



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

**For the three and six month periods  
ended 30 June 2019**

**14 August 2019**

**SERABI GOLD PLC**  
**Management's Discussion and Analysis**  
**for the three and six month periods ended 30 June 2019**

**Introduction**

This Management's Discussion and Analysis ("MD&A") dated 14 August 2019 provides a review of the performance of Serabi Gold plc ("Serabi", the "Company" or the "Group"). It includes financial information from, and should be read in conjunction with, the interim unaudited condensed financial statements of the Group for the three and six month periods ended 30 June 2019 and also read in conjunction with the Group's annual report and audited consolidated financial statements and the Group's MD&A for the twelve month period ended 31 December 2018.

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

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

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

**Overview**

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

The current mining operations within the Palito Complex are over the Palito orebody ("Palito") and the Sao Chico orebody ("Sao Chico") and lie within the larger JDO Project which comprises a series of contiguous exploration licences covering an area of over 43,000 hectares, and lies on the 50 kilometres wide north west to south east trending Tocantinzinho Trend, a major controlling structural feature in the Tapajos region. The vast majority of the hard rock mineral resources discovered to date in the Tapajos region lie on this trend.

The Palito operation is fully permitted and has a mining licence, issued in October 2007, covering 1,150 hectares. Remediation work commenced in October 2012, developing the existing underground mine and renovating the process plant. Commissioning of the process plant started in December 2013 with the first consignments of copper/gold concentrate transported from the Palito Mine in February 2014. On 23 July 2014, the Group declared that the Palito Mine had achieved commercial production with effect from 1 July 2014.

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

Palito orebody. The residual tailings from the flotation process, which also recovers up to 90 per cent of the copper content of the ore, are then passed to a conventional Carbon in Pulp (“CIP”) plant which can recover approximately 65 per cent to 70 per cent of the residual gold. Overall gold recovery from the Palito orebody is approximately 90 to 92 per cent.

The Sao Chico orebody is a high-grade deposit located approximately 30 kilometres, by road, from the Palito deposit. Initial development of the mine portal and ramp was undertaken during 2015 with the Main Vein intersected in January 2015. By the end of December 2015, the ramp development provided access to three development levels and the production of ore from the first stopes was underway. Commercial production at Sao Chico was declared as of 1 January 2016. Ore from the Sao Chico deposit is transported by truck to the central gold process plant located adjacent to the Palito orebody.

The gold of the Sao Chico orebody is hosted within a mineralised alteration zone including moderately high concentrations of pyrite, galena, and sphalerite, although the gold is not directly associated with the latter two minerals. The gold mineralisation is amenable to direct cyanidation. The ore passes initially to a gravity concentrator after milling, with the concentrate produced being passed through the In-Line Leach Reactor (“ILR”), where gold is leached, and then recovered through conventional electro winning and smelting processes to produce bars of gold doré. The ILR is a small but very intensive, closed cyanide leaching process for treating very high gold content material, typically to leach high grade gravity concentrate. The gravity circuit currently recovers up to 60 per cent of the gold. The tailings from this ILR process continue to pass to the CIP recovery plant where they are blended with the flotation tailings generated from the processing of the Palito ore. Overall gold recovery from the Sao Chico orebody is approximately 93 per cent.

On 12 April 2018 the Company completed a Subscription Agreement with Greenstone Resources II LP (“Greenstone”). Greenstone subscribed (“the Subscription”) for 297,759,419 Ordinary Shares (“the Subscription Shares”) at a price of 3.6 pence per share (the “Subscription Price”). The Subscription Shares issued pursuant to the Subscription rank *pari passu* with the Ordinary Shares already in issue at that time.

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

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

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

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

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

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

Serabi has made two payments to Anfield in respect of the Acquisition each of US\$5 million in cash. A final payment of US\$12 million in cash will be due upon the earlier of either the first gold being produced or 24 months from 21 December 2017. The total proposed consideration for the acquisition amounts to US\$22 million in aggregate.

The Group holds other exploration licences within the Tapajos region covering approximately 10,450 hectares. Exploration work undertaken by the Group on these licences is at an early stage.

On 4 March 2019 Serabi released results from its updated Geological Resource Technical Report (the NI 43-101 Technical Report Coringa, Brazil) prepared by its consultants, Global Resource Engineering Ltd ("GRE"). The results recorded a NI 43-101 compliant Indicated Resource of 216,000 ounces of gold at an average grade of 7.95 grammes per tonne ("g/t") and an Inferred mineral resource of 298,000 ounces of gold at an average grade of 6.46 g/t. The Technical Report supporting the updated mineral resource estimate was issued on 18 April 2019.

On 30 June 2017, the Group entered into a credit facility for US\$5 million with the Sprott Resource Lending Partnership ("Sprott") to provide development and working capital for Palito and Sao Chico. This facility included an amount of US\$1.37 million that was outstanding under a previous credit facility with Sprott, entered into on 26 September 2014, with the remaining funds being received on 5 July 2017. On 19 January 2018, the facility was increased to US\$8 million to provide additional working capital to the Group and in particular to reimburse the funds used to settle the initial US\$5 million payment made to Anfield in respect of the Acquisition.

The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol "SBI" and on AIM, a market operated by the London Stock Exchange, under the symbol "SRB". The Company is incorporated under the laws of England and Wales and is a reporting issuer in British Columbia, Alberta and Ontario.

## FINANCIAL HIGHLIGHTS

- EBITDA for the second quarter of US\$3.3 million up 23% on the same quarter in 2018.
- EBITDA for the year to date of US\$7.6 million up 35% on the same period in 2018.
- Profit before tax of US\$3.4 million for the year to date with earnings per share of 2.92 cents.
- Cash holdings at the end of June 2019 of US\$12.4 million an increase of US\$3.1 million since the end of 2018.
- AISC for the year to date of US\$1,085 per ounce with a Cash Cost of US\$860 per ounce.
- Operational cash flow for the second quarter of US\$3.0 million (US\$2.3 million after mine development costs), compared with US\$1.4 million (US\$0.3 million after mine development costs) for the same period in 2018.
- Operational cash flow for the year to date of US\$9.4 million (US\$7.9 million after mine development costs), compared with US\$4.5 million (US\$2.5 million after mine development costs) for the same period in 2018.
- Higher level of capital expenditure for the second quarter reflects US\$0.8 million for the ore sorter.

## Key Financial Information

	6 months to 30 June 2019 US\$	3 months to 30 June 2019 US\$	6 months to 30 June 2018 US\$	3 months to 30 June 2018 US\$
Revenue	29,585,739	12,459,699	25,700,634	11,873,783
Cost of sales	(19,164,989)	(7,803,002)	(17,272,887)	(7,783,786)
Gross operating profit	10,420,750	4,656,697	8,427,747	4,089,997
Administration and share based payments	(2,803,500)	(1,378,996)	(2,780,485)	(1,422,883)

EBITDA	7,617,250	3,277,701	5,647,262	2,667,114
Depreciation and amortisation charges	(4,250,501)	(1,960,956)	(4,490,900)	(2,498,047)
Operating profit / (loss) before finance and tax	3,366,749	1,316,745	1,156,362	169,067
Profit / (loss) after tax	1,719,640	169,678	(482,634)	(493,420)
Earnings per ordinary share (basic)	2.92c	0.29c	(1.10c)	(0.94c)
Average gold price received	US\$1,287	US\$1,292	US\$1,309	US\$1,296
			As at 30 June 2019 US\$	As at 31 December 2018 US\$
Cash and cash equivalents			12,366,683	9,216,048
Net assets			71,452,748	69,110,287
<b>Cash Cost and All-In Sustaining Cost ("AISC")</b>				
		6 months to 30 June 2019	6 months to 30 June 2018	12 months to 31 Dec 2018
Gold production for cash cost and AISC purposes		19,691 ozs	18,751 ozs	37,108 ozs
Total Cash Cost of production (per ounce)		US\$860	US\$861	US\$821
Total AISC of production (per ounce)		US\$1,085	US\$1,121	US\$1,093

## OPERATIONAL AND DEVELOPMENT HIGHLIGHTS

- Second quarter gold production of 9,527 ounces of gold, resulting in total production for the year to date of approximately 19,700 ounces, a five per cent improvement over the same period in 2018.
- Total ore mined for the quarter of 44,784 tonnes at 6.72 grams per tonne ("g/t") of gold.
- 43,711 tonnes of run of mine ("ROM") ore were processed through the plant from the combined Palito and Sao Chico orebodies, with an average grade of 6.72 g/t of gold.
- 2,419 metres of horizontal development completed during the quarter, a 30% increase on our Q1 figure
- Commencement of Company's Preliminary Economic Assessment (PEA) on the Coringa Gold Project, following last quarter's updated mineral resource estimate. Results of the study are expected before the end of August 2019.
- The Company maintains its 2019 production guidance of 40,000 - 44,000 ounces representing a significant improvement on 2018 production of 37,108 ounces.

## Key Operational Information

SUMMARY PRODUCTION STATISTICS TO DATE FOR 2019 AND FOR THE 2018 CALENDAR YEAR									
		Qtr 1 2019	Qtr 2 2019	Total 2019	Qtr 1 2018	Qtr 2 2018	Qtr 3 2018	Qtr 4 2018	Total 2018
Gold production <sup>(1) (2)</sup>	Ounces	10,164	9,527	19,691	9,188	9,563	8,101	10,256	37,108
Mined ore – Total	Tonnes	42,609	44,784	87,393	39,669	36,071	42,725	44,257	162,722
	Gold grade (g/t)	7.47	6.72	7.08	7.49	8.12	6.23	7.45	7.29
Milled ore	Tonnes	43,451	43,711	87,162	43,145	38,155	41,405	45,548	168,253

		SUMMARY PRODUCTION STATISTICS TO DATE FOR 2019 AND FOR THE 2018 CALENDAR YEAR							
		Qtr 1	Qtr 2	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
		2019	2019	2019	2018	2018	2018	2018	2018
	Gold grade (g/t)	7.69	6.72	7.21	7.04	7.71	6.11	7.39	7.06
Horizontal development – Total	Metres	1,868	2,419	4,287	2,353	2,744	2,814	2,460	10,371

- (1) Gold production figures are subject to amendment pending final agreed assays of the gold content of the copper/gold concentrate and gold doré that is delivered to the refineries.
- (2) Gold production totals for 2019 include treatment of 10,892 tonnes of flotation tails at a grade of 4.38 g/t (2018 full year: 16,466 tonnes at 3.71g/t)
- (3) The table may not sum due to rounding.

## OPERATIONS

The Palito Complex comprises the Palito deposit and adjacent process plant together with the Sao Chico deposit located 25 kilometres to the south west. The Palito deposit is currently operating across four sectors with active development and mining of 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, being developed to a depth of approaching 300 metres and over a strike length of more than 1.5 kilometres. Drill holes now extend that strike length to over 1.5 kilometres and it remains open to the north and south. Management considers 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 Sao Chico the mine development has, to date, focused on the central ore shoot of the Main Vein. The Group is driving development galleries east and west towards additional ore shoots that have been identified by surface drilling and management is confident that these ore shoots will provide additional mineable ore at Sao Chico. Underground drilling is being undertaken at Sao Chico for short term operational and mine planning purposes focussing on the deeper part of the mine, and the depth of the central ore zone. Surface drilling and a terrestrial induced polarisation (“IP”) geophysics survey have highlighted excellent potential for future resource growth at Sao Chico whilst step out drilling has intersected what appears to be the strike extension of the Sao Chico orebody approximately 500 metres to the west. The IP survey has highlighted some significant and exciting anomalies to the west and south east which will be drilled during 2019.

The Group has been conducting extensive test work to assess the benefits of ore-sorting to further enhance ore feed grade and to reduce waste entering the process plant. This will also free plant capacity for future organic growth. Tests on the Palito ore have been extremely encouraging and further tests on the Sao Chico ore have also returned good results. This equipment is currently being transported to site and is expected to be commissioned during the second half of 2019.

Total gold production for the second quarter of 2019 was 9,527 ounces of gold bringing total production for the year to date to 19,691 ounces, an increase of five per cent compared with the same period in 2018, the result of a seven per cent improvement in the tonnage processed through the plant during the period. The Company is therefore on target to meet its 2019 production guidance and significantly improve on the 2018 production level of 37,108 ounces of gold.

Total mining rates over the Palito Complex, for the first six months of 2019, are approximately 15.4 per cent better than those for the same period in 2018, whilst milling rates at 87,162 tonnes for the first six months are approximately seven% better than those achieved for the same six month period of 2018. Mill feed grades at 7.69g/t were 9.2% better than the corresponding quarter in 2018. Management does not consider these variations significant given the nature of the orebodies being mined. The Company was also able to process 10,892 tonnes of historic flotations tailings during the first six months at an average grade of 4.38 g/t representing a 64% increase compared to 2018 (6 months to 30 June 2018: 6,624 tonnes at 3.92 g/t).

Management anticipates that the successful commissioning of the ore-sorter will bring feed grade increases as well as freeing up some plant capacity, and is key to allowing some future organic growth to be realised without plant expansion. The equipment has been delivered to site and the associated infrastructure is currently in construction. The commissioning of the unit will take place during the second half of the year and whilst management are not forecasting any production benefit during 2019, it is anticipated that the ore-sorter will have a significant production impact in 2020.

## **Mining**

Mining of the Palito and Sao Chico orebodies has now been at relatively steady levels for a significant period with development rates sufficiently ahead of production to allow for a steady state of mine output and with potential at both orebodies for lateral as well as vertical development. The Group continues to target keeping development comfortably ahead of stoping and in this way ensure that a steady mining rate and ore-grades for the future.

Mined grades achieved for the first six months of 2019 averaged 7.08 g/t, a 2.9 per cent reduction compared with the average grade achieved in 2018, and is slightly below the average reserve grade for the two orebodies of just over 8.0 g/t, estimated by SRK in the Palito Complex Technical Report issued in January 2018. Whilst the operation tries to maintain an even grade as much as possible, the various blocks of the different veins being mined at any time give rise to monthly and therefore quarterly variation. Management considers that this variation reflects slightly higher levels of mining dilution and is constantly looking at its mining methods to minimise dilutions whilst maintaining planned production levels. Whilst mined grades are below the average levels for 2018, the mined tonnage has increased by 15.5 per cent resulting in an overall increase in the contained gold being mined and therefore available for processing of 4.95 per cent.

One of the initiatives that management has introduced to improve mining quality has been the deployment of smaller underground loaders. This smaller equipment, along with narrower profile drilling jumbos, permits smaller, narrower mine development, resulting in reduced production costs for development mining combined with lower dilution and higher quality of development ore. More importantly, however, it also greatly assists in minimising dilution in the subsequent stoping of these veins. Following the successful initial deployment in early 2018 of this equipment, the Group has acquired additional units. This equipment has only been deployed at Palito, where the potential benefits of minimising the mining widths are significant, with some of the larger units previously used at Palito being redeployed to Sao Chico.

## **Plant operations**

Total gold production for the first six months of 2019 was 19,691 ounces of gold, generated from the processing of ROM ore from the Palito and Sao Chico orebodies, combined with the surface coarse ore stockpiles and the processing of stockpiled flotation tailings that have accumulated since the mine went in production in 2014.

Gold production for the six month period was achieved through the processing of 87,162 tonnes from the Palito and Sao Chico orebodies with an average grade of 7.20 g/t of gold (six months to 30 June 2018: 81,300 tonnes at 7.35 g/t of gold). ROM ore processed is therefore 7.2 per cent higher than for the same six month period in 2018 and supplemented with an additional 10,892 tonnes of reprocessed tailings that were passed through the plant, an increase of approximately 65 per cent compared with 2018.

Plant performance has been excellent throughout the first six months, averaging approximately 540 tonnes per day (including reprocessed tailings). Mill feed is predominantly crushed ROM and is topped up with coarse ore stock

with the stockpiled tailings being fed directly into the CIP plant. The Company still has approximately 3,100 tonnes of coarse ore stockpiled on surface and an estimated 27,000 tonnes of flotation tails stockpiled (with an average grade of around 3.0 g/t of gold). Since the operations began, plant capacity has limited the ability to run down the surface ore stocks, a legacy of the fact that mine production began six months before the ore processing.

At the start of 2019 the Company successfully commissioned a 'scrubber', an item of equipment that allows easier processing of stockpiled flotation tailings. During 2018 the Company had, with limited success, tried to feed these flotation tailings into the plant trialling a variety of feed mechanisms. The scrubbing plant is dedicated to classifying and cleaning this material, removing impurities and allowing it to be fed directly into the plant post milling. This equipment has now been commissioned and after some minor adjustments the throughput rates for the months of May and June were approximately 100 tonnes per day, in line with planned rates and with 7,756 tonnes processed in the second quarter of 2019, this represents a 147 per cent increase compared with the first quarter of 2019.

An encouraging development during 2018 was the test work undertaken by the Group on ore sorting of the Palito and Sao Chico ores. Current mining operations whilst excellent, and employing the most selective methods possible, with veins typically 0.5 to 0.7 metres wide, a minimum mining width of 1.0 metre means significant amounts of granite waste still form part of the mined material coming to surface. Having undertaken test work in Brazil and subsequently at the manufacturer's facilities in Poland, excellent results have been achieved using X-ray scanning on the Palito ore using relative atomic densities to physically separate crushed sulphide bearing ore and granite waste. The contrast and results have been quite remarkable. Having completed factory testing the unit has now been delivered to site. Construction of the associated infrastructure is currently being undertaken and the ore sorter is expected to be commissioned during the second half of 2019. As a result, the production benefits are only expected to be seen in 2020. Whilst the unit will initially be dedicated to the processing of Palito ore, a colour scanner unit has been added to assess and test the amenability of Sao Chico ore to ore sorting which management hope will be successful.

The ore sorter will be installed after the main crushing plant and will remove waste material that, despite best efforts to mine selectively, would otherwise, unavoidably, enter the plant feed. This waste will be removed post-crushing but ahead of milling and will reduce process costs per ounce recovered as well as liberating 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.

### **Palito Complex Licensing**

The Palito operation is fully permitted and has a mining licence issued in October 2007, covering 1,150 hectares.

In February 2014, the Final Exploration Report ("FER") for the Sao Chico gold project was completed and submitted to the Departamento Nacional de Produção Mineral ("DNPM"), who issued notification of their approval of this report in November 2014. This represented the first part of the process of transforming the Sao Chico exploration licence into a full mining licence. As the next major step in the conversion procedure, Serabi submitted, in September 2015, the Plano Aprovimientto Economico, a form of economic assessment prepared in accordance with Brazilian legislation. Additionally, the Group engaged MDM from Belem, an Environmental Consultancy to complete a full socio-economic analysis and Environmental Impact Assessment ("EIA") for Sao Chico. This is now complete, however SEMAS, the state Environmental Agency informed Serabi in the latter half of 2018 that, in reference to the already submitted Coringa EIA, they could not process two EIA's from the same company simultaneously. It is hoped that SEMAS will assess the Sao Chico EIA during 2019.

The current Guia de Utilização (a trial mining license) was valid until 6 April 2019 but remains effective whilst, in accordance with legislation, the renewal application is being considered. In addition, an application has also been submitted for a second trial mining license, immediately to the west of the existing trial mining license. All mining operations can continue in parallel, whilst the full mining licence application is progressing. The issuing of the mining licence also requires the submission of a risk assessment and management plan, safety assessments, environmental and social impact studies, closure and remediation plans all of which have been submitted to the



relevant government bodies. Any further reports requested or updates to existing reports will be submitted promptly upon request.

## EXPLORATION

Following an intensive and very successful series of exploration programmes completed during 2018, exploration activity during the first quarter of 2019, within the tenements that comprise the Palito Complex and the wider Jardim do Ouro project area, has been limited. The key activity has been a surface soil geochemistry programme over parts of the Cinderella shear zone located to the south east of the Sao Chico deposit.

The samples gathered are being analysed and the results will help to improve the targeting of a follow up drilling campaign that the Company hopes to conduct later in the year.

Exploration drilling undertaken during 2018 around the Palito deposit initially focused on step out drilling on the known veins, with a view to justify subsequent underground development.

The key outcomes of the 2018 Palito programme were

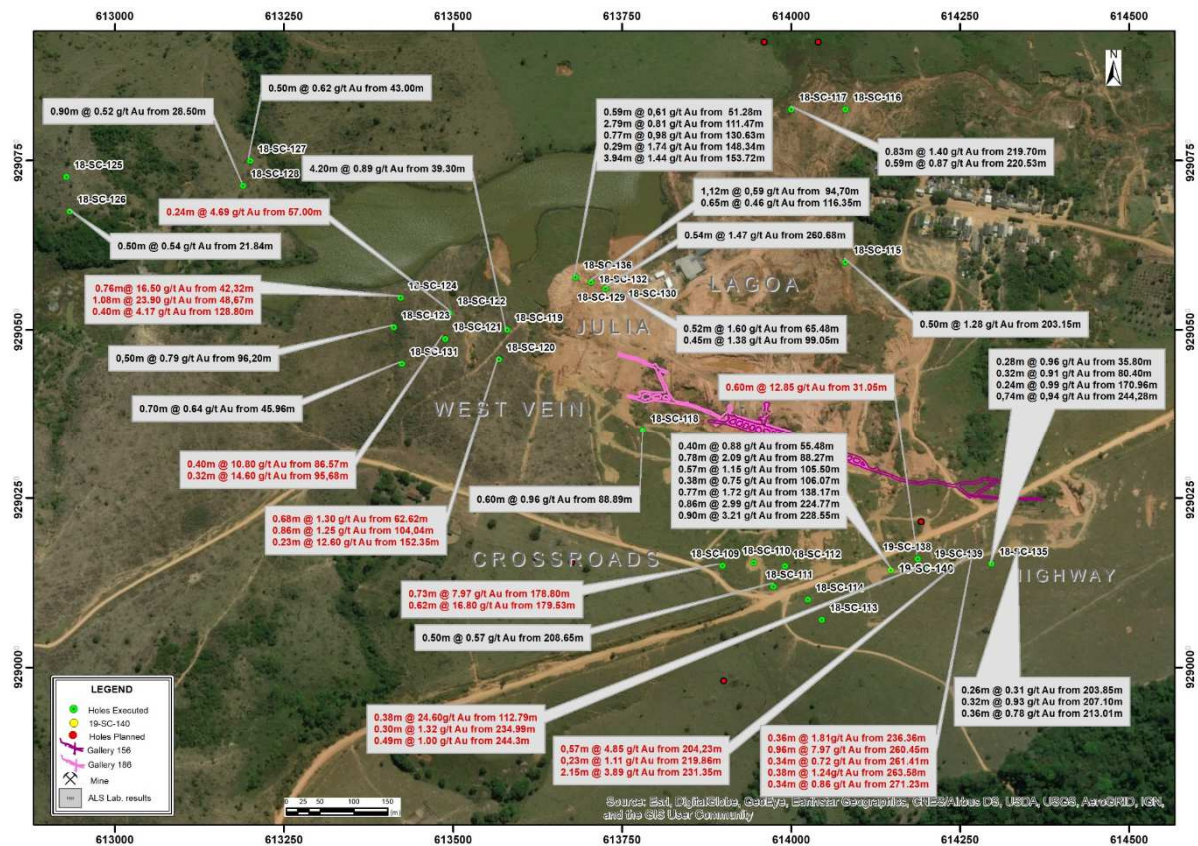
- (i) the extension of the Pipocas vein to the north and south, where step out traverses have traced the vein further to the north than the current mine limit,
- (ii) the southerly extensions of the Ipe/Mogno veins of the Chico da Santa area, and
- (iii) the southerly and northerly extensions of the G3 vein

Smaller programmes tested the Copper Hill and the Caixas anomalies.

Drill intersections on the Pipocas north area showed the vein continuing north approximately 250 metres from the most northerly exposure underground. Diamond drilling over the G3 vein from surface to the south intersected economic mineable widths and grades located 200 metres to the south of the current Palito underground workings and only 800 metres from the northern limits of the Currutela Prospect. Further details are included in the Company's news release of 31 August 2018. Subsequently three further holes were drilled on the northern extension of the G3 vein, with all three holes successfully cutting the vein, the best of which reported a grade in excess of 19 g/t over a 0.60 metre vein width, which is very typical for Palito. Exploration headings are now being developed both north and south on level -25mRL on the G3 vein which has historically been the main production vein at Palito. The G3 vein has now been traced over 1.5 kilometres and remains open to the south and north. Management plans to undertake further exploration drilling around the Palito deposit during 2019.

At the Sao Chico orebody, the surface drilling undertaken in 2018 focussed on the western and eastern extensions of the Sao Chico mineralisation, and successfully intersected what appears to be the Sao Chico ore zone up to 500 metres west of the current mine limit. To the east, drilling also confirmed an eastward extension of mineralisation up to 200 metres beyond the mine workings. Further investigation of these eastern and western extensions will be on-going during the remainder of the year with a westerly development heading already in progress on the +216mRL.

The 2018 programme results provide strong indications that substantial strike extensions of the principal vein and adjacent veins are waiting to be defined as shown in the figure below.



*Image of Sao Chico mine site showing location of drilling and key results from the 2018 exploration activity*

Surface drilling in the latter part of 2018 also followed up on some of the initial results from terrestrial induced polarisation ("IP") geophysical surveys which started in May 2018. This was simple step out drilling following the strike of the Sao Chico Main Vein and although the drilling is quite broadly spaced, it appears the mineralisation can now be traced for a further 500 metres to the west of the current mining limit. The mineralised intersections encountered in the traverse 300 metres west of the Sao Chico mine returned grades of 21.97 g/t and 26.86 g/t of gold over widths of 0.80 metres and 1.10 metres respectively. Further details are set out in the Company's news releases of 31 August 2018 and 31 October 2018. This strike extension complements the potential parallel structures of Lagoa and Crossroads that are to the north and south of the current mine.

During the fourth quarter of 2018, surface drilling focussed on the eastern extension at Sao Chico. A near surface development level (216mRL) had been developed to the Highway Vein, which appears to be a continuation of the main orebody at Sao Chico, though a faulted contact separates it from the Main Vein. All mine levels below the 216mRL to the lowest current level of -19mRL, have not been developed to the other side of the fault. The Group therefore undertook a surface drill programme to test the area below the 216mRL and to the east of the current mine development, for the continuation of the Highway Vein at depth. This programme was very successful with the holes drilled recording intersections of mineable grades over mineable widths.

The 2018 surface drilling programme complemented campaigns undertaken in 2015, 2012 and 2011 and has further enhanced the understanding of the orebody and facilitated mine planning for the future. The understanding of the orebody has also been assisted by paragenetic studies on mine ore samples including detailed petrological descriptions, SEM and QuemScan analysis.

### **Ground Geophysics and Geochemistry**

Ground geophysics surveys in the vicinity of the Sao Chico orebody were on-going for much of 2018 with some very significant anomalies recorded. Approximately 107 line kilometres of IP geophysical survey was completed testing extensions to the east, west and south. This complimented an earlier 20 line kilometre IP survey started in

2016, along the Sao Chico strike. With a total of 127 line kilometres now completed, a strike length totalling nine kilometres along the Sao Chico trend has now been covered with IP.

These surveys have highlighted the exploration potential within the area, defining a significant number of IP chargeable anomalies to the south, east and west of the Sao Chico deposit. The results suggest the potential to the west remains very good, and provides a comprehensive electrical resistivity and chargeability map of the Sao Chico district and, together with the detailed airborne electromagnetic and magnetic surveying also completed in 2018, provides an excellent foundation for the Company's exploration activities in 2019.

However, in the near term, the area highlighted by the geophysical survey activities as being of the greatest interest is the Cinderella Shear located to the south east of Sao Chico. This is a very prominent IP anomaly, coincident with a magnetic high identified from an airborne survey, which now extends for seven kilometres. There has been historical artisanal mining activity around the areas that drain from the anomaly, make this feature extremely significant. A geochemical soil sampling programme has been ongoing during the first quarter of 2019 over Cinderella and this will extend during this year over a number of the other geophysical IP anomalies including the large east-west magnetic and electro-magnetic anomaly that traverses the Company's tenement between Palito and Sao Chico. This programme is designed to further define the anomalous zones and provide better targeting for subsequent drilling that management hope can be undertaken during the year.

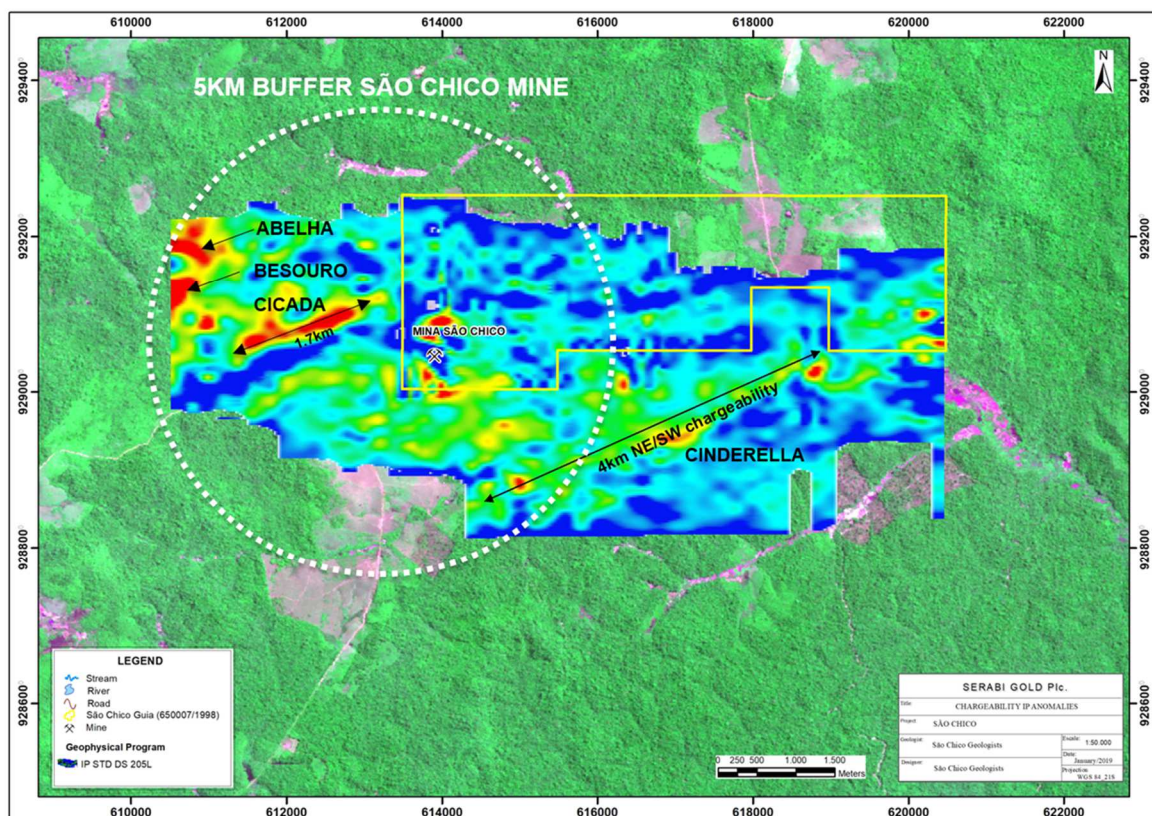


Figure 1 -Image showing current IP results at Sao Chico and location of the Cinderella zone

#### Key to zones marked on image

**ABELHA anomaly** - A two kilometre long, east-northeast to west-southwest trending, robust chargeability anomaly coincident with a subtle magnetic high, situated only two kilometres west of the Sao Chico mine and one kilometre west of the recently reported high grade intersections from West Vein drilling (see news release of 20 September 2018). This anomalous area lies within the Sao Chico structural corridor at the intersection of several interpreted fault sets, similar to the setting of the current Sao Chico operations.

**BESOURO anomaly** - An elongate chargeability anomaly, parallel to Abelha and lying on the western edge of the survey area.



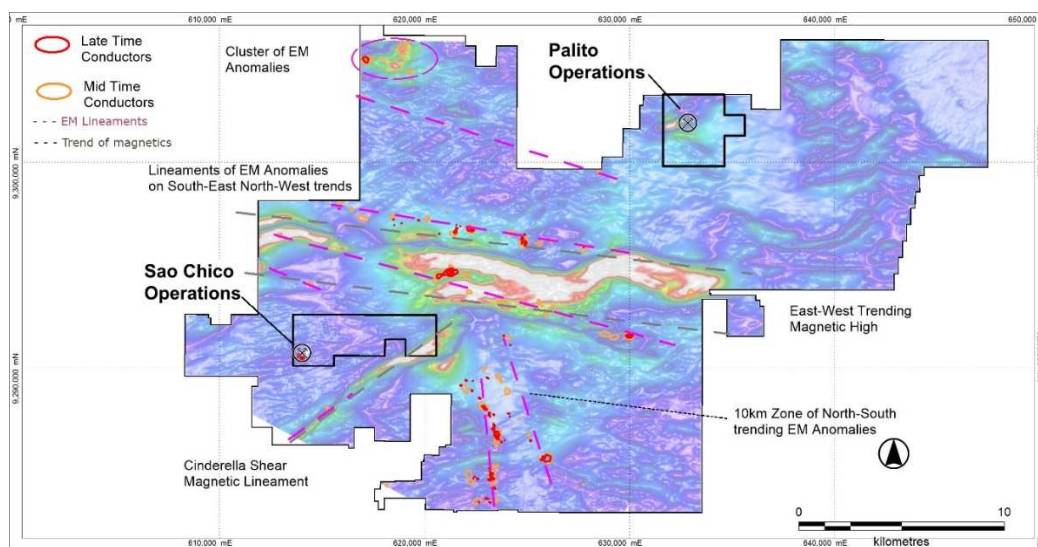
*CICADA anomaly - A cluster of chargeability anomalies located in the northwest of the survey area and lying within the Sao Chico strike corridor.*

## **Regional Exploration**

The JDO Project Area covers a total area of over 43,000 hectares, incorporating the Palito and Sao Chico mining licence areas. The Palito mining licence was granted on 23 October 2007 covering an area of 1,150 hectares, whilst the Sao Chico licence is in the process of being converted into a full mining licence. The remainder of the tenement area comprises exploration licences either granted or in application. The JDO Project is located in the Tapajós Mineral Province in the south east part of the Itaituba Municipality in the west of Pará State in central north Brazil.

The Company completed, in the third quarter of 2018, an airborne 4,300 line kilometre geophysical VTEM (“EM”) geophysical survey, covering approximately 25,000 hectares of the JDO tenement holdings that had not previously been covered by such a survey. The survey was flown during July and supplements the two airborne geophysical VTEM surveys completed in 2008 and 2010 that covered a total area of 14,650 hectares. From these original surveys the Group has already identified a number of geophysical anomalies which it considers worthy of further investigation and these surveys also provided management with the EM and magnetic signatures of both the Palito and Sao Chico orebodies, allowing any anomalies identified to be benchmarked.

The EM survey identified an extremely pronounced magnetic high that runs east west across the tenements (see Figure 3). This is a regional feature and many of the identified electromagnetic anomalies lie on the flanks of this magnetic high.



*Figure 3 - VRMI magnetic image showing coincident mid (100-175m depth – orange colour) and late-time (175-250m depth –red) EM conductivity anomalies. The above figure includes magnetic images generated by previous surveys conducted by the Company in 2008 and 2011.*

The EM survey also identified the smaller, but nonetheless very exciting, Cinderella anomaly, which is located traversing the Sao Chico mining licence area in a south west to north east trend. The airborne survey results highlight an eight kilometre long magnetic and electromagnetic high which is very coincidental with the seven kilometre long chargeability ‘high’ identified by the ground geophysics IP survey.

It also identified an extremely interesting EM anomaly trending north-south and located to the south east and east of the Sao Chico tenement. The Group’s current ground geophysics and drill programmes have not extended out this far and this is therefore untested ground. As a completely new find and considering that it extends for more than 10 kilometres, management considers that this represents a very exciting development.

The scale of some of the features that have been identified are significantly larger than the signatures of the existing Palito and Sao Chico orebodies.

## **CORINGA PROJECT DEVELOPMENT AND LICENCING**

Serabi has been continuing the work started by Anfield on the permitting and licensing process and has continued to pursue the formal approval of the Environmental Impact Assessment ("EIA") submitted late in 2017 and undertake any supplementary work or reports that may be requested. Following the award of the trial mining licence for the project during the second quarter of 2018, management was advised late in 2018 that the state environmental agency ("SEMAS") had approved with the content of the EIA and was ready for the Group to start convening the necessary public meetings. The Group is now co-ordinating the necessary public hearings.

However, in light of concerns over conventional tailings dams in Brazil, following the failure of the Brumadinho dam in January 2019, the Company now intends to install a filtration plant allowing for the dry stacking of tails and eliminating the need for a conventional tailings dam. The Group is working with SEMAS on an amendment to the EIA to reflect this change in the planned process flowsheet and following the approval of SEMAS will then arrange the necessary public hearings. It is hoped that these hearings can be held during the current quarter, following which management hopes to receive the Preliminary Licence ("Licencia Previa") during the second half of the year.

On 4 March 2019 Serabi released results from an updated Mineral Resource Technical Report on Coringa (the NI 43-101 Technical Report Coringa, Brazil) also prepared by GRE. The results recorded a NI 43-101 compliant Indicated Resource of 216,000 ounces of gold at an average grade of 7.95 grammes per tonne ("g/t") and an Inferred mineral resource of 298,000 ounces of gold at an average grade of 6.46 g/t. The Technical Report was issued on 18 April 2019, and is available to view on the Company's website at [www.serabigold.com](http://www.serabigold.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). This update followed the completion of approximately 5,400 metres of surface diamond core drilling which was started in the fourth quarter of 2018 and finished early in February 2019.

In the meantime, preparations for starting the mine portal and underground ramp at Coringa are well underway with the area having been cleared and hard rock exposed. The Group is now waiting on the necessary blasting licence from the army. It is hoped that this will be received soon and work can recommence. Beginning the ramp under the trial mining licence has a dual purpose. Firstly, the Group will obtain invaluable information about the orebodies in terms of geometry, thickness, and their general nature, which, with vein mining, is very difficult to obtain solely from drill hole data. Secondly, it is a demonstration to the community and stakeholders of the Group's intent to develop the project, which is considered by management to be a critical step to winning support in the permitting process.

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

In May 2018 trial mining licences for each of the concessions 850568/1990 and 850567/199, valid until 25 May 2020 and 25 November 2020 respectively, were issued by the DNPM permitting the Group to commence mine development and limited ore production from Coringa. The trial mining licenses and the concurrent operating licence authorises mining of up to 50,000 tonnes of ore per year at Coringa. In the absence of the necessary processing permits, any ore recovered at this stage will be stockpiled for future processing. Under applicable regulations, once the mine is operational, Chapleau Brazil may apply to the DNPM and SEMAS to increase the mining and processing limits.

On 23 May 2018, Serabi was informed, following an action brought by the Brazilian Ministério Público Federal ("MPF"), on 27 September 2017, seeking to nullify the operating license previously granted to Chapleau Brazil by SEMAS, that the court and judge who presided over the hearing on 26 April 2018, denied the MPF any action against SEMAS, the DNPM and Chapleau Brazil and also denied any right to appeal the decision, thus allowing Chapleau to proceed with advancing the project.

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 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 are ongoing and being progressed.

### **Coringa Exploration**

Recent drilling over the Coringa gold project targeted both strike and plunge extensions along the three main ore zones of Meio, Galena and Serra, with the results returning a series of high grade intersections extending the previously modelled ore zones. The drilling campaign started in the fourth quarter of 2018 and was completed during February 2019.

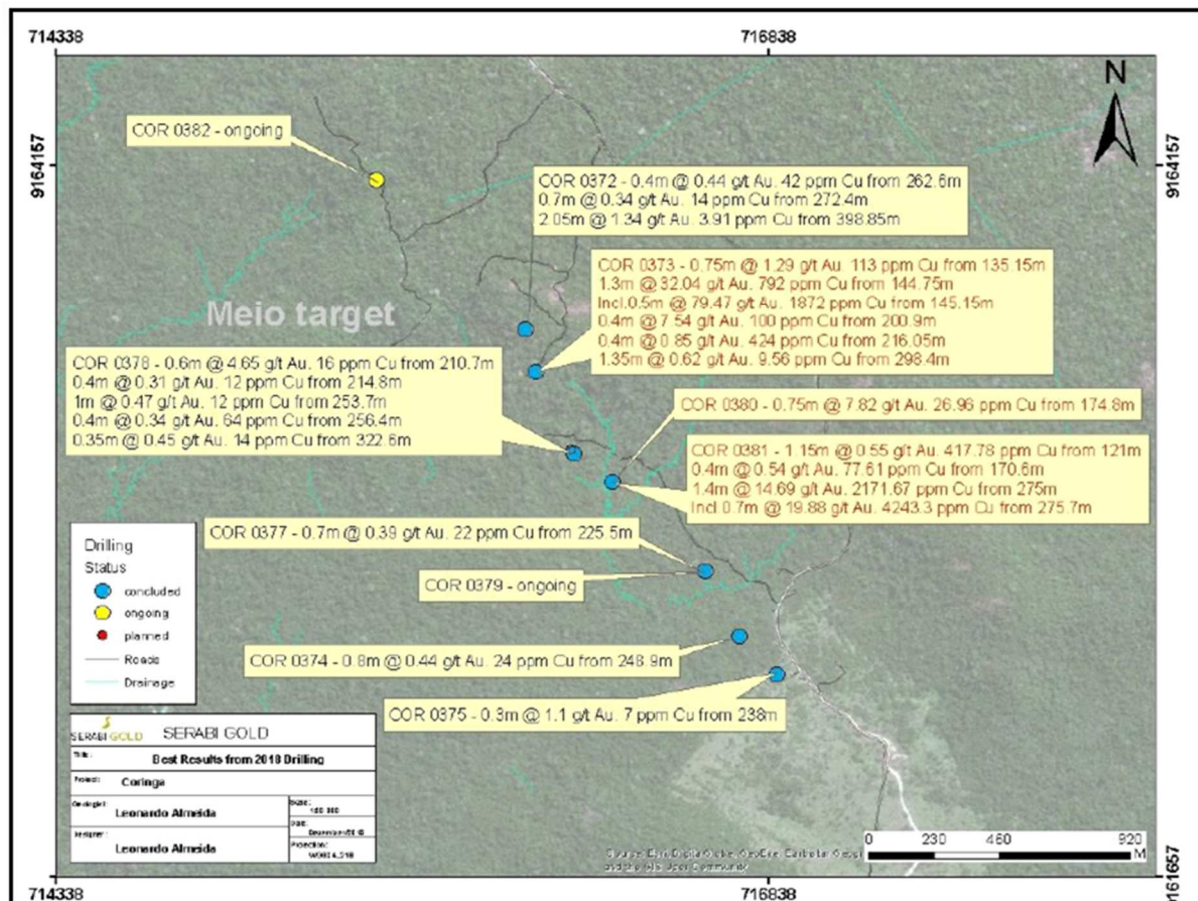
Significant intersections returned included;

- Galena - 2.0m @ 25.02 g/t Au from 141.50m (COR0367) including 1.0m @ 48.18g/t Au
- Serra – 4.0m @ 3.36 g/t Au from 354.0m (COR0370) including 1.28m @7.45g/t Au.
- Meio #2 – 0.35m @15.57 g/t Au (COR0372) from 197.05m
- Meio #2 – 1.3m @ 32.04g/t Au (COR0373) from 144.75m including 0.5m @ 79.47g/t Au
- Meio # 4 – 0.60m @ 4.65 g/t Au (COR0378) from 210.70m
- Meio #4 – 0.75m @ 7.61 g/t Au (COR0380) from 174.8m
- Meio #4 - 1.40m @ 15.82 g/t Au (COR0381) from 275.0m
- Meio #4 - 1.15m @ 9.69 g/t Au (COR0383) from 134.2m including 0.60 m @ 17.74 g/t Au

On March 4, 2019, the Group announced an updated estimate of the Mineral Resources of the Coringa project which represented a 37% increase in the total global resource for the project to 514,000 ounces. The full technical report in relation to this new Mineral Resource estimation was published on April 18, 2019. The Group has, on the basis of his increased Mineral Resource, commenced work on the preparation of a new Preliminary Economic Assessment (PEA) the results of which, it is hoped, will be available before the end of August 2019.

As detailed in a news release issued on 20 June 2019, some of the above results represent final certified laboratory assay results and supercede previous results generated by the Group which had been included in the new mineral resource estimation issued on 4 March 2019. The Group also announced the result of further drilling that had not been included in this new mineral resource estimate. In addition, the Group has also undertaken a re-logging and re-sampling programme that was completed on historic Coringa drill holes in the first half of 2019. A total of 179 early Coringa drill holes were reassessed. Re-sampling was completed on 43 of the 179 drill holes honouring geological contacts and quartz vein structures. A total of 92 core samples were analysed and significant grade increases reported in many mineralised intersections, as a consequence of the exclusion of the dilution effects of un-mineralised host wall rocks that the previous owners had included within the sampled intervals.

Together with the additional drilling results, these improved intercepts are now being used in a further revision of the geological resource estimate and will be incorporated in the PEA.



The Galena vein was drilled targeting the strike and plunge extension of the vein at depth. The programme successfully intersected high grade mineralisation over mineable widths and with hole COR0367 extended the known mineralisation for a further 100 metres to the south of the previously known limit.

Similarly, a series of four holes were completed on the Serra vein set. Drill hole COR0370 targeted the down dip and northern strike extension of the modelled ore zones. It successfully intersected a four metre drilled width of veining and alteration which has extended the mineralisation for a further 150 metres down dip and 140 metres along strike to the north from the previous drill intersections of the Serra mineralisation.

A series of nine drill holes were completed along the Meio vein set, targeting the Meio #2 (M2) and Meio #4 (M4) veins. The Meio #1 (M1) vein is the most strike extensive and drilled vein defined to date with numerous intersections along a total strike length of 1,500 metres. The M2 vein which lies parallel to M1 had previously, however, only been defined along a total strike length of 700 metres. The M4 vein is considered to be a southern extension of the M1 vein in a structurally off set position and past drill had defined the mineralisation over a 900 metre strike length.

Drill holes COR0372, COR0373 and COR383 targeted the southern strike extension of the M2 vein, successfully intersecting the structure and significantly extending the strike of the M2 vein for a further 580 metres to the south making the drilled strike of the M2 vein to approximately 1,300 metres and it remains open along the southern strike.

Drill holes COR0378, COR0380 & COR0381 targeted, over a strike extend of 400 metres, the northern dip extension of M4 vein at depth. This drilling has successfully extended the vein for approximately 200 metres deeper than previously known along this 400 metre strike.

## **OTHER EXPLORATION PROSPECTS**

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

### **Sucuba Project**

The Sucuba project is located some 10 kilometres to the northwest of Palito and the Company holds two exploration licences applications totalling 10,449 hectares. The Company has conducted exploration work in the past on this area where the main gold anomaly is centred on a small garimpeiro pit. Initial geochemistry highlighted anomalous gold values over an east-west area of 800 metres by 150 metres and a limited historic drill programme returned a number of gold values associated with structural controls including 0.50 metres at 20.42g/t Au. The area would appear to potentially host a polymetallic deposit with high lead, silver and zinc values having been returned.

### **Pizon and Modelo Projects**

The Pizon and Modelo Projects are isolated sites located approximately 250km and 300km to the west and northwest of the Palito Mine with access being primarily by light aircraft. Serabi has submitted final exploration reports and notices of relinquishment and is awaiting final confirmation from the authorities that the relinquishment has been approved.

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

## **BACKGROUND TO THE GROUP'S TAPAJOS GOLD PROJECTS**

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

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

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

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

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

Since 30 June 2017 the Group has extracted, from the Palito orebody, total contained gold of approximately 45,540 ounces, having mined a total of approximately 195,300 tonnes at an average grade of 7.25 g/t.



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

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

Notes to Table 1:

- (1) Mineral Resources have been rounded. Mineral Resources are not Mineral Reserves and have not demonstrated economic viability. Mineral Resources are reported inclusive of Mineral Reserves. All figures are rounded to reflect the relative accuracy of the estimates. Underground Mineral Resources are reported within classification domains inclusive of in-situ dilution at a cut-off grade of 3.10 g/t gold assuming an underground extraction scenario, a gold price of US\$1,500/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 91%. Polygonal techniques were used for mineral resource estimates. Surface stockpiles and tailings are reported at a cut-off grade of 1.65 g/t gold assuming a gold price of US\$1,500/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 78%.
- (2) Serabi is the operator and owns 100% of the Palito Mine such that gross and net attributable mineral resources are the same. The mineral resource estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Glen Cole of SRK Consulting (Canada) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.

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

Classification	Quantity	Grade		Contained Metal	
	000't	Gold g/t	Copper %	Gold 000'oz	Copper T
<b>Underground</b>					
Proven	265	9.77	0.46	83	1,219
Probable	276	7.64	0.39	68	1,076
<b>Surface Stockpiles</b>					
Proven	12	3.15	-	1	-
<b>Tailings</b>					

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

Classification	Quantity	Grade		Contained Metal	
	000't	Gold	Copper	Gold	Copper
		g/t	%	000'oz	T
Proven	60	2.70	-	5	-
<b>Combined</b>					
Proven	337	8.28	0.36	90	1,219
Probable	276	7.64	0.39	68	1,076
<b>Proven and Probable</b>	<b>613</b>	<b>7.99</b>	<b>0.37</b>	<b>157</b>	<b>2,295</b>

Notes to Table 2:

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

### **Sao Chico Gold Project – Para State, Brazil**

The Sao Chico property, acquired by the Group in July 2013 as part of the acquisition of Kenai Resources Ltd ("Kenai"), was initially represented by a single exploration licence area (AP 12836). The Sao Chico Mine is a small but high-grade underground gold mining operation some 30 kilometres to the south west, along the Transgarimpeira Highway, from the Palito Mine. The Sao Chico exploration licence was in force until 14 March 2014 and the Group, prior to its expiry, commenced the process of converting the concession to a full mining licence. A trial mining licence has also been issued for the property valid to 6 April 2019. In July 2015, the Group was also awarded exploration licences adjoining AP12836 to the south, east and west, covering approximately 6,400 hectares, which the Group considers to have excellent prospects for hosting extensions of the gold mineralisation identified at the Sao Chico Mine.

The Sao Chico Mine is located within an area of historic garimpo mining operations but exploration over the area has been limited. Prior to the acquisition of the project by the Group, the most significant recent exploration was a 22 hole programme extending to about 3,300 metres of diamond drilling conducted by Kenai during 2011. During 2013 the Group completed an infill and step out diamond drilling programme totalling 4,950 metres to enhance the existing resource in terms of both resource confidence and size. The drill programme was supplemented by ground geophysics, and a further 1,120 metres of diamond drilling to test initial geophysical anomalies. The results from the ground geophysics have established other potential areas of interest within the Sao Chico exploration licence but the Group will undertake other confirmatory exploration work, including geochemistry, over these identified anomalies before embarking on any further drilling activity of these anomalies.

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

Since 30 June 2017 the Group has extracted, from the Sao Chico orebody, total contained gold of approximately 38,900 ounces, having mined a total of approximately 146,600 tonnes at an average grade of 8.26 g/t.

**Table 3 - Mineral Resource Statement, Sao 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
<b>Measured and Indicated</b>	<b>1.81</b>	<b>82</b>	<b>13.70</b>	<b>36</b>
Inferred	1.80	123	13.77	54

Notes to Table 3:

- (1) Mineral Resources have been rounded. Mineral Resources are not Mineral Reserves and have not demonstrated economic viability. Mineral Resources are reported inclusive of Mineral Reserves. All figures are rounded to reflect the relative accuracy of the estimates. Underground Mineral Resources are reported within classification domains inclusive of in-situ dilution at a cut-off grade of 2.85 g/t gold assuming an underground extraction scenario, a gold price of US\$1,500/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 95%. Polygonal techniques were used for mineral resource estimates.
- (2) Serabi is the operator and owns 100% of the Sao Chico Mine such that gross and net attributable mineral resources are the same. The mineral resource estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Glen Cole of SRK Consulting (Canada) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.

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

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

Notes to Table 4:

- (1) Mineral Reserves have been rounded to reflect the relative accuracy of the estimates. Proven Underground Mineral Reserves are reported within the Measured classification domain, and Probable Underground Mineral Reserves are reported within the Indicated classification domain. Proven and Probable Underground Mineral Reserves are inclusive of external mining dilution and mining loss and are reported at a cut-off grade of 3.45 g/t gold assuming an underground extraction scenario, a gold price of US\$1,250/oz, a 3.5:1 Brazilian Real to U.S. Dollar exchange rate, and metallurgical recovery of 95%.
- (2) Serabi is the operator and owns 100% of the Sao Chico Mine such that gross and net attributable mineral reserves are the same. The mineral reserve estimate was prepared by the Company in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of 30 June 2017, and audited and approved by Mr Timothy Olson of SRK Consulting (US) Inc., who is a Qualified Person under the Canadian National Instrument 43-101.

### Coringa Gold Project – Para State, Brazil

Coringa is located in north-central Brazil, in the State of Pará, 70 kilometres southeast of the city of Novo Progresso. Access to the property is provided by paved (National Highway BR-163) and gravel roads. Coringa is in the south eastern part of the Tapajós gold district, Brazil's main source of gold from the late 1970s to the late 1990s. Artisanal mining at Coringa produced an estimated 10 tonnes of gold (322,600 ounces) from alluvial and primary sources within the deep saprolite or oxidised parts of shear zones being mined using high-pressure water hoses or hand-cobbing to depths of 15 metres. Other than the artisanal workings, no other production has occurred at Coringa. Artisanal mining activity ceased in 1991 and a local Brazilian company (Tamin Mineração Ltda.) staked the area in 1990. Subsequently, the concessions were optioned to Chapleau (via its then subsidiary, Chapleau Brazil) in August 2006. On 1 September 2009, Magellan Minerals Ltd. ("Magellan Minerals") acquired Chapleau. Between 2007 and 2013, extensive exploration programmes were completed on the property, including airborne magnetic, radiometric and electro-magnetic surveys; surface IP surveys; stream, soil, and rock sampling; and trenching and diamond drilling (179 holes for a total length of 28,437 meters). On 9 May 2016, Anfield acquired Magellan Minerals. Anfield subsequently completed an infill drill programme (183 holes for a total length of 26,413 meters) for the Serra and Meio veins in 2016 and 2017. Serabi recently completed a ~7,000 metre surface drill programme in February 2019, following which the Mineral Resource estimation summarised below was released on March 2, 2019.

**Table 5 - Mineral Resources Statement, Coringa Gold Project, Para State, Brazil, as of March 4, 2019**

The current Mineral Resource estimates for the **Coringa Mine** (Table 5) are based on data as at **February 11, 2019**.

**Table 5 - Mineral Resource Statement, Coringa Mine, Para State, Brazil, as of March 4, 2019**

Classification	Vein Width	Quantity	Grade	Contained Metal
	m	000't	Gold g/t	Gold 000'oz
<b>Underground</b>				
Indicated	0.7	845	7.95	216
<b>Total Indicated</b>				
<b>Underground</b>				
Inferred	0.7	1,436	6.46	298

Notes to Table 5:

- (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 2.0g/t gold assuming an underground extraction scenario, a gold price of US\$1,500/troy oz, an operating cost of \$100/t, and metallurgical recovery of 95%.
- (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 by Global Resource Engineering in accordance with the standard of CIM and Canadian National Instrument 43-101, with an effective date of March 4, 2019 by Mr Kevin Gunesch and Dr Hamid Samari, who are both Qualified Persons under the Canadian National Instrument 43-101.

## SELECTED FINANCIAL INFORMATION

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

### Results of Operations

#### Three month period ended 30 June 2019 compared to the three month period ended 30 June 2018

During the second quarter of 2019 the Group produced 9,527 ounces of gold (second quarter of 2018: 9,563 ounces) and recognised sales for 9,667 ounces (second quarter of 2018: 8,916 ounces).

The gross profit of US\$2,695,741 for the financial quarter ended 30 June 2019 can be analysed as follows:

	Three months ended June 2019	Three months ended June 2018	Variance US\$
Concentrate sold (ounces)	2,446	2,173	273
Bullion sold (ounces)	7,221	6,743	478
<b>Total Ounces Sold</b>	<b>9,667</b>	<b>8,916</b>	<b>751</b>
	US\$	US\$	US\$
<b>Revenue from Ordinary Activity</b>			
Gold (in Concentrate)	3,507,906	2,785,508	722,398
Copper (in Concentrate)	229,024	382,383	(153,359)
Silver (in Concentrate)	17,870	16,002	1,868
<b>Total Concentrate Revenue</b>	<b>3,754,800</b>	<b>3,183,893</b>	<b>570,907</b>
Gold Bullion	8,704,899	8,689,890	15,009
<b>Total Sales</b>	<b>12,459,699</b>	<b>11,873,783</b>	<b>585,916</b>
<b>Costs of sales</b>			
Operational costs	7,308,183	7,379,211	(71,028)
Release of impairment provision	0	(200,000)	200,000
Shipping costs	209,276	280,639	(71,363)
Treatment and handling charges	84,289	139,332	(55,043)
Royalties	201,254	184,604	16,650
Amortisation of Mine Property	1,584,897	1,733,384	(148,487)
Depreciation of Plant & Equipment	376,059	764,663	(388,604)
<b>Total Operating costs</b>	<b>9,763,958</b>	<b>10,281,833</b>	<b>(517,875)</b>
<b>Gross Profit</b>	<b>2,695,741</b>	<b>1,591,950</b>	<b>1,103,791</b>

### Revenue

For the three month period ended 30 June 2019 the Group generated US\$3,754,800 (2018: US\$3,183,893) in revenue by selling an estimated 2,446 ounces of gold from the sale of 220 tonnes of copper concentrate (2018: 2,173 ounces from 320 tonnes) and also recognised revenue for 7,221 ounces of gold bullion generating revenue of US\$8,704,899 during the second quarter of 2019 (second quarter of 2018: sale of 6,743 ounces for revenue of US\$8,689,890).

During the three months to 30 June 2019 the Group produced 251 wet tonnes of copper/gold concentrate, containing an estimated 2,019 ounces (three months to 30 June 2018: 297 wet tonnes of copper/gold concentrate, containing 1,773 ounces of gold). The unsold material is held as inventory.

During the three months to 30 June 2019 the Group produced 7,508 ounces of gold in the form of bullion in comparison to 7,790 ounces during the same period of the previous year, a decrease of 3.6 per cent. However, the Group registered sales for 7,221 ounces of bullion during the three months to 30 June 2019 in comparison to 6,743 ounces during the previous year, an increase of 7.1 per cent.

### Operating Costs

Operating costs of US\$7.31 million, (three month period to 30 June 2018: US\$7.38 million), comprise all mining costs at both the Palito and Sao Chico mine, plant processing costs, as well as all general site costs incurred on both mine sites during the period in the production of the final sales products as per the table below. The table below shows a breakdown of operating activities and operating costs.

	3 Months to 30 June 2019	3 Months to 30 June 2018	Variance	Variance %
Tonnes Mined	44,784	36,071	8,713	24%
Tonnes Milled	43,711	38,155	5,556	15%
Ounces Produced	9,527	9,563	(36)	0.4%
Ounces Sold	9,667	8,916	751	8%
	Second Quarter 2019	Second Quarter 2018	Variance	Variance %
	US\$'000	US\$'000	US\$'000	%
<b><u>Operating Costs</u></b>				
Labour	3,191	3,247	(56)	(2%)
Mining consumables & maintenance	2,388	2,237	61	3%
Plant consumables	994	1,046	(52)	(5%)
General site costs	735	759	(24)	(3%)
	7,308	7,379	(71)	(1%)

During the second quarter of 2019, the Group mined 24 per cent more tonnes and milled 15 per cent more tonnes in comparison to the same period in 2018. However, lower grades processed at 6.72g/t compared with 7.71 g/t in the same period in 2018, resulted in a similar level of gold production. However, the Group sold eight per cent more ounces during the second quarter of 2019 compared with the same period in 2018. Although mining and processing rates have increased for the three months ended 30 June 2019 in comparison to the same period of the previous year, operating costs in US dollar terms have remained similar between the two periods. The average exchange rate of the Brazilian Real against the US dollar has weakened by 15 per cent, from an average of BR\$3.34 to US\$1 for the three month period ended 30 June 2018 to BR\$3.83 to US\$1 for the three month period ended 30 June 2019 which has offset inflationary and other cost increases in local currency terms.

### Labour

The decrease in labour costs of two per cent reflects the weakening of the Brazilian Real by 15 per cent in against the US dollar for the three month period ended 30 June 2019 in comparison to the same period of the previous year. In local currency labour costs have increased by 13 per cent being a reflection of the increased level of gold sales and therefore a higher release of production costs to the income statement in addition to the effect of each Brazilian employee receiving a three per cent salary increase in May 2018 as a result of the national collective wage agreement in Brazil.

### Mining consumables & maintenance

Mining consumables and maintenance for the three month period ended 30 June 2019 have increased by three per cent in comparison to the same period of the previous year, however in local currency the increase was 18 per cent. This is as a result of this increase in ounces sold as well as an increase in power costs, particularly diesel power,

which have increased significantly during the second quarter of 2019 in comparison to the same quarter of 2018 following a global increase in the price of oil.

#### Plant consumables

The decrease in plant consumable costs of five per cent is primarily due to the weakening of the Brazilian Real by 15 per cent against the US dollar for the three month period ended 30 June 2019 in comparison to the same period of the previous year. In local currency plant costs increased by nine per cent reflecting the increase in ounces sold and the increase in power costs, particularly diesel power, which have increased significantly during the first half of 2019 in comparison to the same period of 2018 following a global increase in the price of oil.

#### General site costs

The decrease in general site costs of three per cent reflects the weakening of the Brazilian Real by 15 per cent against the US dollar for the three month period ended 30 June 2019 in comparison to the same period of the previous year. General site costs for the three month period ended 30 June 2019 increased by 11 per cent in local currency compared with the same period in the previous year reflecting the increase in mining and processing rates and the increase in ounces sold.

#### Shipping costs

Shipping costs of US\$0.21 million (2018: US\$0.28 million) include all domestic road and river freight in Brazil from the Palito Mine to the international port at Belem and also international sea freight to the end purchaser as well as air transport and insurance for the bullion sold from the Palito Mine to its final destination in Sao Paulo. The decrease by comparison to the same period in 2018 reflects the reduction in the volume of concentrate shipped; second quarter of 2019 being 220 tonnes in comparison to 320 tonnes for the same period of the previous year.

#### Treatment charges

Treatment charges have decreased by 40 per cent between the second quarter of 2018 in comparison to the same period during 2019 as the Group sold 100 tonnes, 32 per cent, less of copper concentrate in the three month period ended 30 June 2019 in comparison to the same period in 2018. The weakening of the Brazilian Real by 15 per cent against the US dollar for the three month period ended 30 June 2019 in comparison to the same period of the previous year explains the rest of the variance.

#### Royalties

Royalty payments of US\$0.20 million have increased by 9 per cent in comparison to the same period of the previous year. Royalty payments comprise statutory levies payable in Brazil and royalties payable to prior owners of the Sao Chico deposit. Government royalty rates are uniform across all mining operations with a rate of 1.5 per cent being applied to gold production and the royalty on copper production being 2.0 per cent. The increase in royalty payments of US\$0.02 million compared with the same quarter in 2018 reflects the increased levels of gold sales realised in the period which have increased by eight per cent.

#### Amortisation

Charges for the amortisation of mine property are calculated by reference to the depletion, during the quarter, of the total estimated mineable resource at each of the Palito and Sao Chico orebodies. In each case the base carrying cost of the asset is adjusted to include a provision for future mine development costs for each of these ore bodies. The total amortisation charge relating to the Palito and Sao Chico ore bodies for the second quarter of 2019 is approximately US\$1.57 million. The charge reported in the Income Statement is however adjusted to reflect the level of sales rather than the level of production, with part of the depreciation being carried in inventory and released to the income statement when the goods are sold. The eight per cent decrease in the amortisation charge for the three month period ended 30 June 2019 in comparison to the same period of the previous year is primarily due to the 15 per cent weakening of the Brazilian Real against the US dollar for the three month period ended 30 June 2019 compared with the same period of the previous year, offset by the eight per cent increase in gold sales realised during the second quarter of 2019 in comparison to the same period of 2018

#### Depreciation

A depreciation charge of US\$0.38 million has been recorded during the second quarter of 2019 on plant and equipment used in the mining and processing, (second quarter of 2018: US\$0.76 million). However, it should be noted that this reflects an over provision that was made in error in the first quarter of 2019 of US\$0.34

million. The correct charge would therefore have been US\$0.72 million for the period. The decrease is primarily due to the 15 per cent weakening of the Brazilian Real against the US dollar for the three -month period ended 30 June 2019 compared with the same period of the previous year.

#### Operating Profit

The Group has recognised an operating profit before interest and other income for the three month period ended 30 June 2019 of US\$1.32 million compared with a profit of US\$0.17 million for the same period of the previous year reflective of the increase in the gross profit of US\$1.10 million.

Administration expenses have increased during this period by approximately US\$0.06 million which is not considered to be a significant variation quarter on quarter.

The Group also incurred costs of US\$0.07 million on share-based payments (2018: US\$0.08 million). The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the three months to 30 June 2019 is in respect of options granted between June 2016 and June 2019.

The Company recorded a foreign exchange loss of US\$0.05 million in the three month period to 30 June 2019 which compares with a foreign exchange loss of US\$0.49 million recorded for the three months ended 30 June 2018. These foreign exchange gains and losses primarily relate to the settlement of foreign currency liabilities from Brazil and therefore reflect the devaluation of the Brazilian Real and the revaluation of cash holdings of the Company in currencies other than US Dollars as at the period end. The exchange movements on cash holdings do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest and other finance related costs for the three-month period to 30 June 2019 were US\$0.69 million compared with US\$0.11 million for the same period in the previous year. An analysis of the composition of these charges is set out in the table below:

	Quarter Ended June 2019 US\$	Quarter Ended June 2018 US\$
Interest expense on secured loan	(150,956)	(205,479)
Unwinding of discount on acquisition payment	(270,750)	(246,137)
Loss on revaluation of derivatives	(427,630)	–
Amortisation of fair value of derivatives		(65,000)
	(849,336)	(516,616)
Gain on revaluation of derivatives	–	407,471
Recognition of variation in effective interest rate of secured loan	159,600	–
Interest income	–	–
Net finance expense	(689,736)	(109,145)

The interest on the secured loan of US\$150,956, (2018: US\$205,479) is the cost of three months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership, with the reduction reflecting the lower average levels of loan principal outstanding during the period. On 23 January 2018 the Group increased the existing secured loan of US\$5 million to US\$8 million. The loan balance at the end of June 2019 was US\$6.06 million.

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

The loss on the revaluation of derivatives of US\$427,630 (six months to 30 June 2018: gain of US\$407,471) represents the loss arising on the revaluation of the derivative provision at the 30 June 2019. The initial value of the provision as at 30 June 2017 was US\$650,000 which having been revalued to US\$390,976 as at 31 December 2018. At 31 March



2019 the value of the derivative was US\$254,135 and at 30 June 2019 was revalued to US\$681,765 giving rise to a loss for the three months to 30 June 2019 of US\$427,630.

For the three months ended 30 June 2018, the amortisation of fair value of derivatives of US\$65,000 represents three months amortisation charge of the fair value ascribed to the call option granted to Sprott on 30 June 2017. As part of the US\$5 million loan arrangement the Group granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,320 which expire on 31 December 2019. On 30 June 2017, the date these call options were granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 was recognised in the accounts. Following a renegotiation of the loan terms during 2018 the original loan (to which the call options related) was considered to be repaid under the terms of IFRS 9 and a new loan for US\$5 million taken out but with no derivative instrument attached to it. As a result, the outstanding fair value of the derivative attaching to the original US\$5 million loan, was amortised in full in 2018 and there is therefore no equivalent charge in the current quarter.

In May 2019, the Group agreed revised repayment terms for its secured loan whereby the loan would be repaid in six equal monthly instalments commencing 31 January 2020. In accordance with IFRS 9, whilst the variation in the loan terms was not sufficient to give rise to a derecognition of the existing loan, the Group was required to recognise the effect of a non-substantial modification to the existing loan. Accordingly, the Group has recognised a benefit arising from the modification totalling \$172,900 which is being amortised over the remaining life of the loan as a variation in the effective interest rate of the loan. The amount of US\$13,300 has been amortised in the period.

#### Six month period ended 30 June 2019 compared to the six month period ended 30 June 2018

During the first six months of 2019 the Group produced 19,691 ounces of gold (six months to 30 June 2018: 18,751 ounces) and recognised sales for 21,976 ounces (six months to 30 June 2018: 19,180 ounces).

The gross profit of US\$6,170,249 for the six months ended 30 June 2019 can be analysed in comparison to the gross margin of US\$3,736,847 for the first six months of 2018 as follows:

	Six months ended June 2019	Six months ended June 2018	Variance
Concentrate sold (Ounces)	5,695	3,923	1,722
Bullion Sold (Ounces)	16,281	15,257	1,024
<b>Total Ounces</b>	<b>21,976</b>	<b>19,180</b>	<b>2,796</b>
<b>Revenue from Ordinary Activity</b>	<b>US\$</b>	<b>US\$</b>	<b>Variance</b>
Gold (in Concentrate)	7,572,704	4,854,020	2,718,684
Copper (in Concentrate)	723,582	766,840	(43,258)
Silver (in Concentrate)	41,044	29,006	12,038
<b>Total Concentrate Revenue</b>	<b>8,337,330</b>	<b>5,649,866</b>	<b>2,687,464</b>
Gold Bullion	21,248,409	20,050,768	1,197,641
<b>Total Sales</b>	<b>29,585,739</b>	<b>25,700,634</b>	<b>3,885,105</b>
<b>Costs of sales</b>			
Operational costs	18,352,425	16,283,308	2,069,117
Stock Impairment Provision	(500,000)	(200,000)	(300,000)
Shipping costs	609,118	542,161	66,957
Treatment charges	249,867	241,959	7,908
Royalties	453,579	405,459	48,120
Amortisation of Mine Property	3,162,571	3,158,643	3,928
Depreciation of Plant & Equipment	1,087,930	1,332,257	(244,327)
<b>Total Operating costs</b>	<b>23,415,490</b>	<b>21,763,787</b>	<b>1,651,703</b>
<b>Gross Profit</b>	<b>6,170,249</b>	<b>3,936,847</b>	<b>2,233,402</b>

## Revenue

For the six month period ended 30 June 2019 the Group generated US\$8,337,330 (2018: US\$5,649,866) in revenue by selling an estimated 5,695 ounces of gold from the sale of 640 tonnes of copper concentrate (2018: 3,923 ounces from 600 tonnes) and also recognised revenue for 16,281 ounces of gold bullion generating total revenue of US\$21,248,409 during the six months to 30 June 2019, (six months to 30 June 2018: sale of 15,257 ounces for revenue of US\$20,050,768).

During the six months to 30 June 2019 the Group produced 492 wet tonnes of copper/gold concentrate, containing an estimated 4,522 ounces (six months to 30 June 2018: 590 wet tonnes of copper/gold concentrate, containing 3,768 ounces of gold). The unsold material is held as inventory.

During the six months to 30 June 2019 the Group produced 15,169 ounces of gold in the form of bullion in comparison to 14,983 ounces during the same period of the previous year. However, the Group registered sales for 16,281 ounces of bullion during the six months to 30 June 2019 in comparison to 15,257 ounces during the previous year, an increase of 6.7 per cent. This was because as at 31 December 2018, the Group held a lot of stock of bullion in comparison to 30 June 2019, and sold the excess stock during the first quarter of 2019.

## Operating Costs

Operating costs for the six months ended 30 June 2019 of US\$18.352 million (2018: US\$16.283 million) comprise all mining costs at both the Palito and Sao Chico Mines, plant processing costs, as well as all general site costs incurred on both mine sites during the six month period in the production of the final sales products as shown in the table below. The increase in total operating costs of 13 per cent from the six month period ended 30 June 2019 in comparison to the same period from the previous year is in line with the increase in gold ounces sold of 15 per cent.

	Six months ended June 2019	Six months ended June 2018	Variance	Variance %
Tonnes Mined	87,393	75,740	11,653	15%
Tonnes Milled	87,162	81,300	5,862	7%
Ounces Produced	19,691	18,751	940	5%
Ounces Sold	21,976	19,180	2,796	15%
	Six months ended June 2019	Six months ended June 2018	Variance	Variance
	US\$'000	US\$'000	US\$'000	%
<b><u>Operating Costs</u></b>				
Labour	8,075	7,002	1,073	15%
Mining consumables & Maintenance	5,781	5,134	647	13%
Plant Consumables	2,569	2,309	260	11%
General Site	1,927	1,838	89	5%
	18,352	16,283	2,069	13%

During the first six months of 2019, the Group mined 15% more tonnes and milled 7% more tonnes in comparison to the first six of 2018, and as a result produced 5% more gold. However, due to timing differences in the recognition of sales due to the departure dates of vessels carrying the Groups copper/gold concentrate leaving Brazil and the delivery of gold bullion for final sale, the Group sold 15% more ounces during the first half of 2019 by comparison with the same period in 2018. For the six month period ended 30 June 2019 in comparison to the same period of the previous year, the rate of exchange of the Brazilian Real against the US dollar has weakened by 12 per cent, from an average of BR\$3.42 to US\$1 for the six month period ended 30 June 2018 to BR\$3.85 to US\$1 for the six month period ended 30 June 2019.

#### Labour

The increase in labour costs of 15 per cent reflects the increase in ounces of gold sold in the period. In addition, each Brazilian employee received a three per cent salary increase in May 2018 as a result of the national collective wage agreement in Brazil.

#### Mining consumables & maintenance

Mining consumables and maintenance for the six month period ended 30 June 2019 have increased by 13 per cent in comparison to the same six month period of 2018. This is as a result of this increase in ounces sold. Although power costs have increased during the period, these increases have been offset by the weakening of the Brazilian Real against the US dollar.

#### Plant consumables

Plant costs have increased by US\$0.26 million, 11 per cent, for the six month period ended 30 June 2019 in comparison to the same period in the previous year. Again, this is primarily due to the increase in ounces sold. Although power costs have increased during the period, these increases have been offset by the weakening of the Brazilian Real against the US dollar.

#### General site costs

General site costs for the six month period ended 30 June 2019 increased by five per cent compared with the same period in the previous year due to the increase in ounces sold during the first six months of 2019.

#### 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 determined, in light of the expected realisable value of the coarse ore stockpile, that US\$0.50 million of the amount previously provided as a potential impairment was no longer required and in the first quarter of 2018 this provision was released back to the income statement. The total stock impairment provision against the carrying value of the coarse ore stockpiles is currently US\$0.05 million.

#### Shipping costs

Shipping costs of US\$0.61 million (2018: US\$0.54 million) include all domestic road and river freight in Brazil from the Palito Mine to the international port at Belem and also international sea freight to the end purchaser as well as air transport and insurance for the bullion sold from the Palito Mine to its final destination in Sao Paulo. The increase by comparison to the same period in 2018 reflects the increase in the volume of concentrate shipped; first six months of 2019 being 640 tonnes in comparison to 600 tonnes for the same period of the previous year.

#### Treatment charges

Treatment charges have increased by three per cent between the first half of 2018 compared with the same period during 2019 as the Group sold 40 tonnes more, (seven per cent) of copper concentrate in the six month period ended 30 June 2019 in comparison to the same period in 2018.

#### Royalties

Royalty payments of US\$0.45 million (2018: US\$0.41 million) comprise statutory levies payable in Brazil and royalties payable to prior owners of the Sao Chico deposit. Government royalty rates are uniform across all mining operations with a rate of 1.5 per cent being applied to gold production and the royalty on copper production being 2.0 per cent. The increase in royalty payments of 12 per cent for the first six months of 2019 compared with the same period in 2018 reflects the increased levels of gold production in the period which have increased by five per cent and gold sales which have increased by 15 per cent.

#### Amortisation

Charges for the amortisation of mine property are calculated by reference to the depletion, during the period, of the total estimated mineable resource at each of the Palito and Sao Chico orebodies. In each case the base carrying cost of the asset is adjusted to include a provision for future mine development costs for each of these ore bodies. The total amortisation charge relating to the Palito and Sao Chico ore bodies for the first six months of 2019 is approximately US\$3.16 million. The charge reported in the Income Statement is however adjusted to reflect the level of sales rather than the level of production, with part of the depreciation being carried in inventory and

released to the income statement when the goods are sold. The amortisation charge of US\$3.16 million for the first six months of 2019 is consistent with the amortisation charge for the first six months of 2018.

#### Depreciation

A depreciation charge of US\$1.09 million was recorded during the first half of 2019 on plant and equipment used in the mining and processing, (six months to 30 June 2018: US\$1.33 million). The decrease of eighteen per cent is primarily due to twelve per cent weakening of the Brazilian Real against the US Dollar as well as the obsolescence and disposal of some of the older underground equipment over the last twelve month period.

#### Operating profit

The Group has recognised an operating profit before interest and other income of US\$3.37 million, (2018: operating profit of US\$1.16 million) reflecting the improvement of US\$2.23 million of gross profit from operations and after incurring US\$2.80 million (2018: US\$2.69 million) in administrative expenses as well as US\$0.13 (2018: US\$0.16 million) on share based payments. The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the six months to 30 June 2019 is in respect of options granted between January 2015 and 30 June 2019. The Group also reported a profit of US\$0.13 million from the disposal of assets (2018: US\$0.06 million).

Administration costs of US\$2.79 million for the six month period ended 30 June 2019 are approximately four per cent higher than the amount of US\$2.69 million in administration costs incurred during the six month period ended 30 June 2018 which is not considered to be a significant variation year on year.

The Company recorded a foreign exchange loss of US\$0.07 million for the six months ended 30 June 2019 which compares with a foreign exchange loss of US\$0.56 million recorded for the six months ended 30 June 2018. These foreign exchange losses are primarily incurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest charges for the six month period to 30 June 2019 were US\$1.12 million compared with US\$0.70 million for the same six month period of 2018. An analysis of the composition of these charges is set out in the table below:

	Six months ended 30 June 2019 US\$	Six months ended 30 June 2018 US\$
Interest on secured loan	(300,540)	(357,899)
Unwinding of discount on acquisition payment	(532,271)	(483,883)
Loss on revaluation of derivatives	(290,788)	–
Amortisation of fair value of derivatives	–	(130,000)
Arrangement fee for secured loan	–	(90,000)
	(1,123,599)	(1,061,782)
Gain on revaluation of derivatives	–	362,264
Recognition of variation in effective interest rate of secured loan	159,600	–
Interest income	2,217	34
Net finance expense	(1,121,382)	(699,484)

The interest on the secured loan of US\$300,540 (2018: US\$357,899) is the cost of six months of interest paid in relation to funds advanced under the credit agreement with Sprott Resource Lending Partnership, with the reduction reflecting the lower average levels of loan principal outstanding during the period. On 23 January 2018 the Group increased the existing secured loan of US\$5 million to US\$8 million. The loan balance at the end of June 2019 was US\$6.06 million.

The expense on the unwinding of the discount on acquisition is as a result of change in the net present value of the final payment due in December 2019 for the acquisition of Chapleau Resources.

The amortisation of fair value of derivatives of US\$130,000 represents six months amortisation charge of the fair value ascribed to the call option granted to Sprott on 30 June 2017. As part of the US\$5 million loan arrangement the Group granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,320 which expire on 31 December 2019. On 30 June 2017, the date these call options were granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 was recognised in the accounts. There is no equivalent charge in the first half of 2019, because at the same time as taking out an additional US\$3 million loan with Sprott, the Group obtained a six month extension to the repayment terms for this US\$5 million loan. At the end of the fourth quarter of 2018 the Company determined that the original loan had, under IFRS 9, been the subject of a substantial modification being more than 10 per cent of the future cash flows. Accordingly, the original loan under the terms of IFRS 9 was considered to be repaid and a new loan for US\$5 million taken out but with no derivative instrument attached to it. As a result, the outstanding fair value of the derivative attaching to the original US\$5 million loan was required to be amortised in full during 2018 as the original loan had been deemed to have been repaid.

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

The loss on the revaluation of derivatives of US\$290,788 (six months to 30 June 2018: gain of US\$362,264) represents the loss arising on the revaluation of the derivative provision at the 30 June 2019. The initial value of the provision as at 30 June 2017 was US\$650,000 which having been revalued to US\$709,255 as at 31 December 2017 required a revaluation to US\$346,922 at 30 June 2018 resulting in a gain during the six month period ended 30 June 2018. At 31 December 2018 the value of the derivative was US\$390,976 and at 30 June 2019 was revalued to US\$681,765 giving rise to a loss for the six months to 30 June 2019 of US\$290,788.

In May 2019, the Group agreed revised repayment terms for its secured loan whereby the loan would be repaid in six equal monthly instalments commencing 31 January 2020. In accordance with IFRS 9, whilst the variation in the loan terms was not sufficient to give rise to a derecognition of the existing loan, the Group was required to recognise the effect of a non-substantial modification to the existing loan. Accordingly, the Group has recognised a benefit arising from the modification totalling \$172,900 which is being amortised over the remaining life of the loan as a variation in the effective interest rate of the loan. The amount of US\$13,300 has been amortised in the period.

Summary of quarterly results	Quarter ended 30 June 2019 US\$	Quarter ended 31 March 2019 US\$	Quarter ended 31 December 2018 US\$	Quarter ended 30 September 2018 US\$
Revenues	12,459,699	17,126,040	10,037,906	7,523,203
Operating expenses	(7,803,002)	(11,861,987)	(7,647,624)	(6,380,505)
Inventory impairment provision	–	500,000	200,000	–
Amortisation of mine property	(1,584,897)	(1,577,674)	(1,812,387)	(1,209,705)
Depreciation of plant and equipment	(376,059)	(711,871)	(1,212,251)	(556,144)
Gross profit / (loss)	2,695,74`	3,474,508	(434,356)	(623,151)
Administration expenses	(1,415,133)	(1,383,831)	(1,677,400)	(1,171,660)
Option costs	(65,846)	(65,485)	(115,503)	(58,546)
Gain on disposal of asset	101,623	24,812	168,511	44,141
Operating profit / (loss)	1,316,745	2,050,004	(2,058,748)	(1,809,216)
Exchange	(51,486)	(14,617)	(299,569)	260,606
Net finance expense	(689,736)	(272,046)	(421,080)	(403,319)
Profit / (loss) before taxation	575,523	1,763,341	(2,779,397)	(1,951,929)
Income tax expense	(405,845)	(213,379)	(244,034)	(296,547)
Profit / (loss) after taxation	169,678	1,549,962	(3,023,431)	(2,248,476)
Profit / (loss) per ordinary share (basic)	0.29 cents	2.63 cents	(5.13) cents	(3.82) cents
Deferred exploration costs	29,591,753	28,581,674	27,707,795	25,578,156
Property, plant and equipment	41,228,338	40,766,304	42,342,102	40,834,470
Total current and other assets	28,827,096	27,576,208	26,369,997	31,539,877
Total assets	99,647,187	96,924,186	96,419,894	97,952,503
Total liabilities	28,194,439	(26,760,545)	27,309,607	28,295,055
Shareholders' equity	71,452,748	70,163,641	69,110,287	69,657,448

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

Summary of quarterly results	Quarter ended 30 June 2017 US\$	Quarter ended 31 March 2017 US\$	Quarter ended 31 December 2016 US\$	Quarter ended 30 September 2016 US\$
Revenues	10,142,676	13,173,584	10,472,823	16,209,753
Operating expenses	(6,849,960)	(9,792,350)	(7,077,485)	(10,216,119)
Provision for impairment of inventory	–	(220,000)	–	–
Amortisation of mine property	(1,984,784)	(1,390,406)	(1,193,660)	(2,292,006)
Depreciation of plant and equipment	(725,373)	(510,298)	(638,977)	(615,155)
Gross profit	582,599	1,260,530	1,562,701	3,086,473
Administration expenses	(1,178,903)	(1,241,455)	(1,179,345)	(1,265,828)
Option costs	(112,412)	(65,620)	(101,071)	(101,072)
Gain on disposal of asset	115,975	–	34,742	–
Operating (loss) / profit	(592,781)	(46,545)	317,027	1,719,573
Exchange	(167,236)	46,837	(135,351)	(28,860)
Net finance (expense) / income	(34,159)	(33,783)	(617,228)	(947,210)
(Loss) / profit before taxation	(794,176)	(33,491)	(435,552)	743,503
Income tax benefit / (expense)	(97,461)	(80,552)	3,394,182	(278,023)
(Loss) / profit after taxation	(891,637)	(114,043)	2,958,630	465,480
(Loss) / profit per ordinary share (basic)	(2.55) cents	(0.33) cents	0.423 cents	0.071 cents
Deferred exploration costs	9,868,205	10,234,360	9,990,789	9,731,144
Property, plant and equipment	43,557,012	45,862,328	45,396,140	44,860,837
Total current assets	21,842,892	20,668,013	20,454,525	22,798,838
Total assets	75,268,109	76,764,701	75,841,454	77,390,819
Total liabilities	13,373,479	11,966,304	12,462,481	16,648,980
Shareholders' equity	61,894,630	64,798,397	63,378,973	60,741,839

## Liquidity and Capital Resources

### Non-Current Assets

### Non-Current Assets

On 30 June 2019, the Group's net assets amounted to US\$71.45 million, which compares to US\$69.11 million as reported at 31 December 2018. The Group has also reported a profit after taxation of US\$1.72 million in the six month period to 30 June 2019.

Non-current assets totalling US\$74.38 million at 30 June 2019 (31 December 2018: US\$73.77 million), are primarily comprised of property, plant and equipment, which as at 30 June 2019 totalled US\$41.23 million, (31 December 2018: US\$42.34 million), as well as development and deferred exploration costs with a value of US\$29.59 million, (31 December 2018: US\$27.71 million). The Group has also a provision for a deferred tax asset of US\$2.01 million (31 December 2018: US\$2.16 million) and a long-term receivable in respect of state taxes due in Brazil of US\$1.56 million (31 December 2018: US\$1.56 million). The change in exchange rates between the two periods has been minimal and not significantly impacted on the overall net asset position the main movements to which are set out below. At 31 December 2018 the exchange rate was BrR\$3.8742 to US\$1.00 compared with the rate of BrR\$3.8316 to US\$1.00 at 30 June 2019.

The Group's property, plant and equipment includes the value of its mine assets relating to the Palito Mining Complex at 30 June 2019 of US\$21.32 million (31 December 2018: US\$22.65 million). This includes US\$1.49 million of additions in relation to the capital development of the Palito and Sao Chico ore bodies incurred during the period. Assets in construction as at 31 June 2019 and relating to the Palito Mining Complex had a book value of US\$5.96 million (31 December 2018: US\$5.70 million).

The Group owns land, buildings, plant and equipment with a value of US\$9.20 million (31 December 2018: US\$9.31 million). During the first six months of 2019 the Group has acquired additional plant and machinery to the value of US\$1.46 million in relation to its ongoing operations at the Palito Mining Complex.

The gross value ascribed to the Palito Mining Complex is now being amortised over the expected recoverable ounces of each orebody. An amortisation charge totalling US\$3.01 million has been recorded for the six month period to 30 June 2019 (twelve month period to 31 December 2018: US\$6.10 million).

Deferred exploration costs as at 30 June 2019 totalled US\$29.59 million (31 December 2018: US\$27.71 million), which includes costs capitalised in the period of US\$1.64 million (31 December 2018: US\$6.88 million) on exploration and evaluation expenditure as well as pre-operating costs at Coringa.

### Working Capital

The Group had a negative working capital position of US\$0.80 million at 30 June 2019 compared to a positive working capital position of US\$0.32 million at 31 December 2018, the movement of approximately US\$1.12 million being detailed in the table below but primarily being the result of the full value of the unsecured loan now falling due within the next twelve months.

	30 June 2019 US\$	31 December 2018 US\$	Variance US\$
<b><u>Current assets</u></b>			
Inventories	6,898,033	8,511,474	(1,613,441)
Trade and other receivables	1,291,505	758,209	533,296
Prepayments	4,706,018	4,166,916	539,102
Cash and cash equivalents	12,366,683	9,216,048	3,150,635
<b>Total current assets</b>	<b>25,262,239</b>	<b>22,652,647</b>	<b>2,609,592</b>
<b><u>Current liabilities</u></b>			
Trade and other payables	7,389,818	6,273,321	1,116,497
Acquisition payment due	11,530,027	10,997,757	532,270
Secured loan	5,901,006	3,636,360	2,264,646
Finance leases and unsecured loan	221,578	666,438	(444,860)
Derivative financial liabilities	681,765	390,976	290,789
Accruals	335,142	372,327	(37,185)
<b>Total current liabilities</b>	<b>26,059,336</b>	<b>22,337,179</b>	<b>3,722,157</b>
<b>Working capital</b>	<b>(797,097)</b>	<b>315,468</b>	<b>(1,112,565)</b>
<b><u>Non-current liabilities</u></b>			
Trade and other payables	562,627	955,521	(392,894)
Provisions	1,572,476	1,543,811	28,665
Secured loan	–	2,424,246	(2,424,246)
Finance Leases	–	48,850	(48,850)
<b>Total non-current liabilities</b>	<b>2,135,203</b>	<b>4,972,428</b>	<b>(2,837,325)</b>

The change in exchange rates between the two periods has been minimal and not significantly impacted on the overall working capital position the main movements to which are set out below. At 31 December 2018 the exchange rate was BrR\$3.8742 to US\$1.00 compared with the rate of BrR\$3.8316 to US\$1.00 at 30 June 2019.

### Inventories

The level of inventory held by the Group at 30 June 2019 has reduced by US\$1.61 million since 31 December 2018. A breakdown of the Group's inventories at the 30 June 2019 and at 31 December 2018 is set out in the table below. The level of inventory held at 31 December 2018 of finished goods was unusually high and resulted in higher than normal levels of gold sales being reported in the first quarter of 2019.



	<b>30 June 2019 US\$</b>	<b>31 December 2018 US\$</b>	<b>Variance US\$</b>	<b>Variance %</b>
Stockpile of mined ore	431,957	600,335	(168,378)	(28%)
Finished goods awaiting sale	2,091,111	3,819,685	(1,728,574)	(45%)
Other material in process	1,095,052	1,162,157	(67,105)	(6%)
	<b>3,618,120</b>	<b>5,582,177</b>	<b>(1,964,057)</b>	<b>(35%)</b>
Consumables	3,279,913	2,929,297	350,616	12%
<b>Total Inventory</b>	<b>6,898,033</b>	<b>8,511,474</b>	<b>(1,613,441)</b>	<b>(19%)</b>

Inventories of consumables (fuel, spare parts, chemicals, explosives etc.) at 30 June 2019 of US\$3.28 million (31 December 2018: US\$2.93 million) have increased by approximately US\$0.35 million. The Group acquires stocks of certain materials including reagents, explosives and other consumables in quantities that are sufficient for up to three to four months' consumption requirements to minimise freight and other logistics costs and improve pricing.

At 31 December 2018, the Group held a provision against the carrying value of coarse ore stockpiles amounting to US\$550,000. Following a reappraisal of the value of these stockpiles at the end of the period, the provision has been reduced to US\$50,000 and the movement recognised in the Income Statement.

Notwithstanding the release of US\$500,000 of the inventory impairment provision resulting in a positive increase in the stockpile valuation, the value of the stock of surface ore has decreased by 28 per cent from US\$0.60 million (net of the impairment provision) to US\$0.43 million. The total coarse ore stockpile tonnage that is subject to valuation has decreased from approximately 8,000 tonnes at 31 December 2018 to approximately 3,500 tonnes at 30 June 2019, a decrease of 55 per cent. The significantly reduced volume together with, the changing unit production costs has more than offset the increase in value resulting from the reduction in the impairment provision.

The value of finished goods awaiting sale at 30 June 2019 of US\$2.09 million compares with the value at 31 December 2018 of US\$3.82 million an overall decrease in value of 45%. The total value of finished goods held in stock at 30 June 2019 comprises 128 bags of copper/gold concentrate with a value of US\$0.68 million (31 December 2018: 236 bags with a value of US\$1.45 million) and bullion on hand for smelting which, at 30 June 2019, was 48,377 grammes valued at US\$1.40 million compared to 86,744 grammes at 31 December 2018 valued at US\$2.37 million. Whilst there are small variances between the two periods in the unit costs for each of these items, the variance in period end values is largely explained by the variances in volume.

The valuation attributable to gold locked up within the processing plant has decreased to US\$1.10 million as at 30 June 2019 (31 December 2018: US\$1.16 million) reflecting normal operational variances.

#### Trade Receivables

Trade and other receivables at 30 June 2019 of US\$1.29 million have increased by US\$0.53 million from US\$0.76 million at 31 December 2018.

As at 30 June 2019 the Group was owed US\$1.24 million from the sale of its copper/gold concentrate compared to US\$0.62 million as at 31 December 2018.

#### Prepayments

Prepayments have increased by US\$0.54 million from US\$4.17 million at 31 December 2018 to US\$4.71 million at 30 June 2019. The majority of the variance is the result of an increase in prepaid taxes, including taxes of PIS COFINS and other federal taxes, that remain to be recovered at the period end.

#### Cash at Bank

Between 31 December 2018 and 30 June 2019, cash balances have increased by approximately US\$3.15 million.

During the first six months of 2019, the Group has generated net cash flow from its operations of US\$9.44 million and during the same six month period has spent US\$0.80 million on exploration activities around the Palito Mining Complex and the Coringa project, US\$1.49 million on mine development, US\$1.46 million on plant and equipment and US\$0.84 million on other pre-operating costs for the Coringa project. The group also paid US\$1.16 for the acquisition of an outstanding interest of a third party in the Sao Chico project area.

#### Current Liabilities

Current liabilities have increased by US\$3.88 million from US\$22.34 million at 31 December 2018 to US\$26.06 million at 30 June 2019. As at 30 June 2019, the total amount of a secured loan of US\$6.06 million is now all due within one year whereas at 31 December 2018 US\$2.43 million of this loan was due in more than one year so was registered as a long-term liability.

#### Trade Creditors

Trade and other payables amounting to US\$7.39 million at 30 June 2019 compared with an amount owed by the Group of US\$6.27 million at 31 December 2018, an increase of US\$1.12 million. Trade creditors have increased by US\$1.10 million. At the 30 June 2019, the Group owed US\$0.24 million to a drilling contractor and there was no similar liability at 31 December 2018. At the end of the second period, the Group also had received US\$0.11 million, in error, as an overpayment of bullion which was returned to the refinery during the first week of July 2019. The remainder of the variances are as a result of timing differences relating to the settlement of creditors.

#### Interest-Bearing loan

On 22 January 2018 the Group increased its existing secured 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. On 14 September 2018, the Company exercised its option to extend the term of the New Loan to 30 June 2020. In May 2019, the Group agreed revised repayment terms for its secured loan whereby the loan would be repaid in six equal monthly instalments commencing 31 January 2020.

#### Obligations under finance leases and unsecured equipment loan

Obligations under finance leases and unsecured equipment loans for less than one year have decreased by US\$0.45 million from US\$0.67 million at 31 December 2018 to US\$0.22 million at 30 June 2019. During the first six months of 2019, the Group has not entered into any new lease finance arrangements and has made capital repayments totalling approximately US\$0.27 million on finance leases. The Group has also repaid approximately US\$0.19 million of an unsecured equipment loan. 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

As a fee for the Group's secured loan arrangements, the Group has granted call options to Sprott over 6,109 ounces of gold exercisable at a price of US\$1,295 with an expiry date of 31 December 2019. On 30 June 2017, the date these call options were initially granted, their value was assessed as being US\$650,000 and a provision for a derivative financial liability of US\$650,000 recognised in the accounts which was amortised in full during 2018. At 31 December 2018, the value ascribed to these outstanding call options was US\$0.39 million and at 30 June 2019 reflecting the change in the prevailing gold price was recalculated as being US\$0.68 million with the increase in the provision that has arisen in the year to date of US\$0.29 million being reflected as a finance expense in the Income Statement.

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

#### Acquisition Liability

The amount due on acquisition of US\$11.53 million relates to the net present value of the US\$12 million cash payment due upon the earlier of either the first gold being produced from the Coringa gold project or 21 December 2019. On 21 December 2017 ("Closing"), the Group finalised the acquisition of Chapleau Resources for a total value of US\$22 million, with US\$5 million being paid in cash on 21 December 2017. A further US\$5 million in cash was

paid on 16 April 2018 and a final payment of US\$12 million in cash is due upon the earlier of either the first gold being produced or 24 months from the date of Closing. The increase in value of US\$0.53 million since 31 December 2018 reflects the unwinding of the discount resulting in a change in the fair value of the liability as at 30 June 2019.

#### Non-Current Liabilities

The Group makes provision for the future estimated rehabilitation costs for its mine sites at Palito and Sao Chico. The value of the rehabilitation provision carried by the Group at 30 June 2019 was US\$1.57 million. The value at 31 December 2018 was US\$1.54 million. The variation reflects the differing exchange rates used between the two periods. The underlying costs and other assumptions are unchanged between the periods.

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

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

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

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

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

	6 Months Ended 30 June 2019 (US\$)	6 Months Ended 30 June 2018 (US\$)	12 months Ended December 2018 (US\$)
Total operating costs (calculated on a sales basis)	19,664,989	17,472,887	31,501,016
<b>Add/(subtract)</b>			
Finished goods and WIP inventory stock adjustment	(2,240,467)	(739,386)	(106,436)
Grossing up of revenue for metal deductions	298,102	207,317	346,468
By-product credits	(781,850)	(795,846)	(1,268,161)
Total cash cost of production	16,940,773	30,472,886	30,472,886
Corporate G&A	2,798,964	5,359,000	5,359,000
Share-based remuneration	130,971	329,620	329,620
Capitalised cost for mine development	1,492,563	4,386,397	4,386,397
All-In Sustaining Cost of production	21,363,271	40,547,903	40,547,903

	6 months ended 30 June 2019 (ounces)	6 months ended 30 June 2018 (ounces)	12 months ended 31 December 2018 (ounces)
Gold ounces produced	19,691	18,751	37,108

	6 months ended 30 June 2019 (US\$)	6 Months Ended 30 June 2018 (US\$)	12 months ended 31 December 2018 (US\$)
Total Cash Cost of production (per ounce)	US\$860	US\$861	US\$821
Total All-In Sustaining Cost of production	US\$1,085	US\$1,121	US\$1,093

## Contractual commitments

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

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

Management estimates that the cost over the next 12 months of fulfilling the current contracted commitments on these exploration properties in which the Group has an interest is US\$0.11 million (June 2018: US\$0.06 million). The increase in comparison to the previous year is due to the acquisition of Chapleau Resources.

Contractual obligations	Payments due by period				
	Total	Less than	1-3 years	4-5 years	After 5
	\$	\$	\$	\$	\$
Short term debt	6,060,606	6,060,606	—	—	—
Capital lease obligations	221,578	221,578	—	—	—
Operating leases	168,273	129,127	39,146	—	—
<b>Total contractual obligations</b>	<b>6,450,457</b>	<b>6,411,311</b>	<b>39,146</b>	<b>—</b>	<b>—</b>

## Financial and other instruments

The Group's and the parent company's financial assets at 31 March 2019 which comprise other receivables and cash, and in the case of the parent company include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's and parent 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. The Group does closely monitor the prices of these commodities and will consider the use of hedging contracts, where appropriate, in future.

Whilst not representing a financial instrument, at 30 June 2019, the Group carried inventory of finished goods and work-in-progress valued at US\$3.62 million (31 December 2018: US\$5.58 million). All inventory as at 31 March 2019, which is unsold, is subject to future variation in commodity prices and accordingly the results for the period and the equity position of the Group may be affected by any change in commodity prices subsequent to the end of the period.

### *Interest rate risk*

During the preceding three years the Group has taken out fixed rate finance leases for the acquisition of some equipment. In June 2017 the Group took out a US\$5.00 million secured loan with Sprott which was increased to US\$8.00 million in January 2018. As at 30 June 2019 US\$1.94 million of the total loan of US\$8.00 million had been repaid.

### *Liquidity risk*

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

fixed rate finance leases to finance its activities and on 22 January 2018 increased a secured loan from US\$5.00 million to US\$8.00 million, of which US\$6.06 million remained outstanding as at 30 June 2019.

As at 30 June 2019, in addition to the Sprott Facility, the Group had obligations under fixed rate finance leases amounting to US\$0.22 million (31 December 2018: US\$0.72 million).

The Group's objectives when managing its capital are to maintain financial flexibility to achieve its development plans, safeguard its ability to continue to operate as a going concern through management of its costs whilst optimising its access to capital markets by endeavouring to deliver increases in value of the Group for the benefit of shareholders. In establishing its capital requirements, the Group will take account of the risks inherent in its plans and proposed activities and prevailing market conditions. There are risks associated with any mining operation whereby unforeseen technical and logistical events result in additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required. The Group is also subject to pricing risks and significant short-term variations in sale prices of commodities to which the Group is exposed, may place significant additional pressure on the Group's working capital position. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale. The Group, where available and appropriate, will use fixed rate finance arrangements for the purchase of certain items of capital equipment and use short term trade finance particularly in respect of its projected sales of copper/gold concentrate. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Group to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

The following table sets out the maturity profile of the financial liabilities as at 30 June 2019:

	30 June 2019 Group US\$	31 December 2018 Group US\$
Due in less than one month	1,462,135	1,523,621
Due between one month and three months	1,968,206	3,011,513
Due between three months and one year	10,082,061	6,040,985
Total due within one year	13,512,402	10,576,119
Due more than one year	–	2,473,096
Total	13,512,402	13,049,215

### *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. 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 an issue of Special Warrants undertaken in December 2010 and an issue of new Ordinary Shares and Warrants on 30 March 2011, were priced in Canadian Dollars. The Company expects that future issues of Ordinary Shares may be priced in Sterling or Canadian Dollars. Expenditure is primarily in Brazilian Real and also in US Dollars, Sterling, Euros and Australian Dollars.

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

	Group	
	30 June 2019 US\$	31 December 2018 US\$
US Dollar	9,456,183	3,798,585
Canadian Dollar	26,375	57,953
Sterling	544,890	3,460,533
Australian Dollar	53,868	11,199
Euro	50,570	57,070

Brazilian Real	2,234,797	1,830,708
Total	12,336,683	9,216,048

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

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

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

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

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

#### ***Credit risk***

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US\$18,364,206 (31 December 2018: US\$14,141,173). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings.

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

The Group currently sells most of its copper/gold concentrate production to a single customer, a publicly quoted trading group located in Japan having changed customer in the second half of 2016. Settlement terms are in accordance with industry norms. The customer has a strong reputation within the industry and has a good credit risk history. As at the balance sheet date there were no amounts owed to the Group that were overdue.

#### **Subsequent events**

On 18 July 2019, Sprott Resource Lending Corp. ("Sprott"), exercised their call options over 6,109 ounces of gold representing all the call options granted by the Group. This has given rise to a liability of US\$922,886. A provision of US\$ 681,765 calculated based on the value of these 6,109 options as at 30 June 2019 has been included in the Financial Statements to 30 June 2019. It has been agreed that this cash liability of US\$922,886 will be paid in six equal monthly instalments commencing on 31 January 2020 and will be subject to the same terms and conditions as the existing loan liability due to Sprott.

#### **Changes in accounting policies**

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

As of 1 January 2019, IFRS "16 Leases", became effective and requires lessees to recognise all lease assets and liabilities on the balance sheet for both finance leases and operating leases. The adoption of IFRS 16 has not had any significant impact on the Group's financial statements as the operating leases held by the Group are of low value and the majority of the existing contracts either relate to service agreements or otherwise do not result in right of use assets or lease liabilities.

#### **Off-balance sheet arrangements**

The Group has no off-balance sheet arrangements

### **Critical accounting estimates**

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

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

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

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

#### ***Impairment of mining assets and other property, plant and equipment***

An initial judgement is made as to whether the mining assets are impaired based on the matters identified for mining assets in the impairment policy in the Group's 2018 Annual Report at 1 h) relating to IAS 36 impairment.

In the event that there is an indication of impairment, mining assets are assessed for impairment through an estimation of the value in use of the cash-generating units ("CGU's"). The value in use calculation requires the entity to estimate the future cash flows expected to arise from a CGU and a suitable discount rate in order to calculate present value. A CGU is a group of assets that generates cash inflows from continuing use. Given their interdependences and physical proximity, the Palito and Sao Chico Mines are considered to be one single CGU. Management consider that at the end of the period there had not been any indicator of impairment.

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

As described in note 1(d) (iv) in the Group's 2018 Annual Report, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

#### ***Mineral resources***

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

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 incorporates into its assessments.

### ***Recoverability of deferred exploration expenditure***

The recoverability of exploration expenditure capitalised within intangible assets is assessed based on a judgement about the potential of the project to become commercially 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) in the Group's 2018 Annual Report. Should an indicator of impairment be identified the value in use is estimated on a similar basis as the mining asset as detailed above. Management determined that there were no indicators of impairment in the year.

### ***Recoverability of debts including recoverable taxes***

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

### ***Acquisition of Chapleau***

Chapleau Resources Limited was acquired by the group in December 2017. An initial judgement was 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 was judged not to have the required inputs and processes to qualify as a business and that a market participant would not be capable of conducting and managing the entity as a business.

Estimates are involved in determining the respective attributable value of the assets and liabilities over which the cost of the acquisition is attributed. Further details are included in note 22 of the Group's 2018 Annual Report.

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

### ***Inventory valuation***

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

### ***Utilisation of historic tax losses and recognition of deferred tax assets***

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

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

### ***Restoration, rehabilitation and environmental provisions***



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

### **Disclosure controls and procedures**

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Group is made known to the Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the interim and annual filings are being prepared; and
- information required to be disclosed by the Group in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarised and reported within the time periods specified in securities legislation.

As at 31 December 2018, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the design and operating effectiveness of the Group's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Group's disclosure controls and procedures were effective as at 31 December 2018.

### **Internal controls over financial reporting**

The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As at 31 December 2018, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the design and operating effectiveness of the Group's internal controls over financial reporting. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the internal controls over financial reporting were effective as at 31 December 2018, 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 September 2014).

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

### **Changes in internal controls over financial reporting**

There have been no changes in the Group's internal controls over financial reporting during the twelve month period ended 31 December 2018 that have materially affected, or are reasonably likely to materially affect, the Group's internal controls over financial reporting.

### **Disclosure of outstanding share data**

The Company had the following Ordinary Shares, Stock Options and Warrants outstanding at 14 August 2019:

Ordinary Shares	58,909,551
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Stock Options	<u>2,654,250</u>
Fully diluted ordinary shares outstanding	<u>61,563,801</u>

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

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

## Qualified persons statement

*The technical information contained within this Management Discussion and Analysis has been reviewed and approved by Michael Hodgson, CEO of the Group. Mr Hodgson is an Economic Geologist by training with over 30 years' experience in the mining industry. He holds a BSc (Hons) Geology, University of London, a MSc Mining Geology, University of Leicester and is a Fellow of the Institute of Materials, Minerals and Mining and a Chartered Engineer of the Engineering Council of UK, recognising him as both a Qualified Person for the purposes of Canadian National Instrument 43-101 and by the AIM Guidance Note on Mining and Oil & Gas Companies dated June 2009.*

## Cautionary statement on forward-looking information

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

## Risks and uncertainties

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

<i>Risk</i>	<i>Comment</i>	<i>Mitigation</i>
<i>Changes in gold prices.</i>	<p>The profitability of the Group's operations is dependent upon the market price of gold.</p> <p>Gold prices fluctuate widely and are affected by numerous factors beyond the control of the Group.</p> <p>Reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Group's investment in mining properties and increased amortisation, reclamation and closure charges.</p>	<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>
<i>Currency fluctuations may affect the costs of doing business and the results of operations.</i>	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.	Management closely monitors fluctuations in currency rates and the Board may, from time to time, make use of currency hedging instruments.
<i>Availability of working capital.</i>	The Company is reliant on generating regular revenue and cash flow from its operations on a monthly basis to meet its monthly operating costs, meet debt repayment requirements and to fund capital investment and exploration programmes. It has no overdraft or stand-by credit facilities in place in the event of any operational difficulties or other events that may reduce or delay revenue receipts in the short term.	Management, in designing and planning the Group's operations, incorporates contingency planning. The Group has multiple mining faces to minimise geological and mining risk to operations, it has a modular plant to ensure gold processing can be maintained to the greatest extent possible at all times and deals with customers for its products who have good credit and standing in the industry. Management also manages 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.
<i>No guarantee that the Group's applications for exploration licences and</i>	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 Agencia Nacional do Mineracao ("ANM"). The ANM can refuse any	Management maintains on-going dialogue with the ANM and other relevant government bodies regarding its operations to ensure that such bodies are well informed and also to help ensure that the Group is informed at an early stage of

<b><i>Risk</i></b>	<b><i>Comment</i></b>	<b><i>Mitigation</i></b>
<p><i>mining licences will be granted.</i></p> <p><i>Existing exploration licences may not be renewed or approved or converted into mining licences.</i></p> <p><i>Title to any of the Group's mineral properties may be challenged or disputed</i></p>	<p>application. Persons may object to the granting of any exploration licence and the ANM 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 Sao Chico property expired in March 2014. The Group applied for a full mining licence and the application and all supporting information and reports have been made in accordance with prescribed regulations. The Group has received no indications that the full mining licence will not be granted.</p> <p>At the current time mining operations at the Sao Chico Mine are carried out under a trial mining licence which is renewable annually. If and when exploration licences are granted, they will be subject to various standard conditions including, but not limited to, prescribed licence conditions. Any failure to comply with the expenditure conditions or with any other conditions, on which the licences are held, can result in licence forfeiture.</p> <p>The Group 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>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>
<p><i>Other permits and licences required to conduct operations may not be renewed or may be revoked or suspended</i></p>	<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 can result 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 s to ensure that such bodies are well informed of the Group's activities and plans and also to help ensure that the Group is informed at an early stage of any issues of concern that such bodies may have.</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>
<p><i>The Coringa gold project is an</i></p>	<p>The Group acquired the Coringa gold project in December 2017.</p>	<p>The Group has been operating the region for a number of years and in general is</p>

<i><b>Risk</b></i>	<i><b>Comment</b></i>	<i><b>Mitigation</b></i>
<i><b>advanced stage development project requiring permitting and construction before production can commence</b></i>	Whilst the Group has been awarded a trial mining licences and an initial operating licence, it is still in the early stages of obtaining all the necessary permits and licences required to allow full scale 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>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>