,166	6,308,840
Operating lease charges	191,109	172,497

b. Auditor's Remuneration

	Group	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	139,358	108,020
Fees payable to the Group's auditor and its associates for other services:		
audit of the Group's subsidiaries pursuant to legislation	37,239	32,926
tax compliance services	9,406	10,358
audit-related assurance services	39,141	3,312

4 FINANCE EXPENSE AND INCOME

	Group	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Interest on trade financing loan	–	(256,898)
Finance cost on secured loan facility	(189,255)	(672,331)
Interest payable on secured loan facility	(314,732)	(281,333)
Unwinding of discount on rehabilitation provision	(335,204)	–
Interest payable on finance leases	–	(36,194)
Interest payable on convertible loan	–	(137,049)
Fair value provision on convertible loan ⁽¹⁾	–	(1,195,450)
Expense from gold hedging activities	–	(1,338,426)
Interest payable	(839,191)	(3,917,681)
Finance income on short term deposits	135	573
Net finance expense	(839,056)	(3,917,108)

(1) The fair value provision relates to the implied value of the equity conversion right included as part of the loan terms. The value was estimated at the date of drawdown and updated until the date of exercise to reflect the price of the Group's ordinary shares and the remaining period during which the conversion rights may be exercised.

FINANCIAL STATEMENTS

5 TAXATION

	Group	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Current tax		
UK tax	-	-
Foreign tax	376,917	484,960
Total current tax	376,917	484,960
Deferred tax		
Initial recognition of deferred tax asset	-	(3,045,073)
Release of deferred tax asset	275,483	-
Total deferred tax	275,483	(3,045,073)
Income tax charge/(benefit)	652,400	(2,560,113)

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). The differences are explained as follows:

	Group	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
(Loss)/profit on ordinary activities before tax	(1,745,503)	1,870,179
Tax thereon at UK corporate tax rate of 19.25% (2016: 20.00%)	(336,010)	374,036
Factors affecting the tax charge:		
expenses not deductible for tax purposes	211,794	738,888
timing differences (not recognised)	251,880	(474,206)
income not taxable	(120,019)	(341,248)
lower rate tax overseas	(263,772)	(389,908)
unrecognised tax losses carried forward	633,044	577,398
recognised tax losses used in the period	275,483	577,398
recognised tax losses carried forward	-	(3,045,073)
Tax charge/(benefit)	652,400	(2,560,113)
Unrecognised gross deferred tax position	US\$	US\$
Tax losses brought forward	39,948,068	53,413,057
Timing differences brought forward	515,733	(348,248)
Tax losses recognised in the period	-	(19,967,689)
Tax losses not recognised in the period	5,066,261	6,400,226
Prior year tax losses used in the period	-	(1,983,222)
Movement in timing differences	360,474	863,981
Exchange	-	2,085,696
Tax losses carried forward	45,014,329	39,948,068
Timing differences carried forward	876,207	515,733
	45,890,535	40,463,801

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

5 TAXATION (CONTINUED)

	Group	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Unrecognised deferred tax asset		
Tax losses	9,240,984	8,443,659
Timing differences	138,828	78,649
Total unrecognised deferred tax asset	9,379,812	8,522,308
Recognised deferred tax asset	US\$	US\$
Tax losses brought forward	3,253,630	–
Tax losses (utilised)/recognised in the period	(275,483)	3,045,073
Exchange	(38,513)	208,287
Net recognised deferred tax asset	2,939,634	3,253,630

The deferred tax asset has been recognised in the financial statements only to the extent that the Group has reasonable certainty 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:

	Group		Company	
	For the year ended 31 December 2017 Number	For the year ended 31 December 2016 Number	For the year ended 31 December 2017 Number	For the year ended 31 December 2016 Number
Management and corporate administration	9	8	3	3
Exploration	12	10	–	–
Mine operations and maintenance	263	259	10	10
Mine management and administration	14	14	1	1
Plant and processing	67	62	–	–
Total	365	353	14	14

	Group		Company	
	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Staff costs				
Wages and salaries	10,113,644	8,984,427	2,477,857	2,434,263
Cost of incentive scheme shares and Director shares vested	381,362	350,899	381,362	350,899
Social security costs	3,008,806	2,509,463	93,167	101,350
Termination costs	227,339	25,212	–	–
Pension contributions	85,255	125,398	85,255	125,398
Total	13,816,406	11,995,399	3,037,641	3,011,910

No company within the Group operates a pension plan for the Directors or the employees. For those Executive Directors and UK based employees who have an entitlement to pension provision, the premiums are paid directly to the personal pension plans selected by or agreed with 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.

FINANCIAL STATEMENTS

6 EMPLOYEE INFORMATION (CONTINUED)**Directors' Remuneration**

The compensation of the Directors is:

	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Salary and other benefits	925,190	961,966
Post-employment benefits	10,302	11,298
Total	935,492	973,264

The remuneration of the highest paid Director during the year was US\$463,313 (2016: US\$479,917). The Company made cash contributions to his money purchase pension scheme of US\$10,302 (2016: US\$11,298).

During the year ended 31 December 2017, two of the Directors (2016: two) were entitled to accrue retirement benefits under money purchase schemes.

7 EARNINGS PER SHARE

	For the year ended 31 December 2017	For the year ended 31 December 2016
(Loss)/profit attributable to ordinary shareholders (US\$)	(2,397,903)	4,430,292
Weighted average ordinary shares in issue	698,701,772	672,502,757
Basic (loss)/profit per share (US cents)	(0.343)	0.659
Diluted ordinary shares in issue	698,701,772⁽¹⁾	722,412,757 ⁽²⁾
Diluted (loss)/profit per share (US cents)	(0.343)	0.613

(1) As the effect of dilution is to reduce the loss per share, the diluted loss per share is considered to be the same as the basic loss per share.

(2) Assumes exercise of all options and warrants outstanding as of that date.

Details of share options that could potentially dilute earnings per share in future periods are set out in note 20.

8 INTANGIBLE ASSETS**Deferred Exploration Costs**

	Group		Company	
	31 December 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Cost				
Opening balance	9,990,789	8,679,246	1,568,365	2,040,437
Additions from acquisitions	14,030,112	-	-	-
Exploration and evaluation expenditure	2,487	525,444	-	-
Transfer to mining property and projects in construction	-	(558,895)	-	(472,072)
Foreign exchange movements	(124,569)	1,344,994	-	-
Total as at end of period	23,898,819	9,990,789	1,568,365	1,568,365

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.

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9 TANGIBLE ASSETS

Property, Plant and Equipment – Group

	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\$
2017					
Cost					
Balance at 31 December 2016	2,977,040	46,527,183	2,828,333	18,904,812	71,237,368
Additions	458,393	4,362,192	700,943	2,191,066	7,712,624
Additions from Acquisition	–	–	5,687,827	518,273	6,206,100
Disposals	–	(235,808)	–	–	(235,808)
Foreign exchange movements	(59,976)	(734,366)	159,478	(304,220)	(939,084)
At 31 December 2017	3,375,457	49,919,201	9,376,581	21,309,961	83,981,200
Depreciation					
Balance at 31 December 2016	(1,649,735)	(14,737,325)	–	(9,454,168)	(25,841,228)
Charge for period	(25,845)	(7,403,395)	–	(2,580,383)	(10,009,623)
Released on asset disposals	–	199,911	–	–	199,911
Foreign exchange movements	34,544	435,825	–	179,752	650,121
At 31 December 2017	(1,641,036)	(21,504,984)	–	(11,854,799)	(35,000,819)
Net book value at 31 December 2017	1,734,421	28,414,217	9,376,581	9,455,162	48,980,381
Net book value at 31 December 2016	1,327,305	31,789,858	2,828,333	9,450,644	45,396,140

During the year ended 31 December 2017, the Group acquired assets under finance lease totalling US\$358,658 (2016: US\$1,127,688). The net book value of assets acquired under finance leases at 31 December 2017 was US\$2,370,102 (2016: US\$2,694,735). Depreciation charged on leased assets for the period was US\$683,291 (2016: US\$650,667).

	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\$
2016					
Cost					
Balance at 31 December 2015	2,484,679	28,574,370	11,230,262	12,650,974	54,940,285
Additions	–	2,366,486	(117,402)	4,033,061	6,282,145
Transfers	–	9,366,554	(9,366,554)	–	–
Transferred from deferred exploration costs	–	558,895	–	–	558,895
Write-Offs	–	–	–	(23,490)	(23,490)
Foreign exchange movements	492,361	5,660,878	1,082,027	2,244,267	9,479,533
At 31 December 2016	2,977,040	46,527,183	2,828,333	18,904,812	71,237,368
Depreciation					
Balance at 31 December 2015	(1,239,727)	(7,099,764)	–	(6,450,310)	(14,789,801)
Charge for period	(37,751)	(6,107,837)	–	(2,037,080)	(8,182,668)
Foreign exchange movements	(372,257)	(1,529,724)	–	(966,778)	(2,868,759)
At 31 December 2016	(1,649,735)	(14,737,325)	–	(9,454,168)	(25,841,228)
Net book value at 31 December 2016	1,327,305	31,789,858	2,828,333	9,450,644	45,396,140
Net book value at 31 December 2015	1,244,952	21,474,606	11,230,262	6,200,664	40,150,484

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9 TANGIBLE ASSETS (CONTINUED)

Property, Plant and Equipment – Company

	Mining property – at cost US\$	Projects in construction – at cost US\$	Plant and equipment – at cost US\$	Total US\$
2017				
Cost				
Balance at 31 December 2016	7,394,304	43,610	2,919,482	10,357,396
Additions	660,181	–	–	660,181
At 31 December 2017	8,054,485	43,610	2,919,482	11,017,577
Depreciation				
Balance at 31 December 2016	(1,538,232)	–	(2,048,912)	(3,587,144)
Charge for period	(162,179)	–	(364,860)	(527,039)
At 31 December 2017	(1,700,411)	–	(2,413,772)	(4,114,183)
Net book value at 31 December 2017	6,354,074	43,610	505,710	6,903,394
Net book value at 31 December 2016	5,856,072	43,610	870,570	6,770,252
2016				
Cost				
Balance at 31 December 2015	6,225,022	43,610	2,919,482	9,188,114
Additions	697,210	–	–	697,210
Transferred from Deferred exploration costs	472,072	–	–	472,072
At 31 December 2016	7,394,304	43,610	2,919,482	10,357,396
Depreciation				
Balance at 31 December 2015	(1,331,631)	–	(1,682,172)	(3,013,803)
Charge for period	(206,602)	–	(366,740)	(573,341)
At 31 December 2016	(1,538,232)	–	(2,048,912)	(3,587,144)
Net book value at 31 December 2016	5,856,072	43,610	870,570	6,770,252
Net book value at 31 December 2015	4,893,391	43,610	1,237,310	6,174,311

The net book value of assets acquired under finance leases as at 31 December 2017 was US\$504,170 (2016: US\$868,456). Depreciation charged on leased assets for the period was US\$364,286 (2016: US\$366,565).

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Notes to the Financial Statements continued

10 INVESTMENTS HELD AS FIXED ASSETS

The Group consists of the following subsidiary undertakings:

Name	Incorporated	Registered Office Address	Activity	% holding
Serabi Mineração SA	Brazil	Rodovia Transgarimpeira, km 22, Bairro Jardim do Ouro – Itaituba/PA CEP 68181-000 Brazil	Gold mining and exploration	100% ⁽¹⁾
Kenai Resources Ltd	British Columbia, Canada	Royal Centre, P.O Box 11125, Suite 1750-1055 W Georgia Street, Vancouver, Canada	Investment	100%
Gold Origin Limited	British Virgin Islands	Craigmuir Chambers, Road Town, Tortola, British Virgin Islands	Dormant	96.1% ⁽¹⁾
Gold Aura do Brasil Mineração Ltda	Brazil	Rodovia Transgarimpeira, km 54 Comunidade São Chico – Itaituba/PA CEP 68181-000 Brazil	Gold mining and exploration	99.9% ⁽¹⁾
Gold Origin Mexico SA de CV	Mexico	Paseo de la Reforma, 450 Col. Lomas de Chapultepec C.P. 11000 Mexico	Dormant	100% ⁽¹⁾
Serabi Mining Ltd	British Virgin Islands	Craigmuir Chambers, Road Town, Tortola, British Virgin Islands	Investment	100%
Chapleau Resources Ltd	British Colombia, Canada	Royal Centre, P.O Box 11125, Suite 1750-1055 W Georgia Street, Vancouver, Canada	Investment	100%
Chapleau Resources (USA) Inc	Alaska, USA	1029 West 3rd Avenue Suite 400 Anchorage, Alaska USA	Gold exploration	100% ⁽¹⁾
Chapleau Exploração Mineral Ltda	Brazil	Avenida Jornalista Ricardo Marinho no 360, loja 113 Barra da Tijuca Rio de Janeiro RJ Brazil CEP 22.361-350	Gold mining and exploration	100% ⁽¹⁾

(1) indirectly held.

	Company	
	31 December 2017 US\$	31 December 2016 US\$
Cost at start of period and end of period	66,600,872	69,770,204
Acquisition of subsidiary	19,997,961	–
Impairment provision at start of period	–	–
Reallocation in period	–	(3,169,332)
Impairment provision at end of period	86,598,833	66,600,872
Net book value at end of period	86,598,833	66,600,872

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 2017 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 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Consumables	2,587,212	2,380,873	-	-
Stockpile of mined ore	1,091,656	2,829,601	-	-
Stockpile of flotation tails	494,117	708,775	-	-
Other material in process	1,019,593	335,280	-	-
Finished goods awaiting sale	1,741,860	1,855,844	-	-
	6,934,438	8,110,373	-	-

The Group has recorded an impairment provision during 2017 of US\$950,000 in respect of stockpiled run of mine ore.

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Current				
Trade receivables	1,230,614	1,054,014	1,230,614	1,054,014
Other receivables	46,528	179,035	10,738	21,518
Trade and other receivables	1,277,142	1,233,049	1,241,352	1,075,532
Non-current				
Taxes receivable	1,474,062	-	-	-
Amounts owed by subsidiaries	-	-	16,188,272	16,188,272
Impairment provision	-	-	(8,581,378)	(8,581,378)
Other receivables	1,474,062	-	7,606,894	7,606,894

The Group, in common with all businesses in Brazil, subject to a number of State and Federal taxes on goods that it purchases. As an exporter of goods, it is exempt from any sales taxes on its products. As a result, it is due tax rebates by both Federal and State tax bodies. In general, the Company is able to utilise its tax debts by way of offset against other taxes that it owes. The Group has however determined based on the actions of the State tax authorities and the expected future operational expenditures over the next 12 months, that certain State taxes that it is able to recover and is owed at 31 December 2017, are not expected to be recovered through such an offset arrangement during the next 12 months and has therefore categorised the balance owed in respect of these State taxes as being due in more than 12 months. The Group has received legal advice confirming that these taxes owed to the Group by the State of Para are fully recoverable.

The Company has undertaken an impairment review at the end of 2017 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 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Recoverable state and federal taxes	2,414,336	3,018,773	-	-
Supplier down payments	480,910	464,450	-	-
Other prepayments and employee advances	342,166	213,327	107,756	104,666
Prepayments	3,237,412	3,696,550	107,756	104,666

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14 CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December	31 December	31 December	31 December
	2017	2016	2017	2016
	US\$	US\$	US\$	US\$
Cash and cash equivalents	4,093,866	4,160,923	2,936,579	3,612,495

15 TRADE AND OTHER PAYABLES

	Group		Company	
	31 December	31 December	31 December	31 December
	2017	2016	2017	2016
	US\$	US\$	US\$	US\$
Current				
Trade payables	2,800,293	2,058,388	628,202	396,159
Other payables	971,119	896,621	–	–
Employee benefits	786,405	673,815	75,153	45,803
Other taxes and social security	790,147	1,093,315	–	–
Amounts due to subsidiaries	–	–	11,342,983	5,780,383
Trade and other payables	5,347,964	4,722,139	12,046,338	6,222,345
Non-current				
(Between one and five years)				
Property acquisition ⁽¹⁾	2,617,495	2,126,873	–	–
Other taxes and social security	135,914	84,205	–	–
	2,753,409	2,211,078	–	–

(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 per cent net profits interest of GOAB (the "NPI") arising from production of gold and base metals extracted from the São Chico mining concession for a consideration of BrR\$7.7 million upon GOAB successfully securing the resources and finance for the São Chico project. GOAB will pay to Mr Martins, the sum of BrR\$4 million during 2019, waive a debt due to GOAB by Mr Martins of BrR\$700,000 and pay the remainder in 36 monthly instalments of BrR\$111,111 with the first instalment due within 10 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 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Opening balance	28,946	24,160	-	-
As a result of changes in estimates	-	-	-	-
As a result of exchange variations	384	4,786	-	-
Closing balance	29,330	28,946	-	-

Environmental Rehabilitation Provision

	Group		Company	
	31 December 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Opening balance	1,823,017	1,898,714	-	-
Provided for in year				
as a result of changes in estimates	(101,324)	170,157	-	-
as a result of unwinding of the discount	335,204	-	-	-
as a result of exchange variations	(39,096)	(245,854)	-	-
	194,784	(75,697)	-	-
Closing balance	2,017,801	1,823,017	-	-
Total non-current provisions	2,047,131	1,851,963	-	-

Employment and Claims Provision

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 São 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.

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Notes to the Financial Statements continued

17 INTEREST-BEARING LIABILITIES**Secured Loan Facility**

On 30 June 2017 the Group entered into a new agreement with the Sprott Resource Lending Partnership ("Sprott") for a US\$5 million loan expiring 31 December 2019 (to include US\$1.37 million being the remaining loan principal under the previous arrangement). The Sprott loan carries interest at a rate of 10 per cent per annum and is repayable in 24 monthly instalments commencing 31 January 2018. The Sprott loan was taken out to provide additional funding for the continued development of the Palito Mine and the São Chico gold project, to finance an additional drilling programme at São Chico and for general corporate purposes.

Serabi provided to Sprott certain covenants and undertakings, consistent with normal bank lending arrangements, including an undertaking to maintain at all times and a minimum of US\$1 million in unrestricted cash and cash equivalents. The Sprott loan is subject to standard events of default. Serabi has been and remains in compliance with all the terms of the Facility.

On 23 January 2018, the Group increased its loan with Sprott by US\$3 million ("The New Loan") and at the same time extended the final repayment period on its existing US\$5 million loan (The Existing Loan") with Sprott by six months from 31 December 2019 to 30 June 2020. For further details see note 28 Post Balance Sheet Events.

	Group		Company	
	31 December 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Current				
Secured loan facility	1,980,000	1,371,489	1,980,000	1,371,489
Obligations under trade finance facility	-	415,607	-	415,607
Obligations under finance leases	865,712	1,176,961	-	-
Due in less than one year	2,845,712	2,964,057	1,980,000	1,787,096
Non-current				
(Between one and five years)				
Secured loan facility	2,500,000	-	2,500,000	-
Obligations under finance leases	249,412	77,798	-	-
Due in more than one year	2,749,412	77,798	2,500,000	-

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

	Group		Company	
	31 December 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Secured loan facility				
Amount outstanding at beginning of period	1,371,489	4,000,000	1,371,489	4,000,000
Additional draw-down of short term loan	3,628,511	-	3,628,511	-
Initial fair value of derivative associated with loan	(650,000)	-	(650,000)	-
Amounts repaid during the year	-	(3,261,111)	-	(3,261,111)
Amount due on settlement of call options	-	432,600	-	432,600
Extension fee payable	-	200,000	-	200,000
Amortisation of call options in period	130,000	-	130,000	-
Value of secured loan facility at 31 December 2017	4,480,000	1,371,489	4,480,000	1,371,489

The amortisation of fair value of derivatives of US\$130,000 represents six months amortisation charge of the fair value ascribed to the call option granted to Sprott on 30 June 2017. On 30 June 2017, the Group entered into a new loan agreement with Sprott for a US\$5 million loan facility. As part of this arrangement the Group granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,320 which expire on 31 December 2019. On 30 June 2017, the date these call options were granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 was recognised in the accounts.

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18 PROVISION FOR DERIVATIVES

Gold Call Options

	Group		Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Fair value at start of period	650,000	–	650,000	–
Increase in fair value during period	59,255	–	59,255	–
Fair value at end of period	709,225	–	709,225	–

Fair value is determined by reference to quoted mid-market prices at each balance sheet date for gold call options with the same expiry date. The fair value of the derivative has been measured using level 1 inputs.

19 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2017	Cash flows	Other changes	At 31 December 2017
Cash and cash equivalents	4,160,923	(61,467)	(5,590)	4,093,866
Finance lease	(1,254,759)	139,635	–	(1,154,124)
Secured loan due within one year	(1,371,489)	(1,128,511)	520,000	(2,500,000)
Provision for derivatives	–	–	709,225	709,225
Secured loan due after one year	–	(2,500,000)	–	(2,500,000)
Total	1,534,675	(3,550,343)	1,223,635	(792,033)

20 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.

	2017		2016	
	Number	\$	Number	\$
Allotted, called up and fully paid				
Ordinary shares of 0.5 pence each	698,701,772	5,540,960	698,701,772	5,540,960

Movements in Issued Share Capital

	31 December 2017 Number	31 December 2017 \$	31 December 2016 Number	31 December 2016 \$
Ordinary shares				
Opening balance	698,701,772	5,540,960	656,389,204	5,263,182
Issue of shares for cash	–	–	42,312,568	277,778
Closing balance	698,701,772	5,540,960	698,701,772	5,540,960
	31 December 2017 Number	31 December 2017 \$	31 December 2016 Number	31 December 2016 \$
Deferred shares – 9.5 pence par value				
Opening balance and closing balance	–	–	140,139,065	24,021,395
Cancelled in year	–	–	(140,139,065)	(24,021,395)
Closing balance	–	–	–	–
Total Share Capital	698,701,772	5,540,960	698,701,772	5,540,960

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20 SHARE CAPITAL (CONTINUED)**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 15 June 2017. 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 2017.

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 2017 Number	31 December 2017 WAEP UK£	31 December 2016 Number	31 December 2016 WAEP UK£
Outstanding at the beginning of the period	48,185,000	0.0645	46,335,000	0.0683
Granted during the period	15,650,000	0.0500	15,650,000	0.5000
Expired during the period	(15,800,000)	0.0550	(13,800,000)	0.0610
Forfeited during the period	-	-	-	-
Outstanding at the end of the period	48,035,000	0.0642	48,185,000	0.0645
Exercisable at the end of the period	32,385,000	0.0630	32,751,675	0.0705

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 2017 Number	31 December 2017 WAEP C\$	31 December 2016 Number	31 December 2016 WAEP C\$
Outstanding at the beginning of the period	-	-	1,572,500	0.2941
Expired during the period	-	-	(1,572,500)	0.2941
Outstanding at the end of the period	-	-	-	-
Exercisable at the end of the period	-	-	-	-

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 2017 Number	31 December 2017 WAEP UK£	31 December 2016 Number	31 December 2016 WAEP UK£
Outstanding at the beginning of the period	1,725,000	0.1861	2,278,285	0.6862
Expired during the period	(25,000)	2.6400	(553,285)	2.6400
Outstanding at the end of the period	1,700,000	0.1500	1,725,000	0.1861
Exercisable at the end of the period	1,700,000	0.1500	1,725,000	0.1861

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20 SHARE CAPITAL (CONTINUED)**Options to Subscribe for Ordinary Shares (continued)**

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
07/04/17	2	07/04/17	3	0.75%	UK£0.050	66%	UK£0.0179	5,216,672	15,650,000	08/04/20
16/05/16	2	16/05/16	3	0.75%	UK£0.050	66%	UK£0.0197	10,433,336	15,650,000	15/05/19
22/01/15	2	22/01/15	3	0.75%	UK£0.055	55%	UK£0.0178	15,000,000	15,000,000	21/01/18
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
								34,085,008	49,735,000	

During the year a charge of US\$381,362 (2016 : US\$350,899) has been recorded in these financial statements in respect of these options of which US\$Nil (2016 : US\$Nil) has been capitalised as deferred exploration expenditures.

21 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).

Mining operations at the Palito Mine 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 São 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 São Chico and working capital during the start-up of Palito and São Chico. The Company declared commercial production for the São 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 São Chico are considered to be a single cash generating unit forming the Palito Mining Complex. Whilst the orebodies 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 São Chico and the exploration, pre-development and development expenditures incurred by Serabi since acquisition.

Exploration and Evaluation Assets

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.

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21 IMPAIRMENT (CONTINUED)**The Palito Mining Complex**

The carrying value of the assets relating to the Palito and São Chico Mines is US\$44.36 million.

The Company's management have provided to the Directors an assessment of the expected future cash flows that the Palito and São 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 2018 and ending in December 2025. The resulting pre-tax Net Present Value of the project was in excess of the carrying value of US\$44.36 million and therefore the Directors have decided that no impairment provision is required against the carrying value of the Palito and São Chico Mines.

The carrying value for the Group of the Palito and São Chico cash generating unit at 31 December 2017 comprises:

	Carrying value at 31 December 2017 US\$ million	Carrying value at 31 December 2016 US\$ million
Mining Property	28.41	31.79
Projects in Construction	3.69	2.83
Plant and Equipment	8.94	9.45
Land and Buildings	1.73	1.32
Ore Stockpiles	1.59	3.54
	44.36	48.93

The plan presented by management to support the impairment assessment, anticipates remaining Life of Mine ("LOM") production from the Palito Mine of 273,000 gold ounces compared with the Group's declared inventory of Measured and Indicated mineral resources of 271,000 gold ounces and Inferred resources of 177,000 gold ounces as estimated at the end of June 2017. Since mine development operations at Palito were re-commenced in 2013 and up to 31 December 2017, the Group has declared total production recovered from the Palito Mine operations of approximately 108,188 ounces and has mined approximately 446,684 tonnes at an average grade of 9.53 g/t. The plan also anticipates remaining LOM production from the São Chico Mine of 87,000 gold ounces compared with the Group's declared inventory of Measured and Indicated mineral resources of 34,000 gold ounces and Inferred resources of 54,000 gold ounces as estimated at the end of June 2017. Since mine development operations at São Chico were commenced in 2015 and up to 31 December 2017, the Group has declared total production recovered from the São Chico Mine operations of approximately 27,700 ounces.

The Net Present Value calculation used the following key assumptions:

Period of operations	1 January 2018 to 31 December 2025
Gold price	US\$1,250 for each year of the plan
Exchange rate BrR\$ to US\$	3.25 for each year of the plan. The prevailing exchange rate at 31 December 2017 was 3.3047.
Discount factor	10 per cent
Cost estimates	Based on current estimates being used by management for budgetary purposes
Mine plan	Maintaining current anticipated levels of production for both operations
Average annual plant throughput rate (2018 onwards)	165,000 tonnes per annum
Average annual LOM gold production (2018 onwards)	41,000 ounces
Production period	8 years for Palito and 5 years for São 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 2017 that will be completed in 2018, 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.

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21 IMPAIRMENT (CONTINUED)**The Palito Mining Complex (continued)**

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	18.7	18.7
Variation in mineral reserves by 10%	16.3	19.7
Variation of BrR\$:US\$ exchange rate by 10%	13.5	16.5
Variation in discount factor by 5% point	18.2	13.4
Variation in operating cost estimates by 10%	16.9	13.9

None of the changes in sensitivities shown in the table above would lead to an impairment provision being required.

22 ACQUISITION OF SUBSIDIARY

On 14 November 2017, the Boards of Directors of the Company and Anfield Gold Corp. ("Anfield") announced that they had entered into a conditional agreement ("the Agreement"), subject to the approval of shareholders of Anfield, approval of the Company's secured lender, Sprott, completion of due diligence by the Company and other conditions precedent, whereby Serabi would acquire all the issued and outstanding common shares of Chapleau Resources Limited ("Chapleau") a wholly owned subsidiary of Anfield (the "Transaction"). Chapleau through its wholly owned subsidiary Chapleau Exploracao Mineral Ltda, holds the Coringa gold project located in the Tapajos gold province in Para, Brazil.

On 22 December 2017, the Company announced that all conditions had been satisfied and the Transaction completed on 21 December 2017 ("Closing").

Serabi made an initial payment to Anfield on Closing of US\$5 million in cash ("Initial Consideration"). A further US\$5 million in cash was payable within three months of Closing and a final payment of US\$12 million in cash will be due upon the earlier of either the first gold being produced or 24 months from the date of Closing (both payments together being the "Deferred Consideration"). The total proposed consideration for the acquisition amounts to US\$22 million in aggregate.

The acquisition of Chapleau (the "Acquisition") has been accounted for as an Asset Purchase and the assets and liabilities of Chapleau have been consolidated within the Group financial statements from 21 December 2017, being the effective date of the acquisition.

The Deferred Consideration has been discounted at a 10 per cent cost of capital.

The following table sets out the book values of the identifiable assets and liabilities acquired and their attributable value to the Group arising in the acquisition:

	Chapleau carrying value US\$	Adjustments US\$	Fair value US\$
Deferred exploration costs	12,312	14,017,800	14,030,112
Property, plant and equipment	518,273	–	518,273
Project in construction	14,765,401	(9,077,574)	5,687,830
Recoverable Taxes	95,312	–	95,312
Cash and cash equivalents	5,335	–	5,335
Trade and other receivables	45,550	–	45,550
Trade and other payables	(384,451)	–	(384,451)
Loan repayable ⁽¹⁾	(31,927,876)	31,927,876	–
Net (liabilities)/assets acquired	(16,870,144)	36,868,102	19,997,961

(1) All the loans due by Chapleau are to be repaid to the Group.

(2) The above values are provisional and may be subject to change in the next accounting period.

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22 ACQUISITION OF SUBSIDIARY (CONTINUED)

The Palito Mining Complex (continued)

	Fair value US\$
Consideration paid and costs incurred	
Cash paid on date of acquisition	5,000,000
Fair value of deferred consideration	14,997,961
Total consideration incurred	19,997,961
Cash acquired	5,335
Cash paid	(5,000,000)
Total net cash outflow	(4,994,665)

From the date of acquisition to 31 December 2017, the acquired business has contributed US\$ nil to group revenue and US\$ nil to the loss before tax.

23 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 30 June 2017, the Group entered into a new loan with Sprott further details of which are set out in note 17 (Interest-bearing liabilities). As at 31 December 2017, the amount of US\$4.48 million (2016: US\$1.37 million) was outstanding in respect of the Sprott loan.

On 23 March 2018 the Company entered into a Subscription Agreement with Greenstone resources II LP ("Greenstone"). Greenstone has conditionally agreed to subscribe ("the Subscription") for 297,759,419 New Ordinary Shares ("the Subscription Shares") at a price of 3.6 pence per share (the "Subscription Price"). The New Ordinary Shares to be issued pursuant to the Subscription will rank pari passu with the existing Ordinary Shares. Application will be made to the London Stock Exchange for the Subscription Shares to be admitted to trading on AIM ("Admission") and listed for trading on the TSX. Completion of the Subscription and Admission is expected to take place at 8:00 a.m. on or around 12 April 2018.

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. With current market conditions and prices, the Group expects to have sufficient cash flow to finance its on-going operational requirements, repay its secured loan facility 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 consider increases the potential of the Group to raise finance through further issues of shares in the future. Management consider 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.

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24 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 12 months of fulfilling the current contracted commitments on these exploration properties in which the Group has an interest is US\$121,354 (2016: US\$50,355).

Operating Lease Commitments

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

	Group		Company	
	31 December 2017 US\$	31 December 2016 US\$	31 December 2017 US\$	31 December 2016 US\$
Commitments falling due:				
Within one year	167,428	162,903	96,742	93,029
Between one year and five years	304,944	161,411	301,623	11,215
Total	472,372	324,314	398,365	104,244

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\$94,000, which at the year-end is equivalent to US\$28,000.

25 RELATED PARTY TRANSACTIONS

During the period the Company has made no loans to subsidiaries (2016: US\$Nil). There were no loans converted into new shares issued by subsidiaries during 2017 (2016: US\$Nil).

The Company has loans receivable from subsidiaries totalling US\$16,188,272 (2016: US\$16,188,272) before any provision for the impairment of these loans (see note 12).

The Company has purchased, during the year from its subsidiary SMSA, 1,440 tonnes of copper/gold concentrate for a consideration of US\$12,082,870 (2016: 2,080 tonnes; US\$20,552,303).

Key Management Remuneration

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

	For the year ended 31 December 2017 US\$	For the year ended 31 December 2016 US\$
Short term employee benefits	1,195,684	1,189,595
Post-employment benefits	10,302	11,298
Share-based payments	332,968	313,384
Total	1,538,953	1,514,277

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

26 FINANCIAL INSTRUMENTS

The Group's and the Company's financial assets at 31 December 2017 which comprise other receivables and cash, and in the case of the Company include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's and Company's financial liabilities which comprise trade and other payables and interest-bearing liabilities are classified as liabilities measured at amortised cost.

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

Commodity Price Risk

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

Whilst not representing a financial instrument at 31 December 2017, the Group carried inventory of finished goods and work-in-progress valued at US\$4.67 million (31 December 2016: US\$5.73 million) including US\$0.66 million of copper/gold concentrate representing 142 tonnes of material awaiting sale (31 December 2016: US\$1.24 million; 162 tonnes) and US\$4.6 million of other material in process (31 December 2016: US\$4.50 million). All inventory as at 31 December 2017, which is unsold, is subject to future variation in commodity prices and accordingly the results for the period and the equity position of the Group may be affected by any change in commodity prices subsequent to the end of the period.

Interest Rate Risk

During 2017 and 2016 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 Group has entered into a US\$5 million loan with Sprott further details of which are set out in note 17 (Interest-bearing liabilities). As at 31 December 2017, the amount of US\$4.48 million (2016: US\$1.37 million) was outstanding in respect of the Sprott loan.

	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\$	
2017						
Financial assets						
Cash	0.1%	–	4,093,866	–	–	4,093,866
Receivables	–	1,277,142	–	–	–	1,277,142
Total		1,277,142	4,093,866	–	–	5,371,008
Financial liabilities						
Payables	–	24,422,787	–	–	–	24,422,787
Interest-bearing liabilities	9.37%	–	–	2,845,712	2,749,414	5,595,126
Total		24,422,787	–	2,845,712	2,749,414	30,017,911
2016						
Financial assets						
Cash	0.1%	–	4,160,923	–	–	4,160,923
Receivables	–	1,233,049	–	–	–	1,233,049
Total		1,233,049	4,160,923	–	–	5,393,972
Financial liabilities						
Payables	–	7,568,663	–	–	–	7,568,663
Interest-bearing liabilities	8.63%	–	–	2,964,057	77,798	3,041,855
Total		7,568,663	–	2,964,057	77,798	10,610,518

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26 FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk (continued)

Company

	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\$	
2017						
Financial assets						
Cash	0.1%	–	2,936,579	–	–	2,936,579
Receivables	–	8,848,246	–	–	–	8,848,246
Total		8,848,246	2,936,579	–	–	11,784,825
Financial liabilities						
Payables	–	28,463,503	–	–	–	28,463,503
Interest-bearing liabilities	10%	–	–	1,980,000	2,500,000	4,480,000
Total		28,463,503	–	1,980,000	2,500,000	32,943,503

	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\$	
2016						
Financial assets						
Cash	0.1%	–	3,612,495	–	–	3,612,495
Receivables	–	5,617,760	–	–	–	5,617,760
Total		5,617,760	3,612,495	–	–	9,230,255
Financial liabilities						
Payables	–	6,857,791	–	–	–	6,857,791
Interest-bearing liabilities	8.91%	–	–	1,787,096	–	1,787,096
Total		6,857,791	–	1,787,096	–	8,644,887

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 a US\$5 million loan with Sprott, further details of which are set out in note 17 (Interest-bearing liabilities). As at 31 December 2017, the amount of US\$4.48 million (2016: US\$1.37 million) was outstanding in respect of the Sprott loan.

As at 31 December 2017, in addition to the Sprott loan, the Company had obligations under fixed rate finance lease amounting to US\$1.12 million (2016: US\$1.25 million) (see note 17).

The following table sets out the maturity profile of the financial liabilities as at 31 December 2017:

	2017		2016	
	Group US\$	Company US\$	Group US\$	Company US\$
Due in less than one month	1,174,801	2,121,776	1,774,068	1,296,733
Due between one month and three months	7,051,493	8,605,740	2,462,350	2,161,222
Due between three months and one year	6,290,835	9,718,026	4,085,224	5,186,932
Total due within one year	14,517,129	20,445,542	8,321,642	8,644,887
Due more than one year	15,500,782	12,497,961	2,288,876	–
Total	30,017,911	32,943,503	10,610,518	8,644,887

FINANCIAL STATEMENTS

Notes to the Financial Statements continued

26 FINANCIAL INSTRUMENTS (CONTINUED)**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 2017 US\$	31 December 2016 US\$
US Dollar	2,635,299	3,425,809
Canadian Dollar	44,578	(5,183)
Sterling	126,198	136,159
Australian Dollar	28,101	6,350
Euro	105,977	53,261
Brazilian Real	1,153,713	544,087
Total	4,093,866	4,160,923

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

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

The following table shows a currency analysis of net monetary assets and liabilities by functional currency of the underlying companies:

	Functional Currency			Total 31 December 2017 US\$
	Brazilian Real 31 December 2017 US\$	Canadian \$ 31 December 2017 US\$	United States \$ 31 December 2017 US\$	
Currency of net monetary asset/(liability)				
US Dollar	–	689	(16,248,498)	(16,247,809)
Canadian Dollar	–	12,966	42,125	55,091
Sterling	–	–	(1,287,012)	(1,287,012)
Australian Dollar	–	–	28,108	28,108
Euro	(1,426,375)	–	106,164	(1,320,211)
Brazilian Real	2,317,533	–	–	2,317,533
Total	891,158	13,655	(17,359,114)	(16,454,301)

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 Brazilian Real.

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26 FINANCIAL INSTRUMENTS (CONTINUED)**Currency Risk (continued)**

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\$
10% weakening of US Dollar	63,958
10% strengthening of US Dollar	(74,127)
	Against Euro US\$
10% weakening of Brazilian Real	(125,476)
10% strengthening of Brazilian Real	125,476

The Group's main subsidiaries operate 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\$10,082,482 (2016: US\$9,090,502). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings.

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

The Group currently sells all of its copper/gold concentrate production to a single customer, a publicly quoted trading group located in Japan. 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, (2016 amount overdue: US\$Nil).

The Company's exposure to credit risk amounted to US\$11,892,581 (2016: US\$12,399,587). Of this amount US\$7,606,894 (2016: US\$4,437,562) is due from subsidiary companies, US\$2,936,579 represents cash holdings (2016: US\$3,612,495) and a significant portion of the remainder represented by trade debtors for the sale of copper/gold concentrate.

27 ULTIMATE CONTROLLING PARTY

Fratelli Investments Ltd owns 386,375,734 ordinary shares representing 55.13 per cent of the voting shares in issue and is considered to be the controlling party. Following completion of the placement of 297,759,419 new ordinary shares (see note 28 Post balance sheet events) announced on 23 March 2018, the interest of Fratelli will reduce to 38.7 per cent of the voting shares in issue.

28 POST BALANCE SHEET EVENTS

On 22 January 2018, the Group increased its loan with Sprott by US\$3 million ("The New Loan") and at the same time extended the final repayment period on its existing US\$5 million loan (The Existing Loan") with Sprott by six months from 31 December 2019 to 30 June 2020. The New Loan may be repaid, at the Company's request and with the agreement of Sprott (the "Extension Option") in equal monthly instalments commencing 30 September 2018 with a final payment due 22 months later on 30 June 2020. If the Extension Option is not exercised the New Loan must be repaid in full on 30 September 2018. Notwithstanding the above, both the New Loan and the Existing Loan may be repaid by Serabi in full without penalty at any time.

On 23 March 2018 the Company entered into a Subscription Agreement with Greenstone resources II LP ("Greenstone"), Greenstone has conditionally agreed to subscribe ("the Subscription") for 297,759,419 New Ordinary Shares ("the Subscription Shares") at a price of 3.6 pence per share (the "Subscription Price"). The New Ordinary Shares to be issued pursuant to the Subscription will rank pari passu with the existing Ordinary Shares. Application will be made to the London Stock Exchange for the Subscription Shares to be admitted to trading on AIM ("Admission") and listed for trading on the TSX. Completion of the Subscription and Admission is expected to take place at 8:00 a.m. on or around 12 April 2018.

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

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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 ore body 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.

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“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 it 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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Nicolas Banados – Non-executive Director
Sean Harvey – Non-executive Director
Eduardo Rosselot – Non-executive Director
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