



Serabi Mining plc

annual report and accounts 2006

exploration
development
production



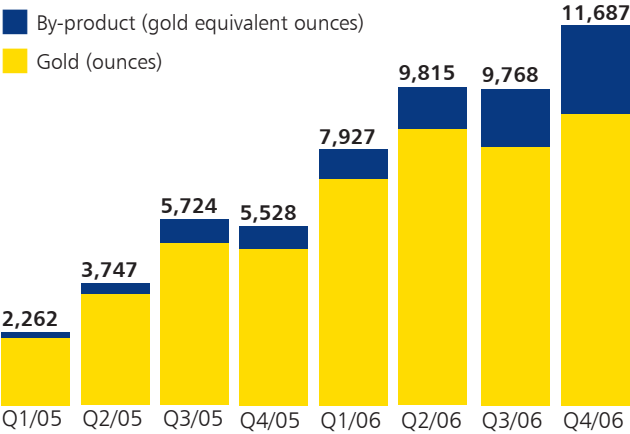
Corporate Statement

Serabi Mining plc is a gold mining and exploration company currently focused on the Tapajos geological province of northern Brazil. The Tapajos region is a major, under-explored mineral province from which artisanal miners (“Garimpeiros”) are thought to have extracted some 30 million ounces of gold, mostly from alluvial and weathered bedrock deposits since the early 1970s.

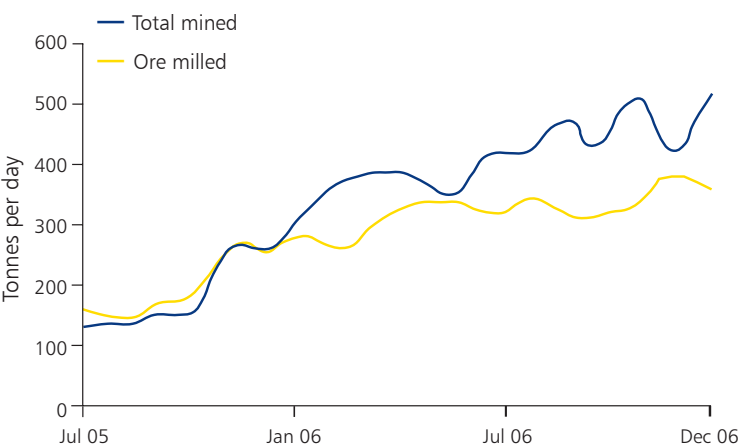
Serabi’s goal is to become a low-cost, long-life, multi-mine producer, building on the experience gained at Palito as the guide for further mining developments.

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Quarterly production at Palito



Mining and milling rates at Palito



Highlights

- Commercial production achieved from 1 October 2006
- Annual production growth of 127%
- Fourth quarter cash costs of US\$252 per ounce gold equivalent
- Underlying profit from operations of US\$2.4 million for the fourth quarter
- Exploration work at Ruari's Ridge and Chico do Santo highlights potential for satellite ore bodies at Palito
- Current milling rates up by 40% over 2006 levels

Exploration

- Expanded facilities and team in place
- Extensive project portfolio in prime gold region
- High grade vein/stockwork deposits identified
- Potential for large tonnage porphyry/IOCG deposits

Development

- Infrastructure in place
- Continued mining and process improvements
- Near term expansion potential
- Well placed to exploit new opportunities

Production

- Commercial production achieved
- Set for additional growth
- Further cost reductions anticipated
- Quality resource provides strong foundation





exploration development production

Whilst 2005 was a period of discovery for the Company, 2006 has been one of consolidation. Substantial strides were made during the year culminating with the achievement of commercial production at the Palito gold mine from 1 October, in addition to numerous underlying improvements to operating, support and exploration facilities. As a result production increased throughout the year, reaching another record in the fourth quarter of 11,687 ounces of gold equivalent and resulting in a 127% year-on-year increase to 39,197 ounces gold equivalent. Furthermore, the average cash cost of US\$252 per equivalent ounce (US\$328 per ounce of gold) over the last quarter reflects very favourably on Serabi's progress.

As a result of these activities, Serabi reports a loss of US\$2.2 million for 2006 but with underlying operating profit from operations from the Palito mine of US\$2.4 million for the fourth quarter since declaring commercial production. In considering these results for the year two important points need to be borne in mind. Firstly, that the revenue and costs reported are only for the three months since the declaration of commercial production, whilst other expenses are for the full twelve month period. We would therefore expect to see substantial improvement in 2008 over the 2007 figures. Secondly the comparative 2005 period was only for a three month period. Overall these results and other operational and exploration developments position the Company well for 2007, with targeted production of approximately 50,000 ounces gold equivalent and cash costs of below US\$250 per ounce.

The Company continued to make substantial investments at Palito during the year, not only in terms of plant, equipment and mine infrastructure but also within the mine itself. The escalated investment in mine development will eventually provide more working areas, thus enabling an improved mix between ore produced from the stopes and development. The switch to mechanised underground mining has required us to spend much of the last nine months of 2006 undertaking such development in preparation for long-hole stope production. This will continue into 2007 and will initially impact on mining grades, before the full benefit of production from stoping becomes apparent later in the year, and through 2008.

Development of our existing portfolio within the Tapajos remains at the forefront of our plans for growing and developing Serabi. As outlined in our September 2006 and March 2007 press releases, we are encouraged by the early progress of our exploration programmes undertaken throughout the year. The Company has a large portfolio of projects where the level of existing data is often limited. It has therefore sometimes been necessary to focus initially on preliminary assessment programmes to improve our understanding of the geology and potential opportunities, in order to provide information that will allow us to concentrate future efforts on the most promising targets identified. With much improved geological and exploration facilities established last year, we expect considerable progress in this area during 2007. In this regard, we recently reported good results from a number of prospects in the Jardim do Ouro district, situated immediately adjacent to Palito. This area will initially form an important focus for evaluation during the early half of the year, with advanced exploration and drilling planned at the Ruari's Ridge, Chico do Santo and Palito Main Zone south projects. The objective of this work is to expand the Palito resource and to extend the life of the operation.

Notwithstanding, we are also seeking to expand our project portfolio and are looking at other opportunities both in the Tapajos and in other regions of Brazil. Management recognises that the long-term future of the Company is in part dependent on expanding the resource base, accompanied by continuing production growth. While the Tapajos is a highly prospective area where the Company has a strong competitive advantage, given our growing reputation and achievements to date, we believe we should also now look at opportunities in other parts of Brazil. The country has a diverse and attractive geology, which remains relatively unexplored with the potential for significant size deposits.

Further expansion of the Company is, we believe, fundamental to obtaining more widespread recognition in the market of the Company's already considerable achievements. Serabi remains one of only a few producers in the London AIM mining sector and despite major operational achievements and a robust gold price, up 50% since the Company listed in 2005, there is limited evidence of an upward re-rating of the shares to reflect this.

“average fourth quarter cash operating costs of US\$252 reflect very favourably on Serabi’s progress”

We continue to make considerable efforts to raise the profile of the Company but are conscious that until we can further increase the asset base we may continue to be ‘below the radar’ of some investors and industry commentators.

Building on the strong foundation now established in Brazil, our strategy for growing the Company centres on optimising a number of key criteria:

- unexplored areas with excellent geological potential;
- strong land title;
- political and economic stability;
- projects with potential of more than 500,000 ounces and operating costs of US\$250 or less; and
- geographical focus.

The original decision to enter Brazil in 1999 was driven by the country’s ability to meet all of the above criteria and this remains true today. These advantages are being increasingly recognised within the mining industry as new opportunities are sought internationally.

Brazil is often grouped with other “developing” countries when looking at such potential. These include South American peers such as Argentina, Bolivia, Chile and Peru, the African nations of Ghana, Tanzania, and the DRC, the Eastern European countries such as Russia and Kazakhstan and in the Far East Indonesia, PNG and the Philippines, amongst others. Recent studies* show that, with the exception of Chile, Brazil is significantly ahead of all these countries when judged by its mineral potential, combined with favourable regulatory and land use policies. This reinforces the Company’s strategy in Brazil, which we believe with its well established mining industry and security of title, provides one of the best balances of risk and reward in today’s world. Against this background, combined with the improved operating and exploration foundations now established, Serabi is exceptionally well positioned to move forwards on all fronts in 2007 and achieve its goal of becoming a mid-tier producer with growing exploration potential by the end of the decade.

For Serabi 2006 marked the end of the beginning, with profitable production established, new operational developments taking place and exploration set to expand.

Acknowledgements

Good mining projects are nothing without good people. In this respect I would first like to thank all of Serabi’s staff for their dedicated efforts and contributions towards the considerable progress made by the Company last year. I would also like to welcome Mike Hodgson to the Board of the Company. His experience will strengthen the Board and the executive management, and provide key day-to-day guidance in order to optimise and develop our operations further. Finally, thanks to our shareholders for their continuing interest and support in Serabi. I look forward to reporting the continuing success of your Company at the end of 2007.



Graham Roberts
Chairman

* The Fraser Institute Annual Survey of Mining Companies, Vancouver, Canada.

Chief Executive's Statement



Last year saw major operating achievements throughout the Group. During 2006 all key operating measures at the Palito gold mine showed good improvement, resulting in annual production growth of 127% to 39,197 ounces gold equivalent and year-end cash operating costs of US\$252 per equivalent ounce (US\$328 per ounce gold). Considerable progress was also made in improving infrastructure and mineral recovery facilities, providing a strong foundation for new developments. Meanwhile, having expanded and improved facilities during the year, exploration is now gathering pace.

Exploration

During 2005 the Company focused mainly on establishing a long-term resource base at Palito, through an intensive programme of surface diamond core drilling. During 2006, while work has continued on the PMZ, the exploration emphasis has increasingly shifted to nearby projects at Jardim do Ouro and for the first time other prospects in the Tapajos in order to commence an assessment of their potential, a trend expected to escalate hereon.

To support these growing initiatives a number of investments were made during the year in order to establish a more extensive and robust exploration capacity. As a result the Company now has four owner-operated surface core drill rigs and three underground drills. In addition, extensive improvements were made to the geological and laboratory facilities, in order to handle the anticipated escalation of exploration and evaluation activity. In an effort to speed up this work we have also recently employed the use of a contractor for reverse circulation drilling on selected projects. If successful consideration may be given to the purchase of such equipment.

Palito Main Zone (PMZ)

During 2006 we conducted a total of 7,705 metres of drilling on Palito from our surface exploration rigs and a further 6,406 metres of underground drilling. Surface drilling and geochemistry has continued to extend the area of known mineralisation across the district, both to the north and south of the deposit. Currently the PMZ has a geochemical footprint of some two kilometres, of which approximately only one kilometre has been drill tested to date.

Palito gold mine operating summary for 2006		2006					2005
		Q1	Q2	Q3	Q4	Year-end	Year-end
Total mined (per day)	tonnes	32,820 (365)	34,055 (374)	42,357 (460)	42,007 (457)	151,239 (414)	54,993 (151)
Mined ore (per day)	tonnes	31,555 (351)	31,864 (350)	34,598 (376)	34,072 (370)	132,089 (362)	54,993 (151)
Milled (per day)	tonnes	25,514 (283)	29,851 (328)	29,492 (321)	32,760 (356)	117,618 (322)	57,958 (159)
Head grade	grams/tonne	9.3	9.7	9.2	9.4	9.4	9.2
Recovery	%	91.9	91.3	91.4	91.0	91.4	89.4
Gold	ounces	7,017	8,527	7,974	8,980	32,498	15,345
Copper	tonnes	98.0	107.1	139.2	224.6	568.9	216.2
Gold equivalent	ounces	7,927	9,815	9,768	11,687	39,197	17,261

exploration

- Discovery of new mineralisation between existing G2S and G3S lodes
- New high grade zone south west of G1S lode
- Three parallel zones intersected over 200 metre strike and 200 metre dip at Chico do Santo
- Mineralised zones at Ruari's Ridge intersected over a 600 metre strike and 200 metre dip
- Tatu emerging as attractive drill target
- Regional Tapajos exploration continues at Pizon and Sucuba



Satellite image of the major exploration prospects at Jardim do Ouro around the Palito Mine



Drill core being logged at Palito



One of the two new surface drill rigs in operation at Palito

“all key operating measures at the Palito gold mine showed good improvement resulting in annual production growth of 127%”

Palito Main Zone (PMZ) continued

In 2004 the Company undertook a surface geophysical survey to assist in identifying occurrences of the massive sulphide mineralisation, characteristic of the gold-copper ore deposits found at Palito. Subsequent drilling has shown strong correlation with the results of this work. Considering the high cost of surface drilling to test the down dip projection of the PMZ, such holes require careful planning. With this in mind, the decision was taken in the latter part of 2006 to defer further deep drilling in order to expand the geophysical programme on surface. We expect a resumption of deep drilling following an assessment of these results during the second quarter of 2007.

The delivery of new underground drilling equipment during the first quarter has enabled shorter core drilling. Though primarily used for mine planning, significant new discoveries have been made, including an important new zone located between the existing G2 south and G3 south development drives. Two drill holes have returned intersections some 15 metres apart of 1.29 metres at 250.2 g/t Au and 1.57 metres at 43.32 g/t Au. Drilling of zones to the south-west of the G1 south development area and south east of the Compressor Lode has also highlighted two new areas, with intersections of 0.94 metres at 22.86 g/t Au and 0.51 metres at 17.10 g/t Au.

The deployment of underground drills is now greatly assisting mine planning and scheduling. In time, as the mine develops further, we expect underground drilling will also be increasingly used to explore and evaluate more efficiently deeper areas of mineralisation, in combination with surface drill holes.

Jardim do Ouro

Palito West – located approximately 200 metres south-west of the PMZ, this feature has earlier been the subject of limited drilling and channel sampling, with some spectacular results. As we have recently “stepped back” from PMZ, drill holes have now identified this new, high-grade zone. This will become Serabi's first satellite ore production. A winze ‘on-lode’ has commenced and will continue to a planned depth of 30 metres. This will be followed by on-lode development. Although situated close to the current operations, this represents a first step to realising the wider potential of the Jardim do Ouro district.

Chico do Santo – situated some 300 metres to the north-east of the PMZ, this prospect also shows significant near-term potential. Through a previous drill programme we had earlier identified at least three mineralised structures running parallel to the PMZ and associated with old garimpeiro workings, along some 200 metres of strike. A programme of shallow reverse circulation drilling and trenching, combined with deeper diamond drilling was recently begun with the objective of outlining a resource at this location.

Initial results have intersected mineralisation from surface up to 300 metres depth. In addition, following some encouraging channel and surface sampling we are also looking at the potential of shallow oxide mineralisation at surface along these narrow high-grade zones.

Ruari's Ridge – located approximately 500 metres to the south-west of the PMZ, exploration has identified an extensive gold and copper geochemical anomaly on the flank of a magnetic high at this location; it is noteworthy that this relationship is increasingly proving to be a useful indicator of mineralisation in this area of the Tapajos.

development

- Mine development is over four levels and there is currently over 2,500 metres of 'on-lode' development completed
- Mine fleet has been supplemented by an additional drilling jumbo and scooptram delivered early in 2007
- Commissioning of mill 4 has increased total milling capacity
- Investigative work continues on beneficiation options allowing for treatment of higher levels of low grade ore



The mining fleet has been supplemented by the arrival of a new LHD and a new jumbo drill rig during the first quarter of 2007



A haulage truck emerges from the decline entrance



Mills in operation at Palito

“satellite ore production from Palito West represents a first step to realising the wider potential of the Jardim do Ouro district”

Jardim do Ouro continued

Initial wide-spaced scout drilling commenced at Ruari's Ridge during the second half of 2006 and has identified two sub-parallel, continuous zones of mineralisation, extending over 600 metres along strike and 200 metres down dip. Whilst the strike extension to the north-west appears to have been closed, both zones remain open to the south-east, where a soil geochemical anomaly continues along the projection of strike. This feature will be the subject of ongoing drilling, which will focus on further definition of the recently identified zones of mineralisation and explore for additional parallel zones to the north-east and south-west.

Bill's Pipe – following the earlier identification of an extensive area of anomalous gold-in-soil geochemistry, subsequent trench sampling results have returned good results. Located 500 metres north of the PMZ, initial diamond drilling and reverse circulation drilling programmes have been undertaken. To date it has so far been difficult to correlate the results between drill holes. The mineralisation could be related to supergene enrichment and dispersion within the saprolite profile, surrounding very high-grade narrow zones of vein hosted mineralisation. We now intend to further assess the potential of this area of mineralisation through an extended programme of trenching.

The Tatu prospect is situated approximately 2.5 kilometres north-east of the PMZ. It is an area of historical artisanal mining with numerous abandoned pits and shafts, which appear to have exploited an extensive gold-rich, magnetite-quartz vein alteration zone. We have recently completed a detailed ground magnetometer survey of the area totalling some 16.5 line-kilometres. This has outlined a significant magnetic anomaly occurring parallel with soil geochemistry anomalies and areas of mining activity. Drilling on the prospect is expected to be carried out during this year.

Rio Novo South – lying five kilometres to the south-east of Palito, directly along the interpreted strike of the PMZ. It shows extensive evidence of historical artisanal mining. Preliminary geological mapping and sampling of these workings returned high gold values. An extensive geochemical survey was conducted across the area in 2006, which identified two gold-in-soil anomalies, each of approximately 1.5 kilometres which remained 'open'. Further geochemical work is now underway to 'close' these anomalies and a scout drilling programme has recently commenced on this project.

Tapajos Regional

Sucuba – situated approximately ten kilometres west of Palito. During the year, 14 line-kilometres of reconnaissance geochemistry were carried out. These identified a number of gold and copper anomalies, including a central east-west feature some 800 metres long. A further programme of geochemistry has recently extended coverage of the existing grid by 1.2 kilometres to the west and results indicate a continuation of the central anomaly for a further one kilometre.

A limited drill programme undertaken during the year confirmed hard rock mineralisation underlying the main anomaly, which will now be followed up by further drilling along this feature in 2007.

Pizon – located approximately 250 kilometres north-west of Palito along the Tocantanzinho Structural Zone, which is interpreted as the main regional control of mineralisation in the central Tapajos, Pizon is one of our most outlying prospects. It is also an area of historical artisanal mining over which we have recently completed a programme of reconnaissance geochemistry, field mapping and grid auger drilling, together with stream sediment sampling.

Initial results have defined two gold-in-soil anomalies, corresponding to mapped intrusive acid porphyry bodies emplaced in an acid volcanic terrain. Further stream sediment sampling will provide broad screening of the area, with further surface geochemistry being undertaken in the defined anomalous areas in order to target a future drill programme.

production

- Annual production growth of 127% to 39,197 ounces of gold equivalent
- Mining rates in Q4 up by 79% against 2005
- Process rates in Q4 up by 114% against 2005
- Plant recovery in excess of 91% throughout the year



Serabi's tenement holding along the Tocantanzinho trend



Underground drill rigs have greatly assisted mine planning



Crushed ore is stockpiled and blended prior to milling

Operations and development

The start of 2006 was marked by the commissioning of a third ball mill at Palito, resulting in an increase of production to a nominal level of 350 tonnes a day. Unfortunately we subsequently reported mill problems during the third quarter of 2006, the effects of which were exacerbated by the increase in mine production beyond the nominal capacity of the mills. However, such has been the progress of the mine that we concluded the year commissioning a fourth larger ball mill just prior to Christmas 2006. Since then mill throughput has routinely operated between 450 and 500 tonnes per day, comfortably within expanded mining rates.

Despite the commissioning of the fourth ball mill taking place only at the end of the year, record production levels were recorded during the fourth quarter.

Many of the major productivity milestones at Palito have been well documented in our quarterly reports but there have been many smaller initiatives, which have contributed in their own way to enhanced productivity and reduced costs. Within the mine we have improved drilling and blasting methods, which have increased production and lowered development costs. Changes in explosive have improved blasting accuracy, fragmentation and dilution. In the plant, we introduced an additional filter press on the flotation circuit, doubling capacity for concentrate production, increased leaching capacity by 25% through the installation of an additional leaching tank and increased the capacity of our cone crushing circuit with the installation of a third cone crusher.

The most significant change to have taken place last year has been the introduction of mechanised trackless mining and open stoping, mostly by long-hole method. This began with the completion of Phase-1 of the decline development by contractor. This involved the portal and 250 metres of ramp development which established the 210mRL and 192mRL mining levels. With this change of approach, equipment purchases were made. The mine operates with a fleet of two single boom drilling jumbos, two 3 cubic yard scooptrams, one mobile long-hole drilling rig, a front end loader and three 20 tonne conventional trucks for ore and waste haulage.

By the time of going to print, the ramp has now reached the 160mRL and two further levels have been opened during the first two months of 2007, 178mRL and 163mRL. This has involved a further 250 metres of ramp and access development. Currently the mine has over 2,500 metres of 'on-lode' development. This translates into approximately six months of stoping production. This will allow the operations to benefit from a greater contribution of the mill feed being derived from stope ore in 2007 and with it an improved head grade.

Whilst the development drives are undertaken in ore, the minimum mining width of these galleries creates unavoidably high levels of waste dilution.

During 2006 the head grade was maintained above 9 g/t, with production mainly delivered from the high-grade shrinkage stopes under the Palito Hill. The ore in this area is expected to be exhausted early in 2007 and as a result the levels of 225mRL and above will then be abandoned. During the initial period of transition from the Palito Hill to the deeper decline areas, the ratio of lower grade development to high-grade ore production is expected to remain unusually high and, as a result, production grades can initially be expected to decline during 2007. However, as the mix of ore production to development subsequently increases, an improvement of the grade is anticipated; the impact of this in the short-term can partially be offset by increased mine production and plant throughput.

Where appropriate the shrinkage mining method will continue to be used at Palito, however, long-hole mechanised mining is now expected to become widely adopted throughout the operation in the future, resulting in greater long-term productivity and efficiency. It has, however, also required a significant investment in training and it is a credit to our mining management team that they have been able to implement the necessary training and safety courses, whilst at the same time delivering the productivity improvements that we have seen over the past twelve months. The last quarter of 2006 saw mining rates at 457 tonnes per day, a 79% improvement over the rate achieved in the comparative period for 2005, when the figure was 255 tonnes per day.

“having expanded and improved facilities during the year, exploration is now gathering pace”

Recovery plant

Notwithstanding a set-back with the mill circuit during 2006, overall the plant continued to perform well throughout the year. With milling rates now between 450 and 500 tonnes per day, the Palito operation is currently processing 114% more tonnes than in Q4 of 2005. Despite this, overall gold and copper recoveries were successfully maintained above 90%. We continue to explore avenues for increasing both throughput and efficiency. A switch to superior, imported carbon for the CIP gold recovery process has improved efficiency and, because of its longer life, represents a cost reduction. Test work on alternative grinding materials has also allowed a switch to a new ball type in the mills, resulting in a lower cost without a loss of grinding efficiency.

Meanwhile, work continues on various beneficiation options for the lower grade ore that accompanies the high-grade production. This work is considered important not just for Palito, but has significant implications for the potential exploitation of other deposits in the Tapajos. The ability to successfully beneficiate would have the effect of lowering the economic cut-off grade of a deposit, thus increasing the potential size of a reserve and enhancing the economics of some of the lower grade targets that exist in the region.

Mine and local infrastructure

Our quarterly reviews have documented in detail the successful introduction of grid electricity to Palito in the early part of the year. This has had a significant impact on operating costs through a substantial reduction of diesel requirements, but in addition has avoided the need for substantial capital investment in additional generating capacity that would otherwise have been required as the mine has expanded. We are, in conjunction with the work, conducting a full overhaul of the internal power distribution system to minimise potential power losses through the lines.

Laboratory capacity has been significantly increased and we are now able to handle over 3,000 samples a week, covering grade control in the mine, mill samples, exploration and mine drilling programmes, as well as the environmental monitoring programme. Whilst exploration and drill samples require validation by an independent laboratory, the ability to obtain a fast turnaround using our own facilities greatly enhances our ability to progress and if necessary, quickly adapt our exploration programmes to reflect new information and opportunities.

During the year new workshops were constructed for the maintenance of our expanded heavy equipment fleet, improved and increased exploration facilities and storage areas for drill core were established and ongoing improvements were carried out to the staff accommodation and related facilities on site.

Finally, we recognise the importance of our operations to the local community at Palito and elsewhere in the Tapajos. The mine provides important employment in an area otherwise lacking such opportunities. Our management places great emphasis on working closely with the community and as part of this, we provide medical and education facilities to local families. During the year we also started a programme of environmental rehabilitation at Palito. We will seek to ensure that a routine programme of monitoring, planting and restoration is carried out, thus ensuring that the impact of our operation is minimised.



Bill Clough
Chief Executive



The key financial event in 2006 was the declaration of commercial production for Palito from the beginning of October. This marks the point at which the mine has reached a level of profitable and sustainable throughput. The critical operating criteria, based on levels of costs, throughput and gold recovery, were established and agreed with our advisers and auditors prior to the Company's public listing in 2005. The need to adopt such an approach was driven from the acknowledgement that, whilst already in production, the operation was still very much under development. A plan had been established to expand the operations to a minimum commercial size, at which point the Board and advisers considered it could then be considered commercial.

The key effect of reaching this milestone is that revenues and costs associated with the mine activities will now be fully reflected through the Income Statement, whereas prior to 1 October cost and revenues were recorded as a capital cost of mine construction, incurred in the course of bringing the mine to its projected size for commercial production.

The fourth quarter to December 2006 produced 11,687 ounces of gold equivalent with cash operating costs for the period of US\$2.95 million. This equates to an average cash cost for the period of US\$252 per ounce of gold equivalent production, a 15% reduction against the preceding quarter. Our target for the year is to reduce this further to below US\$250 per gold equivalent ounce through ongoing efficiencies and productivity enhancements. Such an outcome would reflect well on Serabi, with increasing cost pressures throughout the gold industry resulting in average international cash costs in 2006 of more than US\$317 per ounce (ref: GFMS Ltd).

Total operating costs for the fourth quarter last year (after accounting for depreciation, depletion and amortisation) was US\$315.6 per ounce gold equivalent. Like the rest of the industry we face rising cost pressures driven by higher prices and wage inflation, but we endeavour to mitigate these effects through the introduction of automation within appropriate areas of the operation and maximising efficiencies.

During 2006 we have had an active programme of capital investment, which we expect will continue into 2007, albeit at a reduced level. In total we committed some US\$4.04 million on the purchase of assets during 2006 of which the major items were mobile fleet which accounted for US\$1.98 million of this expenditure. Other important project expenditures have been the expansion of tailings dam capacity, the introduction of grid electricity and upgrading of internal power distribution systems and plant expansion and improvements including the purchase of the fourth ball mill.

In addition we have been developing the mine itself in preparation for the transition to long-hole stoping. Whilst a contractor was used for the initial construction to the 192mRL at a cost of some US\$750,000, the development of the ramp by a further 250 metres to the 163mRL has been undertaken by our own teams. There will be ongoing ramp development to access the deeper levels within the mine.

In March 2006 we raised some US\$4 million (net of costs) through a small equity placement. This has assisted working capital requirements during this period of investment but overall, we have been able to finance both capital and exploration programmes from cash flow and at the year-end had a cash balance of US\$3.8 million on hand.

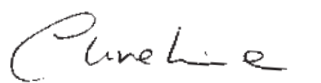
On the exploration front total expenditure in 2006 was US\$3.5 million, of which 58% was committed to the Palito operation and a further 24% to the potential satellite prospects around Palito, such as Bill's Pipe, Ruari's Ridge, Rio Novo South and Chico do Santa. The remaining 18% was expended on the more outlying prospects in the wider Tapajos Region, Sucuba, Pombo and Pizon. During 2006 some 15,200 metres of drilling were undertaken at Palito and nearby satellite prospects, in addition to 2,600 metres on Tapajos regional prospects. The satellite prospects are generally at a more advanced exploration stage, with a number of drill targets already identified. Elsewhere, whilst there has been ongoing and significant work undertaken, it has been of a more general assessment nature, structured to identify key target areas which following further trenching and augur work can be translated into drill targets later in 2007.

“commercial production marks the point at which the mine has reached a level of profitable and sustainable throughput”

Gold and copper price improvements have assisted the financial strength of the Group over the past financial year and in this regard we achieved an average price of US\$623 per ounce on our gold sales during the year. This compares very favourably with the London average a.m. fix of US\$604 for the 2006 year. Whilst in US Dollar terms the price improved by 24% over the course of the year, in local Brazilian Real terms the increase was only 12.7%. This reflects the continued appreciation of the Real against the US Dollar, a trend which started in May 2004 but which observers did not expect to be maintained. Since February 2006 it has stabilised in the range of 2.10 to 2.20 but this currency movement does mean that our per ounce costs in US Dollar terms have increased by some 9% since the start of 2006 and by 13.5% since flotation. Viewed another way, Serabi's current target of a cash cost of below \$250 per ounce gold equivalent for 2007 is equivalent to a cost below \$216 given exchange rates at the time of listing. Whilst we can minimise the short-term effects through currency hedging the long-term solution to any further strengthening will be to seek further operational cost reductions.

As a final note we have adopted International Financial Reporting Standards (IFRS) effective from 1 January 2006. A summary of the effects of this on previously released figures was reported earlier this year and an explanation on the effects resulting from the adoption of IFRS are set out in the accompanying notes to the Financial Statements. The Company had already adopted the provisions of IFRS 2 relating to share-based payments and as a result the effects of the transition are limited to dealing with a change required to our policy for accounting for non-monetary assets denominated in foreign currencies. Whereas previously the Company had recognised the US Dollar equivalent value of assets acquired by Group companies using the temporal method, (using the exchange rate ruling at the time of acquisition), IFRS requires that assets acquired by Group companies be consolidated in the Group accounts using the closing rate method i.e. at year-end.

As a result, at the date of transition (1 October 2005), the balance sheet was restated and the book value of assets was increased by US\$3.1 million. A fall in the US\$ to Brazilian Real exchange rate reduced this restatement effect to US\$2.0 million as at 31 December 2005.



Clive Line
Finance Director and Company Secretary

Directors and Senior Management

Graham Roberts, BSc C.Eng, FIMMM, 56

Executive Chairman

Graham has over 30 years of international experience in the mining industry and related financial markets, recently working mostly in cross-border finance activities. Prior to joining Serabi in 2003, Graham was managing director and group head of investment and corporate banking for BMO Nesbitt Burns in London, a wholly-owned subsidiary of the Bank of Montreal. Previously, Graham was a director and head of Mining Research for WI Carr UK Ltd and from 1994 to 1996, he headed up mining at Hambros, where he provided a full range of cross-border capital markets and advisory services. Prior to that Graham was at Consolidated Gold Fields for 13 years in both the UK and Africa, working in corporate finance, mining and exploration across a wide range of base metal and precious metal projects and mines.

He has a BSc in Geology and Geography from London University, is a Fellow of the Institute of Materials, Minerals and Mining and a Chartered Engineer.

Mike Hodgson, BSc, MSc, CEng, FIMM, 45

Technical Director

Mike has worked in the mining industry for over 20 years and has extensive international experience. Most recently he worked as Chief Operating Officer and Vice President Technical Services for Canadian-based Orvana Minerals Corporation. Prior to that, he provided consulting services to a number of mining companies in Europe and South America. Previous appointments include Manager Technical Services and Operations for TVX Gold Inc., Mining Technical Consultant at ACA Howe International Ltd and similar roles at Rio Tinto plc and Zambia Consolidated Copper Mines Ltd. He has, during his career, acquired extensive experience in narrow vein underground mining operations.

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

Roger Davey, ACSM, MSc. C.Eng., Eur. Ing., MIMMM, 41

Non-executive Director

Roger is a Chartered Mining Engineer with over 30 years of experience in the mining industry. He is presently an assistant director and the senior mining engineer at N M Rothschild (London). Prior to this his experience covered the financing, development and operation of mining operations in gold and base metals in South America, Africa and the United Kingdom. Previous positions held include director, vice president and general manager of Minorco/AngloGold subsidiaries in Argentina; operations director of Greenwich Resources plc in London; production manager for Blue Circle Industries in Chile; and various roles at Gold Fields of South Africa.

Roger is a graduate of the Camborne School of Mines, England, with a Master of Science degree in Mineral Production Management from Imperial College, London University. He is a Chartered Engineer (C.Eng.), a European Engineer (Eur. Ing.) and a Member of the Institute of Materials, Minerals and Mining (MIMMM).

Bill Clough, BSc(Geol), BCom(Hons), 46

Chief Executive

Bill was the founding investor of Serabi Mineração Ltda and has been active in Brazil since 1999. He assembled a portfolio of exploration interests in the Tapajos Region which culminated in the establishment of Serabi Mineração Ltda in 2001.

Bill is also non-executive Chairman of Brazilian-based nickel resources company, Mirabela Nickel Limited. He also has significant interests in a number of other ASX and AIM listed and unlisted international exploration and mining companies including Exco Resources Ltd, Sally Malay Mining Ltd and Albion Ltd. In 1984, Bill joined his family's engineering construction company, Clough Engineering Group, as business development manager. Bill was appointed to the Clough Limited board as a non-executive director in 1994 until December 2002. Clough Limited was listed on the Australian Stock Exchange in 1998.

Bill holds a BSc in Geology and a BCom in Finance from the University of Western Australia.

Clive Line, BA, ACA, 46

Finance Director and Company Secretary

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

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

Richard Robinson, BSc (Hons) MSc, 54

Non-executive Director

Richard has 30 years' experience in the mining industry. He has had extensive involvement with the gold, base metal, platinum and coal mining and smelting industries, their international markets and national and industry organisations, such as the World Gold Council. He is currently a director of companies in the base metals mining, smelting and recycling industry and in refining and advanced technologies in the precious metals industry. Richard was also previously the managing director of LaSource SAS in Paris. Before that, he was chief executive officer of Gold Fields Limited and previously an executive director of Gold Fields of South Africa Ltd.

Richard has an Honours degree in Computer Science, a Masters degree in Mineral Economics from Queen's University in Canada and has attended the Senior Executive Programmes at The Management College at Henley-on-Thames, England and at INSEAD at Fontainebleau, France.

Senior Management in Brazil

Sergio Aquino

Country Manager

Ruari McKnight

Chief Operating Officer

Ulisses Melo

Chief Financial Officer

Maurilio Mansur

Mine Manager

Marcos Hollanda

Mine Superintendent

Helio Tavares

Project Engineer

Joel Brandao

Mine Administrator



Board: standing from left to right: Clive Line, Richard Robinson, Roger Davey, Mike Hodgson, seated from left to right: Graham Roberts, Bill Clough



Senior management in Brazil: Ruari McKnight, Ulisses Melo, Sergio Aquino



Mine management: Joel Brandao, Helio Tavares, Maurilio Mansur, Marcos Hollanda

“we strive to ensure that our presence is beneficial to the lives of the community members”

The Group seeks to ensure that it is at all times mindful of its obligations to its employees and the communities in which it operates. We strive to ensure that our operations are conducted in accordance with best practice and that we work closely with communities to ensure that they are properly informed about our operations and that our presence is beneficial to the lives of the community members.

Health and safety

Health and safety is constantly at the forefront of the Board's thinking and we seek to instill this same mentality throughout the Group, recognising that safe working is an obligation of all our employees. Daily safety briefings are conducted in all areas of the mine and plant operations ensuring that any potential areas of risk are identified early and incidents averted. These are followed up with internal weekly inspections throughout the operation overseen by an Internal Commission for Accident Prevention. The Company's objective is to establish an accident free work environment for all its personnel. Ongoing training and education programmes help staff to become more aware of risk areas and avoidance.

With on-site medical and dental practitioners we are also able to deal with the general health of our staff and provide health education services.

Community relations

Serabi Mineração has continued to enjoy strong support from communities neighbouring the Palito Mine and in particular the town of Jardim do Ouro itself. We endeavour to source general requirements for the mine site from local businesses and also use, where necessary, local fabrication and repair facilities. The 'halo' effect of our presence is bringing improved prosperity to the area which in turn is improving the quality of life available. This has been greatly assisted by the fact these communities now have a cheap and reliable source of power, a direct result of Serabi's initiative to bring grid electricity to the region. Our own employees, encouraged by the growth of Jardim do Ouro, are beginning to relocate their families to the town.

We continue to provide financial support for a small police station in Jardim do Ouro and also a health clinic and have financed the construction of the school building. Additionally we make available on a weekly basis dental and medical care for the local children at our own health centre at the mine.

We also continue to provide support either financially or in kind for a variety of local, social and training programmes including folklore festivals, sporting events and nursing.

Environmental

The area of the Tapajos in which the Group operates is environmentally sensitive and the Board and management are conscious of the need to ensure that the management at Palito operates in a manner which is sympathetic to and minimises the risk of environmental damage.

A programme of rehabilitation is underway and we have already undertaken a clean-up of material processed by the artisanal miners to remove toxic chemicals that might otherwise, over time, have found their way into the river systems. Waste dumps are being contoured and replanted with indigenous species to return these areas to their natural state. We work with recognised specialists in assessing the impact of our activities and continually seek to improve our performance in this area by ensuring that environmental considerations are an integral element of project planning, exploration and operations. Initiatives from our own staff help to minimise waste materials and to improve on the recycling of material.

We will continue to work to educate our staff on their obligations in this area and encourage the introduction of measures to reduce emissions and the production of waste and ensure that such waste is disposed of in an environmentally responsible manner.

community, health safety, environment



Directors' Remuneration Report

for the year ended 31 December 2006

Remuneration Committee

The Remuneration Committee comprises the two Non-executive Directors. It is responsible for determining and agreeing with the Board the framework for the remuneration of the Chief Executive, all other Executive Directors, the Chairman of the Company (if an Executive Director), the Company Secretary and such other members of the executive management as it feels appropriate to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options.

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

Remuneration policy

The Company aims to ensure that each individual's remuneration package is reasonable for the sector in which the Company operates and appropriate to attract, motivate and retain executives of a calibre necessary to ensure achievement of the Company's objectives and enhancement of shareholder value.

The Board is responsible for determining the total remuneration package for each Executive Director and reviewing this on an annual basis.

Executive remuneration

The Executive Directors' remuneration packages consist of the following elements:

- (i) basic annual salary;
- (ii) health cover;
- (iii) pension contribution; and
- (iv) bonus schemes comprising a combination of cash, deferred shares and share options.

Basic salaries are reviewed annually. The Board takes into consideration the remuneration paid by comparable companies in terms of asset size, market capitalisation and complexity of the Company's operations when considering appropriate salary levels.

Any reward of bonuses and share options is linked to the overall performance of the Company and the individual concerned.

Non-executive remuneration

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

Remuneration currently consists of a fixed fee which is set to reflect prescribed time commitments and the relative responsibilities of each Non-executive Director on the affairs of the Company. Additional consultancy fees are paid if the input required exceeds the anticipated levels. The Non-executive Directors currently hold share options issued prior to the listing of the Company's shares.

Directors and their interests

Ordinary shares and options

The Directors of the Company, who held office throughout the year ended 31 December 2006, had the following interests in the ordinary shares of the Company according to the register of Directors' interests.

	Share options held at 31 December 2005 and 31 December 2006	Option price	Exercise period	Shares held at 31 December 2006	Shares held at 31 December 2005
Graham Roberts	1,373,222 915,481	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	845,834	612,501
Bill Clough	1,029,916 686,611	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	40,078,617	45,028,617
Clive Line	572,176 572,176	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	283,333	—
Richard Robinson	143,044 143,044	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	50,000	50,000
Roger Davey	143,044 143,044	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	—	—

On 18 January 2007, Michael Hodgson was appointed a Director of the Company. Mr Hodgson has been awarded options over 600,000 shares, exercisable at the price of 32.25 pence, subject to the achievement of performance criteria, between 18 January 2008 and 17 January 2017. There have been no other changes to the Director's interests.

During the year ended 31 December 2006 the Company's shares have traded between 26.00 pence and 56.88 pence. On 31 December 2006 the closing price was 31.00 pence.

Directors and their interests continued
Remuneration – audited

Director	Salary \$	Pension \$	Cash bonus \$	Share bonus \$	Other \$	Total \$	For the period
							31 October 2005 to 31 December 2005 \$
Graham Roberts	160,797	11,611	18,236	127,141	6,051	323,836	41,498
Bill Clough	165,866	14,928	18,236	163,467	2,533	365,030	43,993
Clive Line	168,937	15,204	18,236	154,385	4,180	360,942	41,610
Richard Robinson	52,409 ⁽¹⁾	—	—	—	—	52,409	5,248
Roger Davey	23,843 ⁽²⁾	—	—	—	—	23,843	5,248
Total	571,852	41,743	54,708	444,993	12,764	1,126,060	137,597

Included in the remuneration report for the 1 October 2005 to 31 December 2005 are pension costs of \$9,642.

As disclosed at the time of the Company's Initial Public Offer, Graham Roberts, Bill Clough and Clive Line were each entitled to receive an amount equal to one year's salary payable in ordinary shares at the placing price of 30 pence. These shares were allotted on 2 August 2006 and in the case of Mr Roberts and Mr Line paid into personal pension plans held by these individuals.

(1) Of the fees received in 2006, \$29,026 related to services provided in 2005 not accrued at 31 December 2005.

(2) Of the fees received in 2006, \$4,146 related to service provided in 2005 not accrued at 31 December 2005.

The Directors present their report together with the audited financial statements for the year ended 31 December 2006.

Results and dividends

The Group loss for the year after taxation amounts to \$2,208,769 (prior period of three months: loss of \$1,467,860). The Directors do not recommend the payment of a dividend. The results for the year are set out on page 24 in the consolidated income statement.

Principal activities and business review

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

A detailed review of activities, business developments and the Company's projects is included in the Chairman's Statement and the Chief Executive's Statement on pages 2 to 11.

Substantial shareholdings

As at 20 April 2007 the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

Name	Number of shares held	Percentage
McRae Investments Pty Ltd ¹	22,049,651	19.91%
WM Clough Pty Ltd ¹	17,761,536	16.04%
JP Morgan Asset Management (UK) Limited	9,000,000	8.13%
BlackRock Investment Management (UK) Limited)	7,613,733	6.87%
Majedie Asset Management Limited	6,525,633	5.89%
Standard Bank plc	4,133,334	3.73%
Fleming and Partners Concentrated UK Equities	3,702,598	3.34%

¹ Bill Clough is a Director and is the sole shareholder of WM Clough Pty Ltd and is a Director and has a minority interest in McRae Investments Pty Ltd. Bill Clough is also the beneficial owner of Gigantic Resources Inc, which holds 267,430 ordinary shares representing 0.24% of the ordinary shares in total.

Share capital

Movements in share capital during the period are disclosed in note 16 to the financial statements.

No issues were made under the Long-term Incentive Plan and the Cash and Deferred Share Bonus Scheme, for employees for the year ended 31 December 2006. Subsequent to the year end options have been granted under the Long-term Incentive Plan to employees over 1,000,000 shares exercisable at a price of 32.25 pence, subject to achievement of performance criteria, between 18 January 2008 and 17 January 2017 (this grant included the grant of 600,000 options to Mr Michael Hodgson, a Director of the Company) and over 150,000 shares exercisable at a price of 38.40 pence, subject to achievement of performance criteria, between 30 March 2008 and 29 March 2017.

Creditor payment policy

It is the Group's policy to settle all amounts due to creditors in accordance with agreed terms and conditions agreed between the Group and suppliers, provided that all trading terms and conditions have been complied with. As at 31 December 2006, the Group had 39.9 days purchases outstanding in creditors.

Going concern

Following a review of the Company's financial position and its budgets and plans, the Directors have concluded that sufficient financial resources will be available to meet the Company's current and foreseeable working capital requirements. On this basis, they consider it appropriate to prepare the financial statements on the going concern basis.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in Annual Reports may differ from legislation in other jurisdictions.

Corporate governance

The Directors believe that the Company complies with the principles set out in The Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council so far as they consider is appropriate, having regard to the size and nature of activities of the Group.

Board composition

The Directors have responsibility for the overall corporate governance of the Group and recognise the need for the highest standards of behaviour and accountability. The Directors are committed to the principles underlying best practice in corporate governance and intend to comply with the principles of the Combined Code in such respects as they consider appropriate for a company of its size and nature. The Board has a wide range of experience directly relevant to the Company and its activities and its structure ensures that no one individual or group dominates the decision making process.

Committees

The Company has established an Audit Committee, a Remuneration Committee and an Executive Committee.

Audit Committee

In the early stages of the Company's development the Board considered it beneficial for the Finance Director to be a member of the Audit Committee. On 6 September 2006, the Finance Director stood down from the Audit Committee, which now comprises the two Non-executive Directors. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, considering and setting appropriate accounting policies, and reviewing the auditors' report relating to accounts and internal control systems. The Audit Committee meets at least twice a year.

Executive Committee

The Board has appointed an Executive Committee to oversee and coordinate the day-to-day running of the Company.

It is empowered to make decisions over a number of areas without reference to the full Board and specifically to deal with all matters relating to the daily operation of the Company.

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

Remuneration Committee

The Remuneration Committee is responsible for establishing the policies of executive remuneration and determining the remuneration and benefits of the individual executive directors. Full disclosure of the policies can be found in the Remuneration Report on page 18.

Share dealing

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

Internal controls

The Directors acknowledge their responsibility for the Company's system of internal controls and procedures and for reviewing the effectiveness of these and ensuring that management of its subsidiaries review the internal controls and procedures operating in the subsidiaries. Such controls and procedures are designed to safeguard the Company's and the Group's assets and ensure reliability of reporting information, financial and otherwise, for both internal use and external publication. Whilst conscious that no system can provide absolute assurance against material mis-statement, fraud, or loss, the Directors are satisfied that having regard to the Company's size and stage of development, the system of controls is currently adequate and effective.

Management of financial risks

The Board endeavours to balance the financial risks that the Company may have exposure to, with the desire to maximise value and returns for shareholders.

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

The main financial risks arising from the Group's activities are commodity prices, currency risk, liquidity and interest rate risk. The Board reviews and agrees policies for managing each of these risks and these are summarised below.

Commodity price risk

The Group is exposed to fluctuations in commodity prices and in particular the price of gold and copper. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts, where appropriate, in future.

Interest rate risk

The Group currently finances its operations through equity financing, has a short-term trade finance facility and fixed rate finance leases.

There is not considered to be any material interest rate risk. The Group's policy is to retain surplus funds as short-term deposits at prevailing market rates.

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

Management of financial risks continued

Liquidity risk

To date the Group has relied on shareholder funding, short-term trade finance and fixed rate finance leases to finance its operation. The Group maintains a credit line in Brazil through a bank agreement with a limit of Brazilian Real \$200,000 that can be used for daily working capital. This credit line was drawn to the value of Brazilian Real \$140,449 at the balance sheet date. As the Group has cash resources and steady income, the liquidity risk is not significant and is managed by control over expenditure.

Currency risk

Although the parent company is incorporated in the United Kingdom its financial statements and those of the Group are denominated in US Dollars.

Share issues have been priced solely in Sterling. Expenditure is in US Dollars, Sterling, Euros, Australian Dollars and Brazilian Real.

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

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

The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates.

International Financial Reporting Standards

The AIM rules require all AIM listed companies to prepare accounts in accordance with International Financial Reporting Standards (IFRS). Under the AIM rules, Serabi would be required to adopt IFRS for the year ended 31 December 2007. The Group has elected to adopt IFRS early and has prepared the accounts for the year in accordance with IFRS. Comparative information for the preceding period has been restated under the provisions of IFRS. Further details are set out in note 22 to the Financial Statements.

Post balance sheet events

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

Indemnification of Directors and officers

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

Auditors

PKF (UK) LLP have expressed their willingness to continue in office. A resolution to reappoint them as auditors will be put before the forthcoming Annual General Meeting.

Disclosure of audit information

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

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

By order of the Board



Clive Line

Company Secretary

23 April 2007

Independent Auditors' Report

to the members of Serabi Mining plc

We have audited the Group and Company financial statements ('the financial statements') of Serabi Mining plc for the year ended 31 December 2006 which comprise the consolidated income statement and the consolidated and Company balance sheets, cash flow statements, statements of changes in shareholders' equity and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes that specific information presented in the Chairman's Statement and the Chief Executive's Statement that is cross-referenced from the principal activities and business review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' remuneration report, the Chairman's Statement, the Chief Executive's Statement and the Finance Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its loss for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors
London UK
23 April 2007

Consolidated Income Statement

for the year ended 31 December 2006


		Group	
		For the year ended 31 December 2006	For the period from 1 October 2005 to 31 December 2005 (restated)
(expressed in US\$)	Notes		
Revenue	2	7,256,136	—
Operating expenses		(4,846,122)	—
Profit from operations		2,410,014	—
Administration expenses		(2,860,522)	(621,452)
Share-based payments		(331,338)	(422,298)
Depreciation of plant and equipment		(1,426,004)	(339,522)
Depreciation of mine asset		(232,097)	—
Loss on ordinary activities before interest and other income	3	(2,439,947)	(1,383,272)
Foreign exchange gain/(loss)		449,857	(35,703)
Interest payable	4	(339,328)	(69,929)
Interest receivable	4	120,649	21,044
Loss on ordinary activities before taxation		(2,208,769)	(1,467,860)
Taxation	5	—	—
Loss on ordinary activities after taxation		(2,208,769)	(1,467,860)
Loss per ordinary share (basic and diluted)	7	(2.04c)	(1.42c)

Balance Sheets

as at 31 December 2006

		Group		Company	
(expressed in US\$)	Notes	2006	2005 (restated)	2006	2005
Non-current assets					
Goodwill	8	1,752,516	1,752,516	—	—
Development and deferred exploration costs	8	6,454,074	17,420,146	418,354	1,073,225
Property, plant and equipment	9	22,203,706	5,763,233	2,079,073	46,802
Investments in subsidiaries	10	—	—	17,339,256	17,339,256
Other receivables	12	—	—	11,642,605	9,594,130
Total non-current assets		30,410,296	24,935,895	31,479,288	28,053,413
Current assets					
Inventories	11	2,441,783	1,825,479	—	—
Trade and other receivables	12	1,128,830	1,738,474	31,537	114,861
Prepayments and accrued income	12	1,521,347	1,080,077	43,588	310,501
Cash at bank and in hand	20	3,856,878	2,152,452	2,739,201	1,552,048
Total current assets		8,948,838	6,796,482	2,814,326	1,977,410
Current liabilities					
Trade and other payables	13	4,053,744	2,320,105	869,719	551,258
Accruals		176,252	131,432	138,594	95,300
Interest bearing liabilities	15	582,491	—	—	—
Total current liabilities		4,812,487	2,451,537	1,008,313	646,558
Net current assets		4,136,351	4,344,945	1,806,013	1,330,852
Total assets less current liabilities		34,546,647	29,280,840	33,285,301	29,384,265
Non-current liabilities					
Trade and other payables	13	180,314	244,724	—	—
Provisions for liabilities and charges	14	799,749	428,944	—	—
Interest bearing liabilities	15	368,778	—	—	—
Total non-current liabilities		1,348,841	673,668	—	—
Net assets		33,197,806	28,607,172	33,285,301	29,384,265
Equity					
Called up share capital	16	19,338,351	17,974,336	19,338,351	17,974,336
Share premium reserve		15,351,674	11,818,128	15,351,674	11,818,128
Option reserve		2,818,722	2,690,052	2,818,722	2,690,052
Translation reserve		382,502	(1,273,264)	—	—
Profit and loss account	17	(4,693,443)	(2,602,080)	(4,223,446)	(3,098,251)
Equity shareholders' funds		33,197,806	28,607,172	33,285,301	29,384,265

The financial statements were approved and authorised for issue by the Board of Directors on 23 April 2007 and signed on its behalf by:



Clive Line
Finance Director
23 April 2007

Statements of Changes in Shareholders' Equity

for the year ended 31 December 2006

(expressed in US\$) Consolidated	Share capital	Share premium	Share option reserve	Translation reserve	Profit and loss account	Total equity
Equity shareholders' funds at 1 October 2005 (restated)	17,974,336	11,818,128	1,983,521	—	(1,134,220)	30,641,765
Foreign currency adjustments	—	—	—	(1,273,264)	—	(1,273,264)
Loss for period	—	—	—	—	(1,467,860)	(1,467,860)
Total recognised loss for the period	—	—	—	(1,273,264)	(1,467,860)	(2,741,124)
Share option expense	—	—	706,531	—	—	706,531
Equity shareholders' funds at 31 December 2005 (restated)	17,974,336	11,818,128	2,690,052	(1,273,264)	(2,602,080)	28,607,172
Foreign currency adjustments	—	—	—	1,655,766	—	1,655,766
Loss for year	—	—	—	—	(2,208,769)	(2,208,769)
Total recognised loss for the year	—	—	—	1,655,766	(2,208,769)	(553,003)
Share option expense	—	—	246,076	—	—	246,076
Issue of ordinary shares	1,282,386	3,698,827	—	—	—	4,981,213
Conversion of options	81,629	88,741	(117,406)	—	117,406	170,370
Share issue expenses	—	(254,022)	—	—	—	(254,022)
Equity shareholders' funds at 31 December 2006	19,338,351	15,351,674	2,818,722	382,502	(4,693,443)	33,197,806

Company	Share capital	Share premium	Share option reserve	Profit and loss account	Total equity
Equity shareholders' funds at 1 October 2005	17,974,336	11,818,128	1,983,521	(2,315,880)	29,460,105
Loss for period	—	—	—	(782,371)	(782,371)
Share option expense	—	—	706,531	—	706,531
Equity shareholders' funds at 31 December 2005	17,974,336	11,818,128	2,690,052	(3,098,251)	29,384,265
Loss for year	—	—	—	(1,242,601)	(1,242,601)
Share option expense	—	—	246,076	—	246,076
Issue of ordinary shares	1,282,386	3,698,827	—	—	4,981,213
Conversion of options	81,629	88,741	(117,406)	117,406	170,370
Share issue expenses	—	(254,022)	—	—	(254,022)
Equity shareholders' funds at 31 December 2006	19,338,351	15,351,674	2,818,722	(4,223,446)	33,285,301

Cash Flow Statements

for the year ended 31 December 2006

	Group		Company	
	For the year ended 31 December 2006	For the period from 1 October 2005 to 31 December 2005	For the year ended 31 December 2006	For the period from 1 October 2005 to 31 December 2005
(expressed in US\$)				
Cash outflows from operating activities				
Operating loss	(2,439,947)	(1,383,272)	(1,900,778)	(746,919)
Depreciation – plant, equipment and mining properties	1,658,101	339,522	81,931	3,681
Option costs	142,443	422,298	142,443	422,298
Share-based payments	188,895	—	188,895	—
Interest paid	(339,328)	(69,929)	—	—
Foreign exchange	(281,231)	(55,679)	—	—
Changes in working capital				
(Increase) in inventories	(443,136)	(1,003,810)	—	—
Decrease/(increase) in receivables, prepayments and accrued income	399,765	(1,754,743)	350,237	(132,603)
Increase in payables, accruals and provisions	1,314,609	709,714	361,755	68,608
Net cash flow from operations	200,171	(2,795,899)	(775,517)	(384,935)
Investing activities				
Proceeds of sale of fixed assets	114,681	—	—	—
Purchase of tangible fixed assets	(2,826,077)	(1,627,113)	(466,131)	(29,497)
Exploration and development expenditure ⁽¹⁾	(373,568)	(967,746)	(633,469)	—
Capital and loan investments in subsidiaries	—	—	(2,048,475)	(5,236,756)
Interest received	120,649	21,044	106,052	21,044
Net cash outflow on investing activities	(2,964,315)	(2,573,815)	(3,042,023)	(5,245,209)
Financing activities				
Issue of ordinary share capital	4,536,220	—	4,536,220	—
Capital element of finance lease payments	(327,406)	—	—	—
Conversion of options	170,370	—	170,370	—
Payment of share issue costs	(254,022)	—	(254,022)	—
Net cash inflow from financing activities	4,125,162	—	4,452,568	—
Net increase/(decrease) in cash and cash equivalents	1,361,018	(5,369,714)	635,028	(5,630,144)
Cash and cash equivalents at beginning of period	2,152,452	7,557,138	1,552,048	7,238,688
Exchange difference on cash	277,732	(34,972)	552,125	(56,496)
Cash and cash equivalents at end of period	3,791,202	2,152,452	2,739,201	1,552,048

(1) Exploration and development expenditure of the Group for 2006 is stated net of pre-operating income of US\$2,839,018.

Notes to the Financial Statements

1. Significant accounting policies

(a) Basis of preparation

Serabi Mining plc (the "Company") is a limited company incorporated and domiciled in the United Kingdom. The registered office and principal place of business are disclosed in the corporate directory section of the Annual Report.

The principal activities of the Group are described in the Directors' Report on page 20.

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

The financial statements have been prepared in accordance with International Financial Reporting Standards and their interpretations issued by the International Accounting Standards Board and adopted for use within the European Union (IFRS).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 October 2005 for the purpose of the transition to IFRS. A detailed explanation as to how the transition to IFRS has affected the reported financial position, financial performance and cash flows is provided in note 22.

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is recognised where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(ii) Transactions eliminated on consolidation

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

(c) Foreign currencies

The Group's presentation currency is US Dollars, and has been selected based on the currency of the primary economic environment in which the Group as a whole operates.

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

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

The US Dollar/Sterling exchange rate at 31 December 2006 was 1.9591. The US Dollar/Brazilian Real exchange rate at 31 December 2006 was 2.1385.

(d) Property, plant and equipment

(i) Owned assets

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

Upon demonstration of the feasibility of commercial production, any past deferred exploration, evaluation and development costs related to that operation are reclassified as Mining Properties. They are stated at cost less amortisation charges and any provision for impairment. Amortisation is calculated on the Unit of Production basis.

(ii) Leased assets

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

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

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

1. Significant accounting policies continued

(d) Property, plant and equipment continued

(iv) Depreciation

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

Mining assets

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

Other assets

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

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

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

(e) Deferred exploration and evaluation costs

All costs related to the exploration of mineral properties are capitalised and deferred until either the properties are demonstrated to be commercially feasible (see note d(i)) or until the properties are sold, allowed to lapse or abandoned, at which time any capitalised costs are written off to the income statement.

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred.

Exploration and evaluation costs arising following the acquisition of an exploration licence are capitalised on a project by project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical and administrative overheads but not general overheads. Deferred exploration costs are carried at historical cost less any impairment losses recognised.

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

(f) Trade and other receivables

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

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

Receivables in respect of sale of gold/copper concentrate are revalued using metal prices ruling at the balance sheet date.

(g) Cash and cash equivalents

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

(h) Impairment

Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less cost to sell and value in use) if that is less than the asset's carrying amount.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances applies:

- (i) unexpected geological occurrences that render the resource uneconomic;
- (ii) title to the asset is compromised;
- (iii) variations in metal prices that render the project uneconomic;
- (iv) variations in the currency of operation;

(i) Share capital

The Company's ordinary shares are classified as equity.

Called up share capital is recorded at par value of 10 pence per share.

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

(j) Borrowings

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

Notes to the Financial Statements continued

1. Significant accounting policies continued

(k) Employee benefits

(i) Share-based payment transactions

The Group issues share-based payments to certain employees, which are measured at fair value at date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

(ii) Share options

In accordance with IFRS 2 the entity measures the goods or services received by measurement of the fair value of the share options. This cost is charged to the profit and loss account. The Black-Scholes method has been used to calculate this fair value. The expected life of the instrument used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

(iii) Pension costs

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

(l) Provisions

Provisions are recognised when:

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

(m) Trade and other payables

Trade and other payables are not interest bearing and are stated at cost.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value.

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

Gold bullion and concentrate and any other production inventories are valued at the lower of cost and net realisable value. Cost will reflect appropriate mining, processing, transport and labour costs as well as an allocation of mine services overheads.

Net realisable value is the estimated selling price in the ordinary course of business, after deducting the costs of marketing, selling and distribution to customers.

(o) Revenue

Turnover represents amounts receivable in respect of sales of gold and by products. Turnover represents only sales for which contracts have been agreed and for which the product has been delivered to the purchaser in the manner set out in the contract. Turnover is stated net of any applicable sales taxes.

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

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

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

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

(p) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested. Interest income is recognised in the income statement as it accrues, using the effective interest method.

1. Significant accounting policies continued

(q) Taxation

The charge for taxation is based on the result for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet method.

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

(r) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has only one business segment, namely gold mining and exploration. This is considered to be the primary reporting segment for the Group.

The Group operates in three geographic segments, namely, Brazil, the United Kingdom and Australia. This is considered to be the secondary reporting segment for the Group.

(s) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to the Group's cash generating units.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates.

Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

(t) Critical accounting estimates and judgements

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

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

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

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Revenue recognition

Following the period end, revenues recorded can vary due to assay, price and foreign exchange fluctuations. Management monitors these changes closely and the Directors have determined that the impact on recorded revenues is not material and adjustments will flow through future periods.

Impairment of goodwill

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

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

2. Segmental analysis

The Group's primary basis of segmentation is based on business activities. The Group has only one business segment, namely gold mining and exploration.

The Group's secondary segments are based on geographic segments. An analysis of activities is as follows:

Revenue

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

An analysis of total assets by location is as follows:

	Total assets employed	
	31 December 2006 \$	31 December 2005 \$
Brazil	31,781,243	26,171,380
UK	7,064,269	5,178,378
Australia	513,622	382,619
	39,359,134	31,732,377

Notes to the Financial Statements continued

2. Segmental analysis continued

During the year, the following amounts were expended on development and deferred exploration costs:

	Group	
	For the year ended 31 December 2006 \$	For the period from 1 October 2005 to 31 December 2005 \$
Brazil	2,808,778	824,635
UK	664,779	364,424
Australia	98,759	32,911
	3,572,316	1,221,970

During the year, the following amounts were expended on property, plant and equipment:

	Group	
	For the year ended 31 December 2006 \$	For the period from 1 October 2005 to 31 December 2005 \$
Brazil	4,009,104	1,583,284
UK	466,131	29,497
Australia	63,841	11,332
	4,539,076	1,624,113

All assets are utilised in gold mining and exploration activities.

3. Statutory information

The following amounts were charged to the profit and loss account and balance sheet during the period:

	Group	
	For the year ended 31 December 2006 \$	For the period from 1 October 2005 to 31 December 2005 \$
Audit fee for the Company and consolidation	63,149	25,000
Audit of accounts of associates of the Company	116,750	40,475
Other services pursuant to legislation	—	—
Other services relating to tax	44,906	8,507
All other services	22,112	13,305
Depreciation (plant and equipment)	1,426,004	339,522
Depreciation (mining properties)	232,097	—
Operating lease charges	69,316	19,198

4. Interest payable and receivable

	Group	
	For the year ended 31 December 2006 \$	For the period from 1 October 2005 to 31 December 2005 \$
Interest payable on short-term trade finance	(260,439)	(69,929)
Interest payable on lease obligations	(32,386)	—
Other interest payable	(46,503)	—
Interest payable	(339,328)	(69,929)
Interest receivable on short-term deposits	120,649	21,044
Net interest	(218,679)	(48,885)

5. Taxation

	Group	
	For the year ended 31 December 2006 \$	For the period from 1 October 2005 to 31 December 2005 \$
Current tax		
UK tax	—	—
Foreign tax	—	—
Deferred tax	—	—
Total	—	—

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 30%.

The differences are explained as follows:

(Loss) on ordinary activities before tax	(2,208,769)	(1,467,860)
Tax thereon at UK corporate tax rate of 30%	(662,631)	(440,358)
Factors affecting the tax charge:		
Expenses not deductible for tax purposes	148,058	128,022
Income not taxable	(14,041)	—
Lower tax rates overseas	174	(9,441)
Unrecognised tax losses carried forward	528,440	321,777
Current tax	—	—

There is a potential deferred tax asset of \$1.8 million (2005: \$860,000) relating primarily to carried forward tax losses. This asset has not been recognised in the financial statements because of uncertainty as to the time period over which the asset may be recovered.

6. Employee information

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

	For the year ended 31 December 2006 Number	For the period from 1 October 2005 to 31 December 2005 Number
Management and administration	21	23
Exploration	55	57
Mine development and operations	314	325
Total	390	405
	\$	\$

Staff costs		
Wages and salaries	5,271,743	1,105,166
Cost of incentive scheme shares and director shares vested	691,069	706,531
Social security costs	1,036,057	421,144
Pension contributions	347,397	93,488
Total	7,347,266	2,326,329

Details of the remuneration of the Directors are set out on page 18.

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

Serabi Mineração Ltda contributes via social security payments to the state pension scheme which operates in Brazil, and to which all its employees are entitled.

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

	For the year ended 31 December 2006 \$	For the period from 1 October 2005 to 31 December 2005 \$
Salary and short-term employee benefits	639,324	127,955
Post employment benefits	41,743	9,642
Share-based payments	444,993	—
Total	1,126,060	137,597

The wages and salaries expense for the Company comprises the following:

Wages and salaries	748,143	181,184
Costs of incentive scheme shares and Director shares vested	691,069	706,531
Social security costs	61,690	12,981
Pension contributions	41,743	11,086
Total	1,542,645	911,781

Notes to the Financial Statements continued

7. Loss per share

The calculation of the basic loss per share of 2.04 cents (2005 loss per share: 1.42 cents) is based on the loss attributable to ordinary shareholders of \$2,208,769 (2005 loss: \$1,467,860) and on the weighted average number of ordinary shares of 108,412,130 (2005: 102,991,636) in issue during the period.

In accordance with IAS 33, no diluted earnings per share is presented as the effect on the exercise of share options would be to decrease the loss per share.

Details of share options that could potentially dilute earnings per share in future periods are set out in note 16.

8. Intangible assets

Goodwill

	Group
	\$
Cost	
Balance at 1 October 2005, 31 December 2005 and 31 December 2006	1,752,516
Amortisation	
Balance at 1 October 2005, 31 December 2005 and 31 December 2006	—
Net book value at 1 October 2005, 31 December 2005 and 31 December 2006	1,752,516

On 14 July 2004, Serabi Mining plc acquired the whole of the issued share capital of Moonlight Express Holdings Ltd for a consideration of US\$1. Goodwill arising on this purchase amounted to \$1,752,516.

Goodwill is considered for impairment on an annual basis. The carrying value of goodwill is dependent on the ongoing activities of Serabi Mineração Ltda. The Directors do not consider there is any impairment to the carrying value of goodwill at this time.

Development and deferred exploration costs

	Group		Company	
	31 December 2006 \$	31 December 2005 \$	31 December 2006 \$	31 December 2005 \$
Cost				
Opening balance (restated)	17,420,146	17,017,111	1,073,225	789,001
Exploration and development expenditure ⁽¹⁾	733,298	1,221,970	993,200	284,224
Exchange	1,423,809	(818,935)	—	—
Transfer to tangible assets (mining property)	(13,123,179)	—	(1,648,071)	—
Total as at end of period	6,454,074	17,420,146	418,354	1,073,225

(1) Exploration and development expenditure of the Group for 2006 is stated net of pre-operating income of US\$2,839,018.

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

9. Tangible assets

Property, plant and equipment

	Group				Company			
	Land and buildings – at cost \$	Mining property – at cost \$	Plant and equipment – at cost \$	Total \$	Plant and equipment – at cost \$	Mining property – at cost \$	Total \$	
2006								
Cost								
Balance at 31 December 2005 (restated)	1,237,818	—	5,293,766	6,531,584	52,762	—	52,762	
Additions	829,625	500,000	3,209,451	4,539,076	466,131	—	466,131	
Transfer from intangible assets	—	13,123,179	—	13,123,179	—	1,648,071	1,648,071	
Exchange	133,996	—	508,616	642,612	—	—	—	
Disposals	—	—	(151,380)	(151,380)	—	—	—	
At 31 December 2006	2,201,439	13,623,179	8,860,453	24,685,071	518,893	1,648,071	2,166,964	
Depreciation								
Balance at 31 December 2005 (restated)	(93,446)	—	(674,905)	(768,351)	(5,960)	—	(5,960)	
Charge for period	(416,956)	(232,097)	(1,009,048)	(1,658,101)	(52,783)	(29,148)	(81,931)	
Exchange	(22,482)	—	(69,129)	(91,611)	—	—	—	
Eliminated on sale of asset	—	—	36,698	36,698	—	—	—	
At 31 December 2006	(532,884)	(232,097)	(1,716,384)	(2,481,365)	(58,743)	(29,148)	(87,891)	
Net book value at 31 December 2006	1,668,555	13,391,082	7,144,069	22,203,706	460,150	1,618,923	2,079,073	
Net book value at 31 December 2005 (restated)	1,144,372	—	4,618,861	5,763,233	46,802	—	46,802	

Included in Property, Plant and Equipment, are assets acquired under finance leases with net book value of \$1,164,724 (2005: nil). These assets are secured by the lessors title to the leased assets.

9. Tangible assets continued

Property, plant and equipment continued

	Group			Company	
	Land and buildings – at cost \$	Plant and equipment – at cost \$	Total \$	Plant and equipment – at cost \$	Total \$
2005					
Cost					
Balance at 30 September 2005 (restated)	468,489	4,748,502	5,216,991	23,265	23,265
Additions	829,625	794,488	1,624,113	29,497	29,497
Exchange	(60,296)	(249,224)	(309,520)	—	—
At 31 December 2005 (restated)	1,237,818	5,293,766	6,531,584	52,762	52,762
Depreciation					
Balance at 30 September 2005 (restated)	(75,210)	(387,140)	(462,350)	(2,279)	(2,279)
Charge for period	(22,486)	(317,036)	(339,522)	(3,681)	(3,681)
Exchange	4,250	29,271	33,521	—	—
At 31 December 2005 (restated)	(93,446)	(674,905)	(768,351)	(5,960)	(5,960)
Net book value at 31 December 2005 (restated)	1,144,372	4,618,861	5,763,233	46,802	46,802
Net book value at 30 September 2005 (restated)	393,279	4,361,362	4,754,641	20,986	20,986

10. Investments held as fixed assets

The Group consists of the following subsidiary undertakings:

Name	Incorporated	Activity	% holding
Serabi Mineração Ltda	Brazil	Gold mining and exploration	99.99%*
Moonlight Express Holdings Ltd	British Virgin Islands	Investment	100%
Serabi Mining Services Pty Ltd	Australia	Technical services	100%

* indirectly held

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

11. Inventories

	Group		Company	
	31 December 2006 \$	31 December 2005 \$	31 December 2006 \$	31 December 2005 \$
Bullion and work in progress	918,269	424,950	—	—
Consumables	1,523,514	1,400,529	—	—
Inventories	2,441,783	1,825,479	—	—

The replacement cost of stocks does not differ materially from the amount stated above.

The cost of inventories recognised as an expense during the period was \$3,753,583 (2005: \$1,934,553).

12. Trade and other receivables

	Group		Company	
	31 December 2006 \$	31 December 2005 \$	31 December 2006 \$	31 December 2005 \$
Current				
Trade receivables	1,049,735	1,195,590	—	—
Other receivables	79,095	542,884	31,537	114,861
Trade and other receivables	1,128,830	1,738,474	31,537	114,861
Prepayments	1,503,826	1,054,457	26,667	284,881
Accrued income	17,521	25,620	16,921	25,620
Prepayments and accrued income	1,521,347	1,080,077	43,588	310,501
Non-current				
Amounts owed by subsidiaries	—	—	11,642,605	9,594,130
Other receivables	—	—	11,642,605	9,594,130

Notes to the Financial Statements continued

13. Trade and other payables

	Group		Company	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	\$	\$	\$	\$
Current				
Trade payables	2,433,418	1,417,997	27,008	3,759
Other payables	945,013	303,175	392,331	167,047
Employee benefits	407,707	82,575	27,628	15,622
Other taxes and social security	267,606	516,358	13,629	15,967
Amounts due to subsidiaries	—	—	409,123	348,863
Trade and other payables	4,053,744	2,320,105	869,719	551,258
Non-current				
Between one and five years				
Other taxes and social security	180,314	244,724	—	—
	180,314	244,724	—	—

14. Non-current provisions

Contingency provision

	Group		Company	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	\$	\$	\$	\$
Opening balance	428,944	451,528	—	—
Released in year	(162,676)	—	—	—
Exchange	33,481	(22,584)	—	—
Closing balance	299,749	428,944	—	—

Environmental rehabilitation provision

	Group		Company	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	\$	\$	\$	\$
Opening balance	—	—	—	—
Provided for in year	500,000	—	—	—
Closing balance	500,000	—	—	—
Total non-current provisions	799,749	428,944	—	—

The contingency provision covers claims that might be brought against Serabi Mineração Ltda in relation to transactions and contracts entered into between 2002 and the end of 2004. The Group understands that dependent on their nature, claims must be registered within either two years or five years of the event. The Group has released that portion of the provision that it deems is no longer required and will make further releases of the provision as the time period for bringing such claims expires if not already utilised.

The environmental rehabilitation provision has been established to cover any asset decommissioning and rehabilitation obligations. Such obligations include the dismantling of infrastructure, removal of residual materials and remediation of disturbed areas. The provision does not allow for any additional obligations expected from future developments.

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

15. Interest bearing liabilities

Leasing arrangements

Finance leases relate to mining equipment with varying lease terms between one and three years. Following the lease periods the Group will own these assets. The Group's obligations under finance leases are secured by the lessors title to the leased assets.

Finance lease liabilities

	Group	
	Minimum lease payments	
	31 December 2006	31 December 2005
	\$	\$
No later than one year	616,611	—
Later than one year and not later than five years	419,510	—
	1,036,121	—
Less: future finance charges	(150,528)	—
Present value of minimum lease payments	885,593	—

15. Interest bearing liabilities continued

Finance lease liabilities continued

	Group	
	31 December 2006 \$	31 December 2005 \$
Interest bearing liabilities – current:		
Finance leases	516,815	—
Bank overdraft	65,676	—
	582,491	—
Interest bearing liabilities – non-current:		
Finance leases	368,778	—

16. Share capital

	Number	£
Authorised		
Ordinary shares of 10 pence each	200,000,000	20,000,000

There has been no movement in authorised capital during the year.

	2006		2005	
	Number	\$	Number	\$
Allotted, called up and fully paid	110,751,608	19,338,351	102,991,636	17,974,336
Movements in issued share capital				
	31 December 2006 Number	31 December 2006 \$	31 December 2005 Number	31 December 2005 \$
Opening balance	102,991,636	17,974,336	102,991,636	17,974,336
Issue of shares for cash	6,500,000	1,134,055	—	—
Bonus share award	816,666	148,331	—	—
Exercise of options	443,306	81,629	—	—
Closing balance	110,751,608	19,338,351	102,991,636	17,974,336

During the year:

- (i) 6.5 million shares were issued for cash at 40 pence per share raising a total of £2.46 million net of expenses;
- (ii) 816,666 shares were granted to Directors of the Company in accordance with undertakings made at the time of the Company's listing; and
- (iii) 443,306 options were exercised raising £92,244.

Options to subscribe for ordinary shares

Pre-IPO share option plan

At the beginning of the period there were 11,443,516 options outstanding to Directors and certain employees of the Group under this plan.

In compliance with IFRS 2 the Company has attributed a fair value to the issue of the options and has used the Black-Scholes calculation method to calculate this fair value. The fair value of these options has been charged to the profit and loss account or capitalised as an intangible asset as appropriate over the vesting period. The following assumptions were made in the calculation of the fair value:

	15p option	30p option
Risk free rate	4.75%	4.75%
Strike price	15p	30p
Volatility (based on similar companies)	30%	30%
Share price on date of issue ⁽¹⁾	30p	30p
Expected life of option (average)	3.07 years	3.86 years

(1) As the Company's shares were not traded on a recognised exchange at the date of issue, the assumed price is the price at which shares were offered under the IPO.

On the basis of the above the Company has calculated the fair value of 15 pence options and 30 pence options to be 17.152 pence and 9.174 pence respectively. During the period to 31 December 2006 a total charge of \$246,076 (2005: \$706,531) has been recorded in these financial statements. There is no further charge to be made in future financial statements in respect of these options. All vesting conditions in respect of these options have been met by the holders.

As at 31 December 2006 – Pre-IPO share option plan

Option period	Exercise price	Grant date	Final exercise date	Options in issue at start of period	Options granted during period	Options exercised during period	Options lapsed during period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
30 Nov 2005 to 1 April 2016	£0.15	25 April 2005	1 April 2016	6,382,621	—	271,653	—	6,110,968	36.3p	9.25
1 April 2006 to 1 April 2016	£0.30	25 April 2005	1 April 2016	5,060,895	—	171,653	—	4,889,242	46.8p	9.25
Total				11,443,516	—	443,306	—	11,000,210		9.25

Notes to the Financial Statements continued

16. Share capital continued

Options to subscribe for ordinary shares continued

As at 31 December 2006 – Pre-IPO share option plan continued

The following share options granted under the Pre-IPO Share Option Plan were exercised during the financial year:

	Option value	Number exercised	Exercise date	Share price at exercise date (pence)
	15p	171,653	7 Feb 06	38.0
	30p	171,653	8 May 06	46.8
	15p	100,000	12 Dec 06	33.4
Total		443,306		

As at 31 December 2005 – Pre-IPO share option plan

Option period	Exercise price	Grant date	Final exercise date	Options in issue at start of period	Options granted during period	Options exercised during period	Options lapsed during period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
30 Nov 2005 to 1 April 2016	£0.15	25 April 2005	1 April 2016	6,382,621	—	—	—	6,382,621	n/a	10.25
1 April 2006 to 1 April 2016	£0.30	25 April 2005	1 April 2016	5,060,895	—	—	—	5,060,895	n/a	10.25
Total				11,443,516	—	—	—	11,443,516		10.25

KBC/Ambrian options

Pursuant to the Company's Initial Public Offer on 10 May 2005, the Company granted to each of KBC Peel Hunt Ltd and Ambrian Partners Limited as joint brokers an option to subscribe for 266,667 new ordinary shares at a price of 33 pence. Each of these options may be exercised at any time from 10 May 2005 to 9 May 2010. At the date of this report these options have not been exercised.

Serabi Mining plc Long-term Incentive Plan 2005

The Company has in place a Long-term Incentive Plan. No options have been issued under this plan during the year, however subsequent to the year-end the following options have been granted to employees under the Long-term Incentive Plan:

- (i) 1,000,000 options exercisable at a price of 32.25 pence, subject to achievement of performance criteria, between 18 January 2008 and 17 January 2017; and
- (ii) 150,000 options exercisable at a price of 38.40 pence, subject to achievement of performance criteria, between 30 March 2008 and 29 March 2017.

17. Profit and loss account

A separate profit and loss account for Serabi Mining plc has not been prepared as permitted by the Section 230 of the Companies Act of 1985. The loss of the Company during 2006 was \$1,242,601 (2005 loss: \$782,371).

18. Commitments and contingencies

Capital commitments

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

Management estimates that the cost over the next twelve months of fulfilling the minimum contracted commitments on all the properties in which the Group has an interest is \$590,530.

Operating lease commitments

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

	Group		Company	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	\$	\$	\$	\$
Commitments falling due:				
Within one year	54,029	42,286	40,201	26,483
Between one year and five years	—	35,311	—	35,311
Total	54,029	77,597	40,201	61,794

Contingencies

The consolidated entity maintains a credit line in Brazil, limited to Brazilian Real \$200,000 that can be used for daily working capital. This credit line was drawn down to the value of Brazilian Real \$140,449 at the balance sheet date.

19. Related party transactions

Other than further loans advanced to subsidiary entities of US\$2,048,475, the Company has not entered into any related party transactions during the year.

20. Financial instruments

The Group's financial instruments at 31 December 2006 comprise cash balances and items such as trade debtors and creditors, which arise directly from trading operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

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

The main financial risks arising from the Group's activities are commodity prices, currency risk, liquidity and interest rate risk. The Board reviews and agrees policies for managing each of these risks and these are summarised below:

Commodity price risk

The Group is exposed to fluctuations in commodity prices and in particular the price of gold and copper. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts, where appropriate, in future.

Interest rate risk

The Group currently finances its operations through equity financing, has a short-term trade finance facility and fixed rate finance leases.

					Fixed interest maturity		
		Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	One year or less \$	Over one to five years \$	Total \$
2006	Note						
Financial assets							
Cash		4.06	—	3,856,878	—	—	3,856,878
Receivables	12	—	1,128,830	—	—	—	1,128,830
Total			1,128,830	3,856,878	—	—	4,985,708
Financial liabilities							
Payables	13	—	4,410,310	—	—	—	4,410,310
Interest bearing liabilities	15	17.00	—	65,676	516,815	368,778	951,269
Total			4,410,310	65,676	516,815	368,778	5,361,579
					Fixed interest maturity		
		Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	One year or less \$	Over one to five years \$	Total \$
2005	Note						
Financial assets							
Cash		3.91	—	2,152,452	—	—	2,152,452
Receivables	12	—	1,738,474	—	—	—	1,738,474
Total			1,738,474	2,152,452	—	—	3,890,926
Financial liabilities							
Payables	13	—	2,696,261	—	—	—	2,696,261
Interest bearing liabilities	15	—	—	—	—	—	—
Total			2,696,261	—	—	—	2,696,261

There is not considered to be any material interest rate risk. The Group's policy is to retain surplus funds as short-term deposits, of up to four weeks duration, at prevailing market rates.

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

Liquidity risk

To date the Group has relied on shareholder funding, short-term trade finance and fixed rate finance leases to finance its operation. The Group maintains a credit line in Brazil through a bank agreement with a limit of Brazilian Real \$200,000 that can be used for daily working capital. This credit line was drawn down to the value of Brazilian Real \$140,449 at the balance sheet date. As the Group has cash resources and steady income, the liquidity risk is not significant and is managed by control over expenditure.

Currency risk

Although the parent company is incorporated in the United Kingdom its financial statements and those of the Group are denominated in US Dollars.

Share issues have been priced solely in Sterling. Expenditure is in US Dollars, Sterling, Euros, Australian Dollars and Brazilian Real.

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

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

The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates.

Notes to the Financial Statements continued

20. Financial instruments continued

Currency risk continued

The Group considers book value to equal fair value.

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	
	31 December 2006 \$	31 December 2005 \$
US Dollar	1,026,990	557,694
Sterling	2,733,007	1,494,354
Brazilian Real	(65,676)	33,167
Australian Dollars	96,881	67,237
Total	3,791,202	2,152,452

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

21. Post balance sheet events

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

22. Transition to IFRS

Introduction

The Group has adopted International Financial Reporting Standards as adopted for use in the European Union (IFRS) with effect from 1 January 2006. In accordance with IFRS 1, the Group's transition date is 1 October 2005 being the start date for which the Group will present full comparatives information in the 2006 Annual Report and Accounts.

An exercise to assess the full impact that the change to IFRS has had on the Group's reported equity, reported losses and accounting policies, has been completed. This is explained in more detail below:

Basis of transition

The accounting policies set out in these financial statements have been applied in preparing the restatement of the financial statements for the three month period ended 31 December 2005 and in the preparation of an opening IFRS balance sheet at 1 October 2005 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

IFRS 1 exemptions

The Group has elected to apply the following exemptions from full retrospective application:

- Business combinations: the Group has chosen not to restate business combinations in accordance with IFRS 3 prior to 1 October 2005.
- Fair value or revaluation at deemed cost: the Group has not elected to restate items of property, plant and equipment to fair value at transition date.
- Cumulative translation differences: the Group has elected to set the previously accumulated currency translation difference to zero at the date of transition.

22. Transition to IFRS continued

Effects of adopting IFRS on the Group's accounting policies

The adoption of IAS 21, 'The effects of changes in foreign exchange rates', has resulted in a change of accounting policy on the translation of non-monetary assets into the presentation currency of the Group. Previously, non-monetary assets denominated in a foreign currency were recognised using the rate at the date of acquisition of the assets (the temporal method). Under IFRS, all such assets are required to be translated into the presentation currency using the exchange rate ruling at the balance sheet date (the closing rate method).

(expressed in US\$) 1 October 2005	Note	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets				
Goodwill		1,752,516	—	1,752,516
Development and deferred exploration costs	a	14,609,905	2,407,206	17,017,111
Property, plant and equipment	a	4,088,030	666,611	4,754,641
Total non-current assets		20,450,451	3,073,817	23,524,268
Current assets				
Inventories		902,123	—	902,123
Trade and other receivables		789,541	—	789,541
Prepayments and accrued income		372,730	—	372,730
Cash at bank and in hand		7,557,138	—	7,557,138
Total current assets		9,621,532	—	9,621,532
Current liabilities				
Trade and other payables		2,002,507	—	2,002,507
Accruals		50,000	—	50,000
Total current liabilities		2,052,507	—	2,052,507
Net current assets		7,569,025	—	7,569,025
Total assets less current liabilities		28,019,476	3,073,817	31,093,293
Non-current liabilities				
Other payables		—	—	—
Provisions		451,528	—	451,528
Total non-current assets		451,528	—	451,528
Net assets		27,567,948	3,073,817	30,641,765
Equity				
Called up share capital		17,974,336	—	17,974,336
Share premium reserve		11,818,128	—	11,818,128
Option reserve		1,983,521	—	1,983,521
Profit and loss account	b	(4,208,037)	3,073,817	(1,134,220)
Equity shareholders' funds		27,567,948	3,073,817	30,641,765

Notes to the Financial Statements continued

22. Transition to IFRS continued

(expressed in US\$)
31 December 2005

	Note	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets				
Goodwill		1,752,516	—	1,752,516
Development and deferred exploration costs	a	15,831,875	1,588,271	17,420,146
Property, plant and equipment	a	5,375,621	387,612	5,763,233
Total non-current assets		22,960,012	1,975,883	24,935,895
Current assets				
Inventories		1,825,479	—	1,825,479
Trade and other receivables		1,738,474	—	1,738,474
Prepayments and accrued income		1,080,077	—	1,080,077
Cash at bank and in hand		2,152,452	—	2,152,452
Total current assets		6,796,482	—	6,796,482
Current liabilities				
Trade and other payables		2,320,105	—	2,320,105
Accruals		131,432	—	131,432
Total current liabilities		2,451,537	—	2,451,537
Net current assets		4,344,945	—	4,344,945
Total assets less current liabilities		27,304,957	1,975,883	29,280,840
Non-current liabilities				
Other payables		244,724	—	244,724
Provisions		428,944	—	428,944
Total non-current assets		673,668	—	673,668
Net Assets		26,631,289	1,975,883	28,607,172
Equity				
Called up share capital		17,974,336	—	17,974,336
Share premium reserve		11,818,128	—	11,818,128
Option reserve		2,690,052	—	2,690,052
Translation reserve	c	—	(1,273,264)	(1,273,264)
Profit and loss account	c	(5,851,227)	3,249,147	(2,602,080)
Equity shareholders' funds		26,631,289	1,975,883	28,607,172

Notes to the reconciliation of equity

(a) The adoption of IAS 21 has resulted in a change in the accounting policy for the conversion of non-monetary assets being Property, Plant and Equipment and Development and Deferred Exploration expenditure.

Previously the Group had used the temporal method of conversion of these assets. Under IAS 21, the closing rate method in valuing these assets is used.

(b) The effect of the adjustment on equity is US\$3,073,817, and the amount has been taken to retained earnings.

(c) The effect of the adjustment on equity is as follows, and the amount has been identified separately as a translation reserve.

(expressed in US\$)	31 December 2005
Exchange gain arising on net equity at the date of transition	3,073,817
Exchange loss previously recognised transferred to translation reserve	175,330
Movement in retained earnings	3,249,147
Exchange loss arising in the period under IAS 21	(1,097,934)
Exchange loss previously recognised transferred to translation reserve	(175,330)
Movement in translation reserve	(1,273,264)

22. Transition to IFRS continued

Reconciliation of loss

(expressed in US\$)

Three months to 31 December 2005

	Note	UK GAAP	Effect of transition to IFRS	IFRS
Administration expenses		(621,452)	—	(621,452)
Share-based payments		(422,298)	—	(422,298)
Depreciation of plant and equipment		(339,522)	—	(339,522)
Loss before interest and taxation		(1,383,272)	—	(1,383,272)
Foreign exchange loss		(35,703)	—	(35,703)
Interest payable		(69,929)	—	(69,929)
Interest receivable		21,044	—	21,044
Loss before taxation		(1,467,860)	—	(1,467,860)
Taxation		—	—	—
Loss after taxation		(1,467,860)	—	(1,467,860)
Loss per share (basic and diluted)		(1.42)	—	(1.42)

Statement of recognised income and expense

(expressed in US\$)

Three months to 31 December 2005

	Note	UK GAAP	to IFRS	Effect of transition IFRS
Loss for period		(1,467,860)	—	(1,467,860)
Exchange loss on foreign currency net investment	b	(175,330)	(1,097,934)	(1,273,264)
Total recognised loss for period		(1,643,190)	(1,097,934)	(2,741,124)

Explanation of material adjustments to the cash flow statement

Interest paid has been reclassified as part of net cash outflow from operating activities where under UK GAAP it formed part of the return on investments and servicing of finance.

Interest received has been reclassified under net cash from operating activities where under UK GAAP it formed part of the return on investments and servicing of finance.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

Company

The adoption of IFRS has not materially affected the previously reported financial position, financial performance and cash flows of the Company.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Numis Corporation plc, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT on 1 June 2007 at 11.00am for the following purposes:

Ordinary business

To consider and if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. That the Directors' report and financial statements of the Company for the year ended 31 December 2006 be received and adopted.
2. To re-elect Clive Line as a Director. Clive Line retires by rotation in accordance with the Articles of Association and being eligible offers himself for re-election.
3. To re-elect Richard Robinson as a Director. Richard Robinson retires by rotation in accordance with the Articles of Association and being eligible offers himself for re-election.
4. To reappoint Mike Hodgson as a Director. Mike Hodgson has been appointed by the Board since the date of the last Annual General Meeting. In accordance with the Articles of Association and being eligible, he offers himself for re-election.
5. To reappoint PKF (UK) LLP as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next Annual General Meeting at which accounts are laid before the Company and to authorise the Directors to fix the auditors' remuneration.

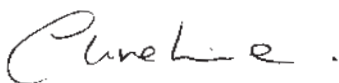
Special business

To consider and, if thought fit, pass the following resolutions, of which resolution 6 will be proposed as an ordinary resolution and resolution 7 will be proposed as a special resolution.

6. THAT the Directors of the Company be and they are generally and unconditionally authorised for the, purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot grant options over, deal with or dispose of any relevant securities (as defined by Section 80(2) of the Act) of the Company up to an aggregate nominal amount of £3,875,000 provided that this authority is for a period expiring at the conclusion of the next Annual General Meeting of the Company, except that the Company may before the expiry of the authority make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired and provided further that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 80 of the Act.
7. THAT subject to the passing of the previous resolution the Directors of the Company be and they are empowered pursuant to Section 95 of the Act and in accordance with the Articles of Association of the Company to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by the previous resolution as if Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:
 - (a) up to a maximum nominal amount of £1,660,000 in connection with an offer of such securities by way of rights (including without limitation, a rights issue, open offer or similar arrangements) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such equity securities, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with the problems under the law of any territory or requirements of any regulatory body or stock exchange in any territory or in connection with fractional entitlements or shares represented by depository receipts or otherwise; and
 - (b) otherwise than pursuant to sub-paragraph (a) above, to allotments of equity securities in the Company up to an aggregate nominal amount equal to £830,000.

and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution except that the Company may before the expiry of the authority make an offer or agreement which would or might require equity securities to be allotted after the expiry of such period and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired and provided further that this authority shall be in substitution for all previous authorisations conferred upon the Directors pursuant to Section 95 of the Act.

By order of the Board



Clive Line
Company Secretary
66 Lincoln's Inn Fields
London WC2A 3LH
23 April 2007

Notes:

1. A member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint a proxy (or proxies) to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company.
2. A form of proxy is enclosed. To be effective, it must be deposited at the office of the Company's registrars so as to be received not later than 48 hours before the time appointed for holding the Annual General Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
3. The register of interests of the Directors and their families in the share capital of the Company and copies of contracts of services of Directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.
4. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than close of business on 29 May 2007 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

Company Directory

COMPANY

Serabi Mining plc

UK Office

Cleary Court, 21–23 St Swithins Lane

London EC4N 8AD

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Fax: +44 (0)20 7220 9555

Registered Office

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Web: www.serabimining.com

COMPANY NUMBER

5131528

BOARD OF DIRECTORS

Graham Roberts – Executive Chairman

Bill Clough – Chief Executive

Mike Hodgson – Technical Director

Clive Line – Finance Director

Roger Davey – Non-executive Director

Richard Robinson – Non-executive Director

COMPANY SECRETARY

Clive Line

NOMINATED ADVISER

Numis Securities Ltd

The London Stock Exchange Building

10 Paternoster Square

London EC4M 7LT

AUDITORS

PKF (UK) LLP

20 Farringdon Road

London EC1M 3AP

SOLICITORS

Farrer & Co

66 Lincoln's Inn Fields

London WC2A 3LH

REGISTRARS

Computershare Investor Services PLC

PO Box 82, The Pavilions

Bridgwater Road

Bristol BS99 7NH



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