Serabi Mining plc
Annual Report and Accounts

2008

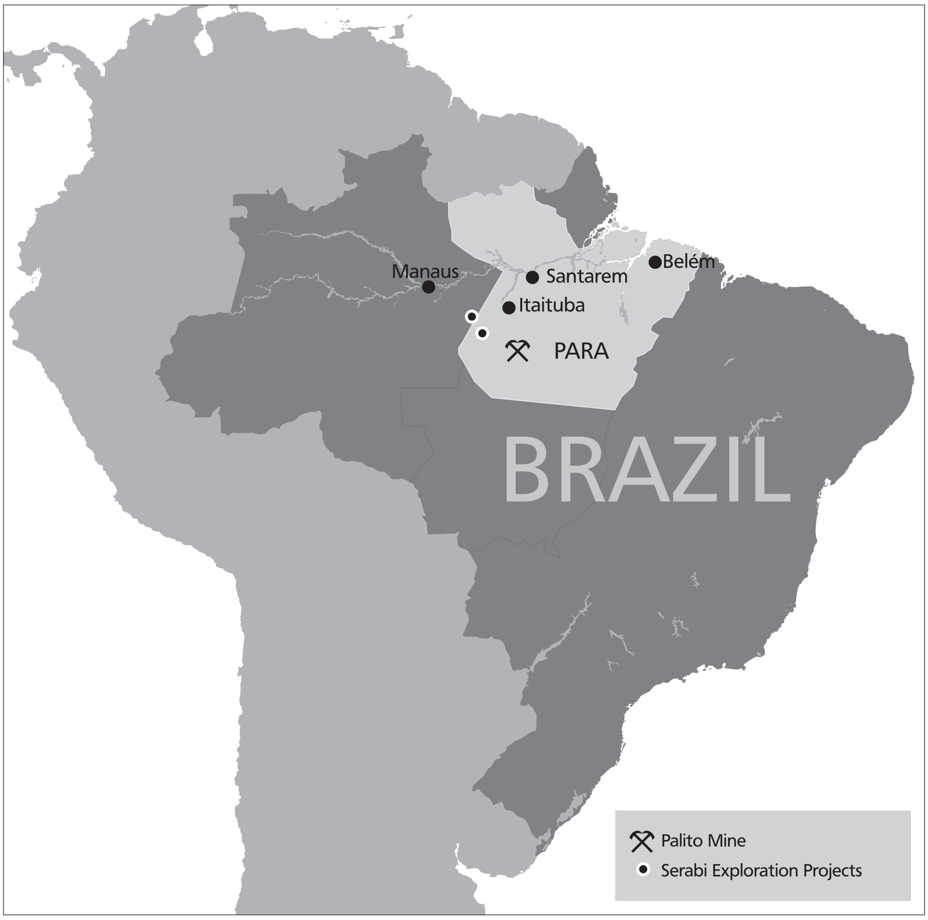
QUALIFIED PERSONS STATEMENT

The information contained within this Annual Report has been reviewed and verified by Michael Hodgson as required by the AIM Guidance Note on Mining. Oil and Gas Companies dated March 2006. Michael Hodgson is an Economic Geologist by training with 20 years' experience in the mining industry. He has a BSc (Hons) Geology, University of London an MSc Mining Geology, University of Leicester and is a Fellow of the Institute of Materials, Minerals and Mining and a Chartered Engineer of the Engineering Council of UK.

Serabi owns and operates the Palito mine in the Tapajos region of Northern Brazil. It also has a portfolio of a further 153,000 hectares of exploration land holdings within the region.

To date there has been little systematic exploration in the region covering an area of approximately 100,000 km2 in the southwest of Para state. However, historic production in the region from alluvial and small scale surface mining operations by local garimpeiros has officially been estimated at up to 10 million ounces whilst actual production is believed to be two to three times higher.

The Group has a Measured and Indicated Resource of 224,272 ounces and an Inferred Resource of 443,956 ounces at Palito and has identified numerous geological anomalies in close proximity to these existing resources.



CHAIRMAN'S STATEMENT

SUMMARY OF CHAIRMAN'S STATEMENT

- Market funding remains limited and current appetite is for low-risk opportunities
- Management are actively looking at opportunities to enhance value
- There is continuing improvement and thus interest in the gold sector
- Development of surface oxide mining has been very successful
- Exploration results point to the area's considerable potential

The economic environment in which we find ourselves is unprecedented in recent times and has led to major new challenges and uncertainty for all, accompanied by regular and sometimes violent swings of business sentiment. The speed and severity of the economic downturn over the last year required a substantial and rapid response by many, and for some just in order to survive. We have made every effort to focus on the issues that are within our control and act with caution and restraint in planning and decision making.

In the mining sector, there has been a subsequent partial recovery in some areas, mostly restricted to established producers and particularly those groups with a meaningful exposure to gold, which amongst the major metals has maintained its value in the face of the market turbulence.

However, market funding remains limited and current investor appetite is primarily for lower risk opportunities. With a few exceptions, what funding has been available in the mining sector for the mid-tier and junior companies, has been mainly raised in North America and for companies listed on North American markets.

Against this demanding background, since September 2008 Serabi's management has been actively looking at opportunities to secure enhanced value at Palito and our other tenements. Discussions have been held with parties interested in providing new capital, or interested in some form of joint venture, and others who might acquire the Brazilian operations of the Company in their entirety. These discussions were somewhat overshadowed by the restructuring at Palito being undertaken in the latter part of 2008, coinciding with the market turmoil and general collapse in investor confidence.

> "The operational results at Palito since January of this year indicate that the action taken last year has resulted in some success and reduced the operating risk of the Palito operation."

The operational results at Palito since January of this year indicate that the action taken last year has resulted in some success and has reduced the operating risk of the Palito operation. In particular, the development of surface oxide mining has been very successful, resulting in a small operating cash surplus. This has brought some respite for the Company, providing further time to explore the options available and identify solutions to the future funding needs of Palito. We have also recently been assisted by the continuing improvement, and thus interest, in the gold sector, which, we believe, combined with the further reduction of operating risk at Palito, should make the Group's mining and exploration interests a more attractive investment opportunity.

Whilst we anticipate the current oxide-based production can be continued for some time, this is unlikely to be of sufficient scale to generate the surplus working capital that is required to allow the Company to expand once again. We remain positive about the Company's assets but believe the longer-term, full potential of Palito is best secured by the direct introduction of new capital, or through a joint venture arrangement or an outright sale of Palito to a third party which would return value to existing shareholders. Whilst to date our discussions have yet to result in a transaction, in an improved environment we believe that our perseverance will eventually allow us to achieve our objectives.

The mining problems at Palito unfortunately overshadowed what was a highly successful year in exploration. Whilst the need to suspend underground mining at Palito was a major setback for the Company, we remain confident of the area's considerable potential that last year's exploration results point to and that, with detailed evaluation, this could form the basis of a viable and valuable operation going forward. In the meantime, we will continue to develop the gold production potential of the oxide deposits at Palito and so far as we able further expand the known oxide resource base, with a view to extending and possibly slowly growing the scale of the current operations.

Last year turned out to be very difficult for Serabi and the current position is a disappointment to us all. However, throughout this period there has been a core group of management and employees who have worked diligently through the issues and endeavoured to take the necessary actions to preserve the assets and to re-build value. I am grateful for the dedication and tenacity that they have shown in difficult times. Their loyalty and teamwork, combined with improved market and operating conditions, give me reason to be more optimistic for the future.

GRAHAM ROBERTS
CHAIRMAN
25 JUNE 2009

CHIEF EXECUTIVE'S REVIEW

SUMMARY OF CHIEF EXECUTIVE'S REVIEW

- The ability to develop the mine sufficiently to sustain future planned levels of production was severely affected during the first six months of 2008
- To re-establish full scale operations at Palito requires a dedicated phase of development for a period of some twelve months
- In 2009 surface oxide mining has generated an operating cash surplus over the year to date
- A number of significant milestones were reached in what was a highly successful year in exploration
- A total of 66 anomalies have been identified from a 6,000 hectare helicopter-borne geophysical survey in the Jardim do Ouro district.
- 18 high priority targets have been identified some of which are drill ready
- At Pison stream sediment sampling has identified four anomalous areas with significant amounts of visible gold observed

OPERATIONS – PALITO MINE

Following 2007's mining problems, the focus in 2008 was to see a return to profitable, quality production, coupled with a detailed understanding of the wider ore potential within the immediate vicinity of the Jardim do Ouro district. In addition, we saw the introduction of open pit mining of oxidised ore sources, albeit on a small scale, which enjoys simpler, cheaper mining and process costs.

Following the mining dilution problems of 2007, a solution was urgently sought. The move away from selective manual mining in late 2006, in favour of mechanised mining by long-hole stoping, brought with it a greater reduction of mineable grades than forecasted.

The motivation behind the change to mechanised mining was largely two-fold:

- difficulties in finding skilled labour to undertake selective manual mining in Brazil; and
- the need to maintain and increase cash flow through increased gold production to cover fixed costs, meet exploration budgets and ultimately to achieve growth.

During 2007 the company attempted to reduce the impact of the lower mine grades through a number of initiatives, such as reducing the size of blasts by adopting closer spaced development levels, and ordering narrow vein mining equipment, which could be used to reduce the size of the excavations to access the ore. When the Palito mine first went into commercial production, such narrow vein mining equipment was not readily available. Serabi had therefore purchased an initial mining fleet that was available at the time, taking into account lead times on delivery and support. Only after several years of buoyant metal prices did manufacturers slowly begin to introduce this type of equipment to the market.

Orders were placed in mid-2007 for three new mini-jumbos and four new narrow mini scoop-trams to enable the operation to reduce volumes of waste rock blasted during mine development (and therefore result in an improvement of the feed grade from ore won by development). This new equipment would also accelerate development rates to ensure an annualised rate of production of 200,000 tonnes, in line with the process plant capacity.

"A second and third mine in the Palito district feeding the central process plant has always been and remains the medium-term objective."

As we reported last year and in our quarterly updates, whilst it was generally well understood within the industry that equipment lead times were a major problem for mining companies, despite contrary assurances, we experienced significant delays in the delivery of this key equipment. As a result none of the machinery ordered in 2007 was released by the suppliers and operational until mid-2008. The net effect of this delay was that we suffered difficult first and second production quarters during 2008. Not only did we have to contend with regular re-scheduling of delivery dates for the new equipment, but some of the older equipment we were unexpectedly having to rely upon suffered breakdowns at critical times. Being in a remote location in Brazil, we have always sought to carry as much inventory as is practically and commercially possible, but cannot allow for all eventualities. Given Palito's location, breakdowns will at times adversely affect production. As a result, gold production, as well as our ability to develop the mine sufficiently to sustain future planned levels of production, was severely affected during the first six months of 2008.

With the Company having to "make do" with older equipment, we had little option but to attempt to mine the best grade areas as possible from underground and supplement shortfalls in the tonnage recovered from underground mining with ore produced from some surface mining activities. Early in 2008, the Sena oxide zone was discovered and evaluated, and during the year we commenced some limited oxide mining even though the plant had been largely set up for sulphide ore feed. Whilst the oxide was not a major ore supply, it did help alleviate some of the problems caused by the new equipment delays and breakdowns and currently the oxide gold production has been far more successful than we first anticipated. Whilst this style of mineralisation at Palito is unlikely to result in a large bulk surface deposit for future extraction, oxide gold production has and continues to generate a positive cash flow.

The 2008 mine plan was to produce in the region of 45,000 oz gold equivalent necessitating some 5,000 metres of capital mine development and 10,000 metres of mine ore development. This level of development had not previously been achieved at Palito but, with the planned new equipment in place, it was considered achievable. The plan assumed the additional drilling jumbos and scoop-trams would start arriving at site in January 2008 and supplement the existing mining fleet. The effect of not having these machines operational until June 2008 had a significant damaging impact on the mine plan. Repeatedly we were assured by manufacturers that equipment would suffer no further delays and, in the interim, we had few other options but to make best use of the existing equipment. These events illustrate the stretched nature of the mining industry at the height of the cycle in 2007–2008, with inevitable consequences. It is ironic that the lead times for equipment and availability of experienced mining personnel are now very more much in favour of the operator.

Despite our best efforts to expedite the delivery of new equipment to site, the damage done to the mine plan over the first six months of the year presented management with some difficult problems. In response the Company undertook a strategic review of its operations and exploration activities during August 2008. I have visited Palito regularly since joining the Company in February 2007 and, to undertake this operational review, spent five weeks at the operation in August and September 2008. During this time, together with the management team at site, we assessed the viability of returning the mine to planned production levels, taking account of the mine development being severely behind target. The inability during August and September to continue to make any meaningful progress on recovering the metres of development that were lost as a result of the equipment issues in the first part of the year made it apparent that an aggressive phase of underground mine development would be necessary before being able to return the mine to previously planned levels of gold production. However, it was also clear that if, through the introduction of more experienced day-to-day management and operators, the operational inefficiencies could be overcome, Palito remained a viable and valuable asset.

We concluded that to re-establish full scale operations at Palito, the best plan would require placing the mine into a dedicated phase of development for a period of some twelve months. This would re-establish adequate mining faces and stoping panels. After that it could be expected that the resulting ratio of stoping-ore to development-ore would ensure that a higher, optimised grade could be fed to the plant at all times. The effect of such a plan, however, is that during its first six months there would be insufficient ore to feed the plant, with consequential cash flow implications as well as a significant working capital requirement. During the last quarter of 2008, the uncertainty in the capital markets meant it was very unlikely the Company could secure the necessary funding to implement this plan, so the option to place the mine into expanded development was not a realistic option for Serabi. In the absence of any viable alternative plan, reluctantly we had to take the decision to reduce the level of mining activity at Palito, ultimately suspending underground mining by year end.

The nature of the Palito operation and its location means the fixed cost component of operating costs is relatively high, with a consequence for the minimum level of gold production required to meet these costs. The profitability of a small hard rock underground mine of this nature will be restricted by the underlying fixed cost base and for this reason such an operation needs ultimately to be expanded. Despite reducing manpower from 300 in September 2008 to 130 by year end, a continuation of underground operations was not viable beyond year end because of the lack of developed reserves. At this time the underground mining was therefore suspended and placed on a care-and-maintenance status. However, open pit mining of surface oxidised ore sources has continued into 2009, albeit on a small scale.

Following the suspension of underground mine production and in order to reduce costs, the Company has aggressively reduced all manpower in Brazil and London to approximately 70 employees today. Surface oxide mining has been a great success during the last months of 2008 and for the period to date in 2009.

CHIEF EXECUTIVE'S REVIEW CONTINUED

OPERATIONS – PALITO MINE CONTINUED

The Company has been able to continue processing oxide ore at an average rate of some 200 tonnes per day, producing 1,973 ounces of gold during the first quarter. Combined with a significant reduction in overheads, a stronger US Dollar gold price and the relative weakness of the Brazilian Real currency, this level of gold production has more than met the costs of the Brazilian operations for the 2009 year to date. The operating cash surplus from oxide mining has been used to explore for additional surface oxide resources in order to sustain and if possible increase current production levels.

As previously announced, the Directors have been actively pursuing the possible sale in whole or part of the Company's mining and exploration assets as well as the possible injection of new capital either into the Company or directly into its Brazilian operating subsidiary. Against a background of difficult market conditions worldwide, the relative operational success in 2009 has provided some useful respite for the Company, whilst a resolution to the issues is sought.

Considering the operational problems of the past two years, where equipment delays and lack of skilled manpower resulted in the ultimate suspension of the Palito underground operation, the Directors are determined to de-risk the business going forward and are of the view that before underground operations at Palito are fully resumed, the following items need to be satisfied:

1. a return to selective mining methods, which would bring reduced ounces, but quality ounces yielding the highest margins;
2. a larger resource and reserve base is established.

The near-term objective is therefore to focus on maintaining and if possible expanding surface mining activities, along with the necessary exploration to support this, in order to at least continue to cover costs.

In the medium-term, and conditional on securing further funding, additional ore sources are required. The experience to date has shown the problems involved in operating from a small, single mine whilst covering overheads in such a remote area. To overcome this, a second and third mine in the Palito district feeding the central process plant has always been and remains the medium-term objective. To achieve this, a detailed investigation of the 18 principal anomalies that were identified largely from the successful airborne geophysical survey in 2008 is therefore considered a priority. These anomalies exhibit very similar characteristics to the Palito deposit and their close proximity to the Palito infrastructure makes them all the more important. The Board believes that these anomalies currently represent the most attractive targets for the early identification of additional resources within the Palito district, which in time could form part of an expanded and more sustainable mining plan. Third parties that have been visiting Palito have all been intrigued by the longer-term potential and the possibility of securing an operation producing significantly more than the previous 30,000–40,000 gold equivalent ounces targeted range. We believe this could be achieved by testing and proving up these satellites with a budget approaching US$3 million over a period of approximately 24 months.

PALITO GOLD MINE OPERATING SUMMARY 2008

		2008					2007
	UNIT	**Q1**	**Q2**	**Q3**	**Q4**	**YEAR END**	YEAR END
Total mined	**tonnes**	**59,704**	**59,772**	**64,289**	**27,808**	**211,573**	230,647
(per day)		**(656)**	**(657)**	**(699)**	**(302)**	**(578)**	(632)
Ore mined	**tonnes**	**35,184**	**34,829**	**37,519**	**22,660**	**130,192**	179,177
(per day)		**(363)**	**(383)**	**(408)**	**(246)**	**(357)**	(491)
Milled	**tonnes**	**34,040**	**36,745**	**37,704**	**29,174**	**130,792**	173,485
(per day)		**(357)**	**(374)**	**(384)**	**(314)**	**(357)**	(475)
Head grade	**grams/tonne**	**4.52**	**5.10**	**4.69**	**3.92**	**4.56**	5.84
Recovery	**%**	**88.97**	**89.00**	**87.40**	**89.39**	**88.65**	90.10
Gold	**ounces**	**4,217**	**4,963**	**4,658**	**3,165**	**17,003**	28,942
Copper	**tonnes**	**85.91**	**78.97**	**81.33**	**66.83**	**312.95**	459.20
Gold equivalent	**ounces**	**4,985**	**5,754**	**5,409**	**3,529**	**19,676**	33,963

EXPLORATION & DEVELOPMENT

The Company's mining problems during 2008 overshadowed a highly successful year in exploration. A number of significant major milestones were reached during the year including:

- exploration success in and around Palito, confirming significant extensions to the known mineralisation particularly on the Palito Main Zone (PMZ) and Palito West areas;
- the flying of a heli-borne geophysical survey over the Palito and Jardim do Ouro mineral district. Detailed analysis of the airborne electromagnetic survey over and around the Palito area has highlighted a total of 66 anomalies, including 16 high priority zones;
- a new Reserve and Resources statement announced on 9 July 2008 and, for the first time, a mineral reserve reported for Palito; and
- a stream sediment sampling programme completed over the entire Pison tenement area identifying a number of large anomalies.

In mid-2007 the decision was taken to escalate and focus exploration activities on the Jardim do Ouro district, within which the Palito mine lies, and assess its wider potential. The objective was to turn exploration success into production ounces as quickly as possible. The 2008 exploration programme therefore continued with this aim, where an exploration discovery could be quickly evaluated and incorporated into the Palito operation. In financial terms, this increase in exploration activity resulted in an exploration budget for 2008 of up to US$9 million, compared with US$6 million in 2007. Of the US$9 million, some 70% was allocated to near-mine exploration across the Jardim do Ouro district. In addition, the exploration focused beyond the Palito mine area, and the Group continued to undertake exploration within the extensive land package it possesses across the region, with the objective of discovering the next mineral district for mining in the Tapajos.

PALITO EXPLORATION AND NEAR-TERM DEVELOPMENT

As stated above, the majority of the exploration budget for 2008 was allocated to work in and around Palito, within the Jardim do Ouro tenements. Over the course of 2008 we continued to progress a 25,000 metre drill programme initiated in November 2007 and designed for completion in December 2008. The principal focus of this programme was to extend the known deposits as follows:

- Chico da Santa: to test the on-strike extension of the veins and in particular to the north;
- Palito West: to test the down-dip extensions of the orebodies;
- Palito South: to test the southerly extension of the PMZ;
- Palito Deeps: initially to investigate the zone of known mineralisation on the PMZ at depth to a level of 250 metres below surface (current operations established to 100 metres), with a second phase to a level of 350 metres below surface;
- the Sena Zone (formerly known as Ruari's Ridge): to delineate the near-surface oxide resource.

The objective of the drill programme was to delineate by the year end from the PMZ, Palito West, Chico da Santa and the new Palito style deposits highlighted by the airborne geophysical survey, the potential for a one million ounce resource, within which sufficient mineral reserves could be outlined to support an expanded Palito mining operation. By the time drilling was suspended in the fourth quarter of 2008 in order to conserve cash resources, over 19,000 metres had been drilled. The shortfall mostly represented many of the undrilled targets highlighted by the airborne geophysical survey.

PMZ AND PALITO WEST

During the first half of 2008 over 7,300 metres of drilling were completed across the PMZ and Palito West features, mainly targeting electromagnetic (EM) geophysical anomalies indicative of the gold-bearing sulphide mineralisation found at Palito. The programme focused on the projected southern and northern strike and depth extensions of known mineralisation of both zones. Results from this drilling were mixed with massive sulphide and quartz vein–sulphide zones intersected in all areas but with variable gold grades.

> "A large number of intersections identified from continued drilling during 2008 have not been included in the current reserve/resource estimate."

CHIEF EXECUTIVE'S REVIEW CONTINUED

EXPLORATION & DEVELOPMENT CONTINUED

PMZ AND PALITO WEST CONTINUED

In the south, one of the anomalies tested suggested a strong southern extension of the PMZ structure. A programme of drill-holes was undertaken to test this block, located to the south of the boundary of the current defined resource. The drill results from this programme indicated good mineable grades, confirming the strike extension of the G3 structure (the main vein of the three veins in the PMZ system) for a further 400 metres, with good intersections encountered in five of the six holes. The programme also indicated within the same structure, the possible existence of a south-east plunging, high-grade ore shoot at shallow depths extending over some 250 metres.

At Palito West, drilling tested the north-west strike and the projected south-east plunge extension of the two known veins. Results showed the veins exhibited strike and plunge extensions of up to 200 and 300 metres respectively, which remain open both along the north-west strike and south-east plunge extensions.

The Palito West drilling results also confirmed the presence of shallow, higher grade intersections to the north-west along strike, an area previously thought to be sterile. By the end of the programme five additional vein structures had been identified. The mineralisation continues to remain open to the north-west where it trends into a "data gap" in the drilling and a corresponding and untested induced polarisation (IP) geophysical anomaly.

Shortly before placing the underground mine on care and maintenance, development of a major decline from the main PMZ decline intersected the Palito West mineralisation at depth. The resulting intersections confirmed the nature of Palito West as a series of high grade structures, with good mining potential.

SENA ZONE

An initial drilling programme at Sena followed the discovery of a gossan zone adjacent to the Palito airstrip grading 26 g/t of gold. The results of this drill programme confirmed the presence of a significant oxidised gold zone, located immediately above the main Sena gold vein, and more significantly providing the Company with an alternative albeit finite option of mining near surface oxide ore at Palito. Some excellent results were obtained from a programme of 35 shallow drill-holes along the zone (formerly known as the Ruari's Ridge prospect) to test the economic potential of the saprolite-oxidised rock immediately above the vein structures. The results were very encouraging, and have been instrumental in subsequently mining and processing some 25,000 tonnes of oxidised material grading 3.5 g/t gold during the period from early 2008 up to April 2009.

Close-spaced drill holes on 25-metre traverses delineated a gold-bearing oxide cap of 250 metres length, 50 metres width and averaging 2–4 metres thickness. Processed gold recoveries of this material have so far been close to 92%, and it has allowed Serabi to remain in profitable gold production following the suspension of underground operations. The process plant is now set up for oxidised ore and, to date, continues to operate at approximately 250 tonnes per day at 3–4 g/t gold, with the Sena zone remaining in production today.

DISTRICT EXPLORATION AND AIRBORNE GEOPHYSICAL SURVEY

As already mentioned, the Company completed the most ambitious exploration activity in its history by flying a 6,000 hectare, helicopter-borne geophysical survey at the start of the 2008. The survey demonstrated Serabi's commitment to the region and, more importantly, fast-tracked exploration of the Jardim do Ouro district. The results of the survey will enable the Company to complete an assessment of the potential of the mineral district within easy distance of the Palito operation and thereby capitalising on the existing facilities. The only disappointment with the survey was that we ran out of time and funds to drill these targets.

We also experienced, like many others, significant delays in getting the survey data interpreted and had to wait until the end of the third quarter of 2008 to receive "clean" interpreted data on the survey. This comprehensive review and re-interpretation combining all available geophysical and geological data sets, along with analysis of detailed satellite imagery of the Palito deposit and near-mine district, has revealed a number of important exploration targets with similar characteristics to that of the known mineralisation at Palito, namely NW-SE trending lineaments, corresponding with electromagnetic and/or soil geochemical anomalies and cross cut by NE to ENE structures.

Within the 6,000 hectare airborne geophysical survey area completed in January 2008, a total of 66 anomalies have now been interpreted, including the identification of 16 high priority points or zones. Nine of these coincidently fall along NW-SE trending lineaments of similar orientation to the known Palito mineralisation, whilst the other seven anomalous zones appear to broadly correspond with north-east cross-cutting, structural features. This prioritisation followed the integration of the airborne geophysical survey with existing broader-scale satellite and aeromagnetic imagery, geological mapping and soil and stream sediment geochemical coverage, and has resulted in a total of 18 high priority targets being defined.

In the latter part of 2008 the Company decided that conservation of cash was of paramount importance and therefore wound down exploration activity during the fourth quarter. These targets therefore still await further evaluation today with some drill ready, and others requiring follow-up ground geophysics and geochemistry. Once further funds are in place, a detailed exploration and evaluation programme is planned, which could be initiated at short notice.

MINERAL RESOURCES AND ORE RESERVES

On 9 July 2008 the Company announced the details of the estimation of the ore reserves and resources undertaken and verified by NCL Brasil Ltda, an established mining consultancy based in Brazil and with associates throughout South America. This work established, for the first time, an ore reserve at the Palito mine and with this information the Company is better positioned to plan future production. At the planned production rates the reserve of 187,000 gold equivalent ounces is sufficient to support a minimum future mine life of more than four years.

This ore reserve is contained within a total mineral resource of 670,000 gold equivalent ounces of which 224,300 gold equivalent ounces occur in the higher confidence Measured and Indicated category, with the balance being in the Inferred Resource category.

The mineral resource estimate is based on a total of 25 different veins, each of a minimum of 70 cms width all located within the larger mineralised sections of Palito Main Zone, Palito West, Chico da Santa and Ruari's Ridge. Within the PMZ there are eight vein structures of which the G3 and G2 veins comprise the bulk of the resource. These veins have also yielded the bulk of the production at Palito since the beginning of 2005.

The database upon which the ore reserve and mineral resource estimations were made was closed for assessment as at 31 March 2008. With drilling continuing until cessation of activities in the fourth quarter of 2008, there are a large number of additional intersections that have not been included in the current reserve/resource estimate. These additional intersections indicate further extensions of known mineralised structures which have already been delineated and tested and the Company is therefore confident that these extensions can contribute to a future upward revision of the resource estimate which is set out in full in the table below:

MINERAL RESOURCE	TONNES	GOLD GRADE (G/T)	COPPER GRADE (%)	CONTAINED AU (OZ)	CONTAINED AUEQ (OZ)
Measured resources	97,448	9.51	0.26	29,793	32,045
Indicated resources	753,545	7.29	0.23	176,673	192,228
Total measured and indicated	851,193	7.54	0.23	206,466	224,272
Inferred resources	2,087,741	5.85	0.27	392,817	443,956
ORE RESERVE	TONNES	GOLD GRADE (G/T)	COPPER GRADE (%)	CONTAINED AU (OZ)	CONTAINED AUEQ (OZ)
Proved reserve	56,464	9.06	0.29	16,456	17,910
Probable reserve	676,028	7.19	0.22	156,379	169,628
Total proved and probable	732,492	7.34	0.22	172,836	187,538

NEAR-MINE EXPLORATION STRATEGY

The Palito Mine has been in commercial production for approximately four years, over which time some 110,000 gold equivalent ounces have been produced. The Company recognised back in 2006 that the fixed costs of operating a narrow vein, hard rock underground mine in a remote location, were, even with good mine management, always going to be significant, and primarily for this reason the Company sought ways to increase production ounces.

In the absence of discovering a second mine in Jardim do Ouro district, expansion of the Palito mine was the only option and to facilitate this the move away from selective mining to mechanisation was implemented. Unfortunately, the planned expansion came at a time of unprecedented growth in the mining industry when hiring and keeping good personnel at all levels has been a major problem for many companies, and those in remote areas, such as Serabi, have suffered most. Delays on equipment purchases and mineral industry services are all well documented. As previously announced, the desired expansion never happened and now the Palito mine requires a dedicated period of mine development to put it in a position of sustainable production.

As the Directors believe that operating a single asset in a remote location will generate only a modest positive cash flow at best, the fixed costs at Palito need to be spread over a larger production base. We believe that these additional ounces are more likely to come from from the development of additional satellite ore deposits rather than an expansion of the current Palito mine.

Since the suspension of underground mining at Palito, the Company has substantially cut costs and now enjoys the benefits of modest but low cost surface gold production. Whilst we do not currently envisage long-term surface mining at Palito, the oxide mining operations to date have generated a small operating positive cash flow and enabled us to delay re-opening the Palito underground mine for the time being. The Directors intend to use any future available funds to re-commence the exploration programme to examine the 18 or so geophysical anomalies that lie within ten kilometres of the Palito process plant. The objective would be to bring into production a second or even third deposit alongside Palito in order to improve annual production, longevity and long-term profitability of underground mining around Palito. During this exploration programme, the Company would attempt to maintain the surface oxide gold production at least at today's rates, and in the process maintain a workforce at site, ready for expansion in the future.

REGIONAL EXPLORATION

Despite a strong focus on exploration immediately around the Palito mine, Serabi continued to explore some of its regional portfolio across the Tapajos region. At the beginning of 2008, the Company had around 273,000 hectares of ground. A significant portion of the 2008 exploration budget was spent on extensive screening and prioritisation of each of the prospects.

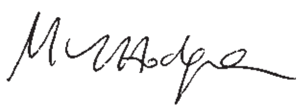
PISON & MODELO

Situated some 250 kilometres north-west of Palito, the Pison project is located in volcanics and volcanoclastic sediments of intermediate to felsic composition with associated high-level granitoid intrusions. Primary exploration targets in this district are large tonnage, low-grade, gold deposits. The sole activity at Pison and Modelo has been to undertake a stream sediment sampling programme as part of a twelve month campaign to screen the entire 123,000 hectare (Pison) and 50,000 hectare (Modelo) tenements.

At Pison, four north-south anomalous areas were identified during the first phase of infill stream sediment sampling and significant amounts of visible gold were observed.

By the third quarter, a review and interpretation of the results confirmed four large anomalous catchment areas containing widespread gold occurrences. A number of these catchments also reported highly anomalous copper, lead and zinc results, indicative of close proximity to a primary mineralised source.

Integration of these results with lineament analysis and geological mapping and interpretation has demonstrated that a large number of these anomalies lie along a NW or ENE trend, within the same stratigraphic units. Although activity was suspended at Pison in the fourth quarter of 2008, the results of the screening allowed the Company to reduce its land position at both Pison and Modelo substantially. The Company has been in discussions with a number of groups with a view to joint venturing the Pison and Modelo tenements through the next phase of exploration.



MIKE HODGSON
CHIEF EXECUTIVE
25 JUNE 2009

FINANCE REVIEW

SUMMARY OF FINANCE REVIEW

- Restructuring of the operations was completed in January 2009.
- Cash holdings at end May 2009 are only slightly below end of year levels
- Average cash costs of operations in 2009 have been around US$680 per ounce
- New equity finance would be applied to enhance the oxide operations and allow evaluation of the near mine anomalies
- Over 20 companies have requested and reviewed data packages on Palito and the exploration holdings

The end of 2008 saw a great deal of uncertainty for the Group. I am therefore pleased to say that some six months later there are a number of positive indicators from which we should draw comfort for the future.

- the Brazilian operation, whilst significantly smaller than a year ago has generated positive cash flow for each of the first five months of 2009;
- the Group's overall cash position at the start of June 2009 was only slightly reduced from the start of the year;
- the gold price has continued to remain strong, averaging US$914 for the year to date; and
- there are signs that investment appetite is returning and new funding may start to become more easily available.

Much has been said of our operational issues in 2008 and I will not dwell further other than to consider how these impacted on the financial position of the Group. The initial forecast for 2008 had always anticipated that the first six months would represent a period of significant investment, during which cash levels would be depleted. From July onwards we had projected the commencement of cash generation that could then be deployed into new projects and exploration. Whilst the revenue generated during the first six months of the year was lower than anticipated this was offset by a gold price that was significantly above the levels used for planning purposes. This meant that, notwithstanding the higher than forecast working capital needs of the operation, we could continue to maintain our capital and exploration budgets. At 30 June 2008, our cash holdings were in line with our forecasts. With our new fleet finally onsite and commissioned shortly before the end of the half-year there was an immediate improvement in production and development rates, prompting the management to consider that gold production rates could start to improve and that forecast levels could be achieved. The subsequent decline in mining rates over the next two months was therefore unexpected and required unbudgeted working capital injections to the operation.

The decision to suspend further development and subsequently start to wind down underground operations was taken after detailed review of the alternatives available to the Board. The Group still had reasonable cash holdings but was faced with a choice. The mining operations could be continued in the hope that efficiency was restored and the required levels of ore and gold production attained but in the meantime operations were likely to be a drain on working capital until that was achieved. The alternative was to take immediate action to suspend the operations in a planned and systematic manner that would ensure that the Group's assets were kept intact and unencumbered. Prudence prevailed and the programme of restructuring the Group and its operations commenced in late September 2008 and was completed at the start of January 2009. This has been a difficult and complex process involving consultations with unions and government agencies as well as staff and suppliers.

We have now reduced our workforce in Brazil to some 70 full-time employees with additional contractors providing support in areas of security, maintenance and catering. To the end of May we have produced some 3,300 ounces with an average cash cost of around US$680 per ounce. Whilst the resulting cash surpluses are small they are being used to fund some small equipment purchases needed to optimise processing of oxide ore, continuing exploration for additional oxide resources and for settlement of some outstanding liabilities.

As has been indicated elsewhere in the Annual Report, our ambition in the short term is to continue the current operation and if adequate resources can be identified seek to expand production in the future. However based on the information available at this time we do not anticipate that surface mining operations alone can be of sufficient magnitude to achieve significant production levels.

These will require a future restart of underground operations and additional finance both to delineate sufficient additional resources (both surface and underground) and for initial development activity and other potential capital needs when it is considered that it is appropriate to recommence these underground mining operations.

The Directors have been active in seeking a solution to the funding issues that currently restrict the Group's ability to advance and add value to its assets. With great uncertainty prevailing in the equity markets in the latter part of 2008 and early 2009, there was very little opportunity for a junior mining company to raise new equity. Our efforts were concentrated therefore on identifying parties who might enter into joint venture arrangements and meet the immediate financing requirements to advance the properties. Additionally, we have been active in seeking groups to purchase some or all of the exploration and mining assets as a means to create value for shareholders and generate new funds for the Group. In the past eight months over 20 companies have had access to data packages with many more approached to elicit expressions of interest. Some parties have undertaken extensive due diligence but the Board has viewed the initial indicative valuations as too opportunistic and failing to give due recognition to the underlying value of the assets. The relative operational success of the last few months has given the Board some additional time to attempt to improve the value it can achieve for shareholders. That said we cannot ignore market valuations, and viewed from the buyer's side, we understand their dilemma of needing to justify to their own shareholders a purchase price which may, on a see-through basis, represent a substantial premium to the current market valuations of the Company.

We do see indications that equity funding markets are improving albeit slowly and investors are still being very selective in the opportunities they pursue. However, we have been encouraged by recent discussions and are more optimistic of the possibility to secure a small level of new equity finance which, while it may not be sufficient to contemplate a re-opening of the underground operations, may provide the chance to enhance the current oxide mining operations and undertake further evaluation of the near mine anomalies that could form the basis of a larger resource base and in time a larger mining operation.

In the preparation of the financial statements, and particularly in light of the current status of the operations, we have had to undertake a review of the value at which assets are carried in the Balance Sheet to identify any impairment of those values. Details of the Impairment Review are set out in note 18. The review is performed to consider the value of the assets for the Group as a whole at the end of 2008 and also to consider the valuation purely for the purposes of the Balance Sheet of the Parent Company and the recoverability of the loans to and investments made in its operating subsidiary.

The Palito Mine has been valued using a pre-tax Net Present Value calculation assuming that the underground mining operations can be re-established at the start of 2011 and will, over an approximately five year period, exploit only the known estimated reserves of the mine as of today. The results of this analysis were that the projected discounted future cash flows remain higher than the current carrying values held in the Group's balance sheet as at 31 December 2008 and accordingly no impairment charge has been recorded.

The cash flows generated by the project have then been reviewed to estimate the ability of the project to support the value of loans and sunk investments made by the Parent Company, Serabi Mining plc. Having considered other cash effects, notably tax charges, that would arise as a result of a successful future operation, the Net Present Value of the future cash flows available to be remitted back to the Parent Company is less than the value at which those loans and investments are recorded in the balance sheet. Accordingly an impairment charge has been made to reduce the carrying value of these assets to the Net Present Value of the estimated future remittances.

The operating results for the year reflect the difficulties that the Group encountered. Total revenues for the period were US$16.52 million with operating costs of US$16.96 million resulting In a small operating loss of US$0.44 million compared with a profit of US$5.4 million in 2007 when production was higher by some 14,000 ounces. Over the year the mine produced 19,700 gold equivalent ounces processing some 130,000 tonnes at an average gold grade of 4.56 grammes. Had we achieved the 180,000 tonnes we originally targeted this would have potentially increased production by some 7,500 ounces and revenue by around US$6 million. Alternatively a one gramme improvement to grade even at the lower tonnage might have contributed an additional 4,300 ounces or US$3.5 million in revenue. Whilst there would have been some incremental operating costs this serves to illustrate the potential profitability of the project once the fixed costs can be covered.

Following the decision to reduce costs we relinquished some of our land-holdings and particularly those relating to Castinheira and Rio Marupa which were expensive to maintain and where initial results had been disappointing. As a result we have written off past exploration costs totalling US$1.2 million compared with US$0.6 million in 2007. Depreciation charges have increased year on year reflecting the acquisitions of plant and machinery made in 2007 and 2008, whilst the increase in amortisation charges relating to the mine reflect the usage of the new reserve and resource estimates as the revised basis for estimating the useful life of the mine. Overall the group recorded a loss of US$8.60 million before interest and exchange, and a post tax loss of US$10.97 million.

The economic turmoil of 2008 did bring with it some benefits for Serabi. The market uncertainty kept the gold price buoyant and whilst there was some significant volatility with gold trading between a low of US$692 and a high of US$1,023, the price averaged US$872 for the year and avoided the severe declines of other commodities. The Brazilian Real saw a dramatic reversal in its fortunes having appreciated against the US Dollar steadily over the last four years. There was further appreciation in the first seven months of the year of some 14% reaching a high of around 1.55 in July. However towards the end of September it went into rapid decline and traded as low as 2.62 in December, levels not seen since early 2005. With the restructuring taking place at the same time and all costs denominated in Brazilian Real, it was a welcome piece of good news ensuring that the gold revenues went further and reducing the levels of additional working capital that were needed to complete the winding down of the operations.

The decline of the currency was created by a flight of capital as funds were withdrawn from emerging markets by global investors in the face of uncertainty and the need simply to meet redemption requirements. These same global investors are now starting to return to the major emerging market economies and on the back of these new dollar inflows we have, in recent months, started to see, once again, a strengthening of the Brazilian Real against the dollar. The Real today is trading around a level of 1.95 compared with a rate at 31 December of 2.35, an appreciation of some 17%. In the context of the impairment discussed earlier, it should be noted that had the current exchange rate been in place at the end of the year and therefore required to be used in the impairment calculations, this would have reduced the NPV of the future projected cash flows by US$4.3 million and require that the Group record an impairment charge of some US$2.8 million, and increased the level of impairment charge recorded by the Company by a further US$2.45 million.

As noted at the outset there are some causes for optimism, though to restore value will take time and there are a number of obstacles and risks that we still face. New funding is vital to the long term future and until this can be secured it will be necessary to continue to tightly control our expenditures and live within our existing means.

Clive Line.

CLIVE LINE
FINANCE DIRECTOR
25 JUNE 2008

DIRECTORS AND SENIOR MANAGEMENT

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1. GRAHAM ROBERTS, BSC, C.ENG, FIMMM, 58
NON-EXECUTIVE CHAIRMAN
Graham has over 35 years of international experience in the mining industry and related financial markets. Prior to joining Serabi in 2003, Graham was managing director and group head of investment and corporate banking for BMO Nesbitt Burns (now BMO Capital Markets) in London, a wholly-owned investment banking subsidiary of the Bank of Montreal. Previously, Graham worked as director and head of mining research for W.I. Carr UK Ltd. Subsequently, from 1994 to 1996, he headed up the mining business at the UK merchant bank Hambros, where he was executive director of Hambros Equities UK Ltd providing a full range of cross-border capital markets and advisory services to international mining companies. Before entering the financial services sector, Graham worked for 13 years at Consolidated Gold Fields in the UK and Africa, 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 is a Chartered Engineer.

2. MIKE HODGSON, BSC, MSC, C.ENG, FIMM, 48
CHIEF EXECUTIVE
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 of technical services and operations for TVX Gold Inc., mining technical consultant at ACA Howe International Ltd and similar roles at Rio Tinto plc and Zambia Consolidated Copper Mines Ltd. He has, during his career, acquired extensive experience in narrow vein underground mining operations.

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.

3. CLIVE LINE, BA, ACA, 48
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.

4. BILL CLOUGH, BSC(GEOL), BCOM(HONS), 48
NON-EXECUTIVE
Bill was the founding investor of Serabi Mineraçao 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 Mineraçao 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 Albidon 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.

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

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

DIRECTORS' REMUNERATION REPORT
For the year ended 31 December 2008

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.

In December 2008 the two then Non-executive Directors stood down from the Board as the Company sought to conserve cash resources whilst it undertook a re-structuring of the operations. At the same time it was decided that the role of Chairman of the Company would became a Non-executive role and Mr Bill Clough also assumed a Non-executive position with the Company. Accordingly the current Remuneration Committee is comprised of Mr Roberts and Mr Clough.

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' REMUNERATION REPORT CONTINUED
For the year ended 31 December 2008

DIRECTORS AND THEIR INTERESTS
ORDINARY SHARES AND OPTIONS
The Directors of the Company, who held office during the year and as of 31 December 2008, had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Shares held at 31 December 2008	Shares held at 31 December 2007	**Share options held at 31 December 2008**	Share options held at 31 December 2007	Option price	Exercise period
Graham Roberts	**845,834**	845,834	**1,373,222**	1,373,222	15p	30 Nov 05 to 1 Apr 16
			915,481	915,481	30p	1 Apr 06 to 1 Apr 16
Bill Clough(1)	**37,828,617**	37,828,617	**1,029,916**	1,029,916	15p	30 Nov 05 to 1 Apr 16
			686,611	686,611	30p	1 Apr 06 to 1 Apr 16
Michael Hodgson	**90,000**	90,000	**600,000**	600,000	32.25p	18 Jan 08 to 17 Jan 17
			400,000	400,000	36.85p	15 Nov 08 to 14 Nov 17
Clive Line	**343,333**	343,333	**572,176**	572,176	15p	30 Nov 05 to 1 Apr 16
			572,176	572,176	30p	1 Apr 06 to 1 Apr 16

(1) Bill Clough is a Director and sole shareholder of WM Clough Pty Limited and the beneficial owner of Gigantic Resources Inc. He is also deemed to be a beneficiary of shares held by McRae Investments Pty Limited.

Mr Richard Robinson and Mr Roger Davey also served as Directors during the year and both resigned on 6 December 2008.

During the year ended 31 December 2008 the Company's shares have traded between 0.25 pence and 32.0 pence. On 31 December 2008 the closing price was 1.45 pence.

REMUNERATION

Director	Salary $	Pension $	IFRS 2 charge for options granted $	Other $	**Total $**	For the year to 31 December 2007 $
Graham Roberts	138,951	11,973	—	2,913	**153,837**	191,245
Bill Clough	85,520	7,697	—	267	**93,484**	163,094
Michael Hodgson	228,053	20,525	48,028	1,817	**298,423**	327,619
Clive Line	199,546	17,959	—	1,555	**219,060**	234,128
Richard Robinson	26,318	—	—	—	**26,318**	35,551
Roger Davey	23,352	—	—	—	**23,352**	31,545
Total	**701,740**	**58,154**	**48,028**	**6,552**	**814,474**	983,182

Included in remuneration for the year to 31 December 2007 are pension costs of US$64,871.

DIRECTORS' REPORT
For the year ended 31 December 2008

The Directors present their report together with the audited financial statements for the year ended 31 December 2008.

RESULTS AND DIVIDENDS
The Group loss for the year after taxation amounts to US$10,973,655 (2007: loss of US$122,879). The Directors do not recommend the payment of a dividend. The results for the year are set out on page 20 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, future developments and the Company's projects is included in the Chairman's Statement, the Chief Executive's Operational Review and the Finance Review on pages 2 to 11.

SUBSTANTIAL SHAREHOLDINGS
As at 23 June 2009 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)	19,799,651	14.13%
WM Clough Pty Ltd(1)	17,761,536	12.67%
F&C Asset Management plc	13,045,287	9.31%
Barclays Stockbrokers Limited	12,715,022	9.07%
Standard Bank plc	5,883,334	4.20%

(1) Bill Clough is a Director and the sole shareholder of WM Clough Pty Ltd and is a Director of 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 0.19% of the ordinary shares in total.

SHARE CAPITAL
Movements in share capital during the period are disclosed in note 17 to the financial statements.

Issues of share options to employees that are also subject to achievement of performance criteria have been made under the Long Term Incentive Plan as follows:

Date of issue	Number issued	Price	Expiry
11 Jun 08	250,000	20.65p	10 Jun 18

The Company also issued the following options to consultants who worked with the Company during 2008:

Date of issue	Number issued	Price	Expiry
01 Jun 08	100,000	18.75p	31 May 10

There were no issues of shares under the Cash and Deferred Share Bonus Scheme during the period or subsequent to the year end.

CREDITOR PAYMENT POLICY
It is the Group's policy to settle all amounts due to creditors in accordance with terms and conditions agreed between the Group and suppliers, provided that all trading terms and conditions have been complied with. As at 31 December 2008, the Group had 34 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, this being a period of not less than twelve months from the date of signing these financial statements. On this basis, they consider it appropriate to prepare the financial statements on the going concern basis. The Company has received expressions of interest regarding the exploration and mining assets of the Group and in the event that the Company undertakes a sale of whole or part of the interests of its operating subsidiary this may result in an injection of liquid or tradeable assets which may significantly enhance the liquidity of the Company.

However as noted under the section Liquidity Risk within this Report, the Group as a whole has limited cash resources and whilst its gold mining operations in Brazil have been cash generative during 2009, any disruption or significant decline in the current levels of operation could have a significant affect on the Group's liquidity. The viability of the Group's operations in Brazil is dependent upon the ability to continue to manage the accrued liabilities of the subsidiary entity, to identify additional sources of ore to maintain production and any operational difficulties not adversely affecting in a short term cash flow or requiring an injection of capital that is beyond the limited capability of the Company to provide. The Directors are currently seeking and have held discussions regarding terms relating to new sources of finance that would provide the Group with a stronger financial base but there can be no guarantee that such funding will be forthcoming. The use of any funds raised will be dependent on the levels of funding that are available and the Directors will determine the strategy of the Group accordingly. In the meantime the Group will continue to seek to conduct its operations in a manner that will allow it to continue to at least cover the cost base of its operating subsidiary, will dispose of assets if such action is necessary and continue to exercise tight control over its available working capital. In the event that it is necessary to dispose of assets to support the activities of the Group it is possible that such disposals may be undertaken at values below current carrying values. Ultimately if it is not possible to raise additional funds from any source and the Company cannot afford to provide funds to its operating subsidiary, it may become necessary to place the Group's Brazilian subsidiary into administration, in order that the Company can continue as a going concern.

DIRECTORS' REPORT CONTINUED
For the year ended 31 December 2008

IMPAIRMENT
The Directors have undertaken a review of the carrying value of the mining and exploration assets of the Group, and considered the implications of the operational difficulties experienced and the current operational status of Palito. Following this review they have assessed the value of the existing assets on the basis of value in use involving a future recommencement of underground mining operations which is dependent on the ability of the Group to raise future finance and to operate the mine in line with the mine plan that forms the basis of the value in use calculation. The carrying values of assets have not been adjusted to reflect a failure to raise sufficient funds, only maintaining the current levels of operation or that if a sale transaction were undertaken the proceeds may not realise the value as stated in the accounts.

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, as required by the AIM Rules of the London Stock Exchange, prepared the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the Company financial statements in accordance with those standards. 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; and
- 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 who served during the year are shown on page 14.

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
The Audit Committee 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 met three times during 2008. The Audit Committee is and has been comprised of two of the Non-executive Directors.

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.

Until December 2008 the Executive Committee, comprised the Chief Executive, Chairman, Director, New Business and the Finance Director. Following the re-structuring of the Board in December 2008 the Executive Committee has been comprised of the Chief Executive and the Finance Director. The Executive Committee 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 pages 13 and 14.

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 misstatement, 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, liquidity, credit and interest rates. The Board reviews and agrees policies for managing each of these risks and these are summarised below.

COMMODITY PRICE RISK
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 the Board feels that it would be in the best interests of the Group to do so.

INTEREST RATE RISK
The Group currently finances its operations through equity financing, 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.

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 does not have any other borrowing or credit facilities. The Group took steps at the end of 2008 to significantly reduce its level of activities to conserve its cash resources. At the current time the Group has limited cash resources but has been generating steady income from its current levels of operation in excess of the costs of those operations. The Board is cognisant that any disruption or significant decline in the current level of operations could have a significant affect on the Group's liquidity and is currently seeking new funding sources that would alleviate current liquidity risk. However given current market conditions there is no guarantee that the Group will be able to raise sufficient new equity or debt financing to overcome such operational difficulties should they arise. In the meantime it will continue to manage liquidity risk by close control over expenditure.

CREDIT RISK
The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables. The Group deposits surplus cash with financial institutions that hold good credit ratings. The Group sells its products to organisations of strong financial standing to minimise its exposure.

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. Income is principally denominated in US Dollars. Expenditure is generally denominated 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.

DIRECTORS' REPORT CONTINUED
For the year ended 31 December 2008

POST BALANCE SHEET EVENTS
On 28 January 2009 shareholders approved the sub-division of the issued share capital at that date comprising 140,139,065 shares of 10 pence each into 140,139,065 ordinary shares of 0.5 pence each and 140,139,065 deferred shares of 9.5 pence each.

On 13 May 2009 the Company settled lease commitments through the sale of plant and equipment which at 31 December represented a liability excluding future interest of US$871,209.

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

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, 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 re-appoint 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.

CLIVE LINE
COMPANY SECRETARY
25 JUNE 2009

INDEPENDENT AUDITORS' REPORT

To the members of Serabi Mining plc

We have audited the Group and Parent Company financial statements ("the financial statements") of Serabi Mining plc for the year ended 31 December 2008 which comprise the consolidated income statement, the Group and Company balance sheets, statements of changes in shareholders' equity and cash flow statements 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 ('IFRSs') 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, Chief Executive's Review and Finance Review that is cross referenced from the 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 Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review 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 judgments 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;

➔ the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008;

➔ 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.

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in note 1(a) to the financial statements concerning the Company's and the Group's ability to continue as a going concern. The Group incurred a net loss of £10,973,655 during the year ended 31 December 2008 and the ability of the Company's Brazilian subsidiary to continue operations is dependent on continuing to manage its existing liabilities and maintaining current production levels, pending either the receipt of new funding or a sale of the business by the Company. These conditions, along with the other matters explained in note 1(a) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and the Group was unable to continue as a going concern.

PKF (UK) LLP
REGISTERED AUDITORS
LONDON, UK
25 JUNE 2009

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

(expressed in US$)	Notes	Group **For the year ended 31 December 2008**	Group For the year ended 31 December 2007
Revenue	2	**16,523,577**	25,099,118
Operating expenses		**(16,964,067)**	(19,708,212)
(Loss)/profit from mining operations		**(440,490)**	5,390,906
Administration expenses		**(3,740,134)**	(3,446,849)
Share-based payments		**(123,498)**	(177,913)
Write-off of past exploration costs		**(1,174,269)**	(628,066)
Gain on asset disposals		**11,804**	—
Depreciation of plant and equipment		**(2,132,633)**	(1,530,243)
Depreciation of mine asset		**(997,473)**	(795,878)
Loss on ordinary activities before interest and other income	3	**(8,596,693)**	(1,188,043)
Foreign exchange (loss)/gain		**(1,629,138)**	1,725,397
Interest payable	4	**(1,219,107)**	(1,119,116)
Interest receivable	4	**471,283**	586,969
(Loss)/profit on ordinary activities before taxation		**(10,973,655)**	5,207
Taxation	5	**—**	(128,086)
Loss on ordinary activities after taxation		**(10,973,655)**	(122,879)
Loss per ordinary share (basic and diluted)	7	**(7.83c)**	(0.10c)

BALANCE SHEETS
As at 31 December 2008

		Group		Company	
(expressed in US$)	Notes	**2008**	2007	**2008**	2007
Non-current assets					
Goodwill	8	**1,752,516**	1,752,516	**—**	—
Development and deferred exploration costs	8	**5,351,921**	13,254,658	**949,527**	1,112,164
Property, plant and equipment	9	**31,620,364**	25,831,006	**1,463,120**	1,877,933
Investments in subsidiaries	10	**—**	—	**10,126,330**	17,339,256
Other receivables	12	**—**	—	**16,976,355**	17,536,972
Total non-current assets		**38,724,801**	40,838,180	**29,515,332**	37,866,325
Current assets					
Inventories	11	**931,413**	3,341,954	**—**	—
Trade and other receivables	12	**992,698**	1,903,452	**646,046**	8,728
Prepayments		**1,401,627**	2,118,158	**47,050**	73,688
Cash at bank and in hand	13	**1,538,956**	18,629,402	**1,516,250**	18,526,555
Total current assets		**4,864,694**	25,992,966	**2,209,346**	18,608,971
Current liabilities					
Trade and other payables	14	**3,197,543**	4,163,638	**539,190**	567,021
Accruals		**136,762**	87,111	**136,762**	87,111
Interest bearing liabilities	16	**1,046,936**	839,986	**—**	—
Total current liabilities		**4,381,241**	5,090,735	**675,952**	654,132
Net current assets		**483,453**	20,902,231	**1,533,394**	17,954,839
Total assets less current liabilities		**39,208,254**	61,740,411	**31,048,726**	55,821,164
Non-current liabilities					
Trade and other payables	14	**25,467**	39,896	**—**	—
Provisions	15	**735,905**	920,135	**—**	—
Interest bearing liabilities	16	**182,340**	376,132	**—**	—
Total non-current liabilities		**943,712**	1,336,163	**—**	—
Net assets		**38,264,542**	60,404,248	**31,048,726**	55,821,164
Equity					
Called up share capital	17	**25,285,679**	25,285,679	**25,285,679**	25,285,679
Share premium reserve		**33,402,649**	33,402,649	**33,402,649**	33,402,649
Option reserve		**3,061,095**	2,923,543	**3,061,095**	2,923,543
Translation reserve		**(7,803,738)**	3,499,865	**—**	—
Profit and loss account	20	**(15,681,143)**	(4,707,488)	**(30,700,697)**	(5,790,707)
Equity shareholders' funds		**38,264,542**	60,404,248	**31,048,726**	55,821,164

The financial statements were approved and authorised for issue by the Board of Directors on 25 June 2009 and signed on its behalf by:

Clive Line.

CLIVE LINE
FINANCE DIRECTOR
25 JUNE 2009

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2008

(expressed in US$) **Group**	Share capital	Share premium	Share option reserve	Translation reserve	Profit and loss account	Total equity
Equity shareholders' funds at 31 December 2006	19,338,351	15,351,674	2,818,722	382,502	(4,693,443)	33,197,806
Foreign currency adjustments	—	—	—	3,117,363	—	3,117,363
Loss for year	—	—	—	—	(122,879)	(122,879)
Total recognised profit/(loss) for the year	—	—	—	3,117,363	(122,879)	2,994,484
Share option expense	—	—	213,655	—	—	213,655
Issue of ordinary shares	5,884,593	19,419,158	—	—	—	25,303,751
Conversion of options	62,735	31,368	(108,834)	—	108,834	94,103
Share issue expenses	—	(1,399,551)	—	—	—	(1,399,551)
Equity shareholders' funds at 31 December 2007	25,285,679	33,402,649	2,923,543	3,499,865	(4,707,488)	60,404,248
Foreign currency adjustments	—	—	—	(11,303,603)	—	(11,303,603)
Loss for year	—	—	—	—	(10,973,655)	(10,973,655)
Total recognised loss for the year	—	—	—	(11,303,603)	(10,973,655)	(22,277,258)
Share option expense	—	—	137,552	—	—	137,552
Equity shareholders' funds at 31 December 2008	**25,285,679**	**33,402,649**	**3,061,095**	**(7,803,738)**	**(15,681,143)**	**38,264,542**

(expressed in US$) **Company**	Share capital	Share premium	Share option reserve	Profit and loss account	Total equity
Equity shareholders' funds at 31 December 2006	19,338,351	15,351,674	2,818,722	(4,223,446)	33,285,301
Loss for year	—	—	—	(1,676,095)	(1,676,095)
Share option expense	—	—	213,655	—	213,655
Issue of ordinary shares	5,884,593	19,419,158	—	—	25,303,751
Conversion of options	62,735	31,368	(108,834)	108,834	94,103
Share issue expenses	—	(1,399,551)	—	—	(1,399,551)
Equity shareholders' funds at 31 December 2007	25,285,679	33,402,649	2,923,543	(5,790,707)	55,821,164
Loss for year	—	—	—	(24,909,990)	(24,909,990)
Share option expense	—	—	137,552	—	137,552
Equity shareholders' funds at 31 December 2008	**25,285,679**	**33,402,649**	**3,061,095**	**(30,700,697)**	**31,048,726**

CASH FLOW STATEMENTS
For the year ended 31 December 2008

(expressed in US$)	Group For the year ended 31 December 2008	Group For the year ended 31 December 2007	Company For the year ended 31 December 2008	Company For the year ended 31 December 2007
Cash outflows from operating activities				
Operating loss	**(8,596,693)**	(1,188,043)	**(24,909,990)**	(2,341,926)
Depreciation – plant, equipment and mining properties	**3,130,106**	2,326,121	**245,992**	210,857
Impairment charges	**—**	—	**21,528,139**	—
Option costs	**123,498**	177,913	**123,498**	177,913
Write-off of past exploration costs	**1,174,269**	628,066	**265,855**	16,546
Interest paid	**(1,219,107)**	(1,119,116)	**(158,314)**	(6,562)
Foreign exchange	**(1,496,018)**	(968,729)	**1,641,926**	96,565
Changes in working capital				
Decrease/(increase) in inventories	**2,024,099**	(348,915)	**—**	—
Decrease/(increase) in receivables, prepayments and accrued income	**1,049,230**	(691,942)	**(610,680)**	(7,291)
Increase/(decrease) in payables, accruals and provisions	**3,019**	(795,730)	**21,820**	(354,181)
Net cash flow from operations	**(3,807,597)**	(1,980,375)	**(1,851,754)**	(2,208,079)
Investing activities				
Proceeds of sale of fixed assets	**23,393**	—	**—**	—
Purchase of property, plant and equipment	**(5,608,449)**	(1,155,963)	**(331,089)**	(10,747)
Exploration and development expenditure	**(5,248,892)**	(6,017,472)	**(622,649)**	(710,356)
Capital and loan investments in subsidiaries	**—**	—	**(13,258,583)**	(5,894,367)
Interest received	**471,283**	586,969	**471,283**	584,621
Net cash outflow on investing activities	**(10,362,665)**	(6,586,466)	**(13,741,038)**	(6,030,849)
Financing activities				
Issue of ordinary share capital	**—**	25,303,751	**—**	25,303,751
Capital element of finance lease payments	**(1,402,482)**	(702,689)	**—**	—
Conversion of options	**—**	94,103	**—**	94,103
Payment of share issue costs	**—**	(1,399,551)	**—**	(1,399,551)
Net cash (outflow)/inflow from financing activities	**(1,402,482)**	23,295,614	**—**	23,998,303
Net (decrease)/increase in cash and cash equivalents	**(15,572,744)**	14,728,773	**(15,592,792)**	15,759,375
Cash and cash equivalents at beginning of period	**18,529,795**	3,791,202	**18,526,555**	2,739,201
Exchange difference on cash	**(1,418,095)**	9,820	**(1,417,513)**	27,979
Cash and cash equivalents at end of period	**1,538,956**	18,529,795	**1,516,250**	18,526,555

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

Serabi Mining plc (the "Company") is a public limited company listed on AIM, part of the London Stock Exchange, incorporated and domiciled in the United Kingdom. The public 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 15.

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 in force at the reporting date and their interpretations issued by the International Accounting Standards Board and adopted for use within the European Union (IFRS), and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The Company has not adopted any standards or interpretations in advance of the required implementation dates. There has been no significant impact on the consolidated financial statements from new standards or interpretations effective in 2008.

It is not anticipated that the adoption in the future of the new or revised standards or interpretations that have been issued by the International Accounting Standards Board will have a material impact on the Group's earnings or shareholders' funds. The following standards which have not yet become effective are expected to impact on the disclosures included in the financial statements of future periods.

IFRS 8 – Operating Segments – IFRS 8 replaces IAS 14 (Segment Reporting) from 1 January 2009. The key change is that the reporting segments will be consistent with those used by management in their resource allocation decisions.

IAS 1 – Presentation of Financial Statements – an amendment to IAS 1 effective from 1 January 2009 redefines the primary statements and expands on certain disclosures within the primary statements.

IFRS 3 – Business combinations/consolidated and separate financial statements – a revision to IFRS 3 effective from 1 July 2009 will change the accounting for goodwill, the cost of business combinations, and the methodology of accounting for business combinations that are undertaken on a staged basis.

IAS 23 – Borrowing costs – an amendment to IAS 23 effective 1 January 2009 will require that finance costs directly related to the acquisition of non-current assets be capitalised.

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, this being a period of not less than twelve months from the date of signing these financial statements. On this basis, they consider it appropriate to prepare the financial statements on the going concern basis. The Company has received expressions of interest regarding the exploration and mining assets of the Group and in the event that the Company undertakes a sale of whole or part of the interests of its operating subsidiary this may result in an injection of liquid or tradeable assets which may significantly enhance the liquidity of the Company.

However as noted under the section Liquidity Risk in note 23, the Group as a whole has limited cash resources and whilst its gold mining operations in Brazil have been cash generative during 2009, any disruption or significant decline in the current levels of operation could have a significant affect on the Group's liquidity. The viability of the Group's operations in Brazil is dependent upon the ability to continue to manage the accrued liabilities of the subsidiary entity, to identify additional sources of ore to maintain production and any operational difficulties not adversely affecting short term cash flow or requiring an injection of capital that is beyond the limited capability of the Company to provide. The Directors are currently seeking and have held discussions regarding terms relating to new sources of finance that would provide the Group with a stronger financial base but there can be no guarantee that such funding will be forthcoming. The use of any funds raised will be dependent on the levels of funding that are available and the Directors will determine the strategy of the Group accordingly. In the meantime the Group will continue to seek to conduct its operations in a manner that will allow it to continue to at least cover the cost base of its operating subsidiary, will dispose of assets if such action is necessary and continue to exercise tight control over its available working capital. In the event that it is necessary to dispose of assets to support the activities of the Group it is possible that such disposals may be undertaken at values below current carrying values. Ultimately if it is not possible to raise additional funds from any source and the Company cannot afford to provide funds to its operating subsidiary, it may become necessary to place the Group's Brazilian subsidiary into administration, in order that the Company can continue as a going concern.

IMPAIRMENT

The Directors have undertaken a review of the carrying value of the mining and exploration assets of the Group, and considered the implications of the operational difficulties experienced and the current operational status of Palito. Following this review they have assessed the value of the existing assets on the basis of value in use involving a future recommencement of underground mining operations which is dependent on the ability of the Group to raise future finance and to operate the mine in line with the mine plan that forms the basis of the value in use calculation. The carrying values of assets have not been adjusted to reflect a failure to raise sufficient funds, only maintaining the current levels of operation or that if a sale transaction were undertaken the proceeds may not realise the value as stated in the accounts.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(B) BASIS OF CONSOLIDATION CONTINUED

(I) SUBSIDIARIES CONTINUED

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 on the net investment in subsidiaries are recognised directly in equity.

The US Dollar/Sterling exchange rate at 31 December 2008 was 1.44790. The US Dollar/Brazilian Real exchange rate at 31 December 2008 was 2.3560.

(D) PROPERTY, PLANT AND EQUIPMENT

(i) OWNED ASSETS

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

Upon demonstration of the feasibility of commercial production, any past deferred exploration, evaluation and development costs related to that operation are reclassified as 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 1(D) (i)) or until the properties are sold, allowed to lapse or abandoned, at which time any capitalised costs are written off to the income statement.

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.

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

(G) CASH AND CASH EQUIVALENTS

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

(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; and

(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. On 29 January 2009, shareholders approved the sub-division of the issued share capital at that date into ordinary shares of 0.5 pence each and deferred shares of 9.5 pence each.

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

(J) BORROWINGS

Borrowings 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.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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.

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

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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) INVESTMENTS IN SUBSIDIARIES

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

(U) 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

Revenues are subject to variation after the date of sale due to assay, price and foreign exchange fluctuations. Management monitors these changes closely and at the end of the period the Directors will consider whether the effect of these variations is material on the whole and determine if an adjustment is therefore appropriate.

ASSETS HELD FOR DISPOSAL

The Board announced in September 2008 a strategic review for the Company and advised that amongst the options it was considering was the potential sale of the mining and exploration assets of the Group all of which are located in Brazil. Following this announcement the Company and its Directors have been active in seeking potential parties who may be interested in acquiring these assets from the Company. At the same time the Directors have also been seeking new sources of finance and the possibility of introducing joint venture partners to fund exploration or a re-establishment of larger scale mining operations. The Directors consider that whilst they are active in marketing the mining and exploration assets this is not the only option being pursued and accordingly have concluded that the carrying value of the assets may still be recovered principally through continued use rather than through a sale transaction. Accordingly they have determined that the provisions of International Financial Reporting Standard 5 – Non-current assets Held for Sale and Discontinued Operations do not apply.

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 1(D) (iv), the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Further disclosure is provided in note 18 regarding the key assumptions made in arriving at the value in use.

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 2008 $	31 December 2007 $
Brazil	**34,672,224**	41,952,511
UK	**7,508,326**	23,351,583
Australia	**1,408,945**	1,527,052
	43,589,495	66,831,146

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

	Group	
	For the year ended 31 December 2008 $	For the year ended 31 December 2007 $
Brazil	**4,626,243**	5,232,039
UK	**622,649**	710,356
Australia	**—**	75,077
	5,248,892	6,017,472

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

	Group	
	For the year ended 31 December 2008 $	For the year ended 31 December 2007 $
Brazil	**6,732,548**	1,992,302
UK	**331,089**	10,747
Australia	**—**	10,608
	7,063,637	2,013,657

All assets are utilised in gold mining and exploration activities.

3. STATUTORY INFORMATION

The following amounts were charged to the income statement and balance sheet during the year:

	Group	
	For the year ended 31 December 2008 $	For the year ended 31 December 2007 $
Services provided by the auditors of the Company:		
audit fee for the Company and consolidation	**92,139**	48,534
audit of accounts of associates of the Company	**63,794**	63,661
other services relating to tax	**25,131**	24,738
all other services	**7,731**	11,990
Depreciation (plant and equipment)	**2,132,633**	1,530,243
Depreciation (mining properties)	**997,473**	795,878
Operating lease charges	**414,074**	60,189

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. INTEREST PAYABLE AND RECEIVABLE

	Group	
	For the year ended 31 December 2008 $	For the year ended 31 December 2007 $
Interest payable on short-term trade finance	**(158,314)**	(286,447)
Interest payable on lease obligations	**(144,807)**	(150,880)
Other interest	**(915,986)**	(681,789)
Interest payable	**(1,219,107)**	(1,119,116)
Interest receivable on short-term deposits	**471,283**	586,969
Net interest	**(747,824)**	(532,147)

5. TAXATION

	Group	
	For the year ended 31 December 2008 $	For the year ended 31 December 2007 $
Current tax		
UK tax	**—**	—
Foreign tax	**—**	128,086
Deferred tax	**—**	—
Total	**—**	128,086

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 28.5% (2007: 30%).

The differences are explained as follows:

	Group	
	For the year ended 31 December 2008 $	For the year ended 31 December 2007 $
(Loss)/profit on ordinary activities before tax	**(10,973,655)**	5,207
Tax thereon at UK corporate tax rate of 28.5% (2007: 30%)	**(3,127,492)**	1,562
Factors affecting the tax charge:		
expenses not deductible for tax purposes	**852,257**	327,750
income not taxable	**(1,932,750)**	(627,393)
higher rate tax overseas	**(634,852)**	—
unrecognised tax losses carried forward	**4,842,837**	298,081
underprovision for foreign tax in prior periods	**—**	128,086
Tax charge	**—**	128,086

There is a potential deferred tax asset of US$6.5 million (2007: US$2.9 million) 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 year was:

	For the year ended 31 December 2008 Number	For the year ended 31 December 2007 Number
Management and administration	**37**	27
Exploration	**12**	41
Mine development and operations	**262**	325
Total	**311**	393

	$	$
Staff costs		
Wages and salaries	**7,452,004**	5,926,620
Cost of incentive scheme shares and Director shares vested	**130,034**	213,655
Social security costs	**1,606,335**	998,906
Termination costs	**717,488**	—
Pension contributions	**68,416**	84,589
Total	**9,974,277**	7,223,770

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

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

The average number of persons employed by the Company and the associated wages and salaries expense comprises the following:

	For the year ended 31 December 2008 Number	For the year ended 31 December 2007 Number
Management and administration	**8**	8

	$	$
Staff costs		
Wages and salaries	**883,061**	940,063
Costs of incentive scheme shares and Director shares vested	**130,034**	213,655
Social security costs	**90,165**	93,194
Pension contributions	**68,416**	74,304
Total	**1,171,676**	1,321,216

KEY MANAGEMENT AND DIRECTORS’ REMUNERATION

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

	For the year ended 31 December 2008 $	For the year ended 31 December 2007 $
Salary and short-term employee benefits	**708,292**	810,145
Post employment benefits	**58,154**	64,871
Share-based payments	**48,028**	108,166
Total	**814,474**	983,182

The remuneration of the highest paid Director during the year was US$298,423 (2007: US$327,619). This includes the valuation of options granted in accordance with IFRS 2. Included within the above amounts the Company made contributions to his money purchase pension scheme of US$20,525 (2007: US$17,813). Four (2007: four) Directors are accruing retirement benefits under money purchase schemes.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. LOSS PER SHARE

The calculation of the basic loss per share of 7.83 cents (2007 loss per share: 0.10 cents) is based on the loss attributable to ordinary shareholders of US$10,973,655 (2007: loss of US$122,879) and on the weighted average number of ordinary shares of 140,139,065 (2007: 124,716,130) in issue during the period. No diluted earnings per share is presented as the effect of 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 17.

8. INTANGIBLE ASSETS

GOODWILL

	Group $
Cost	
Balance at 31 December 2007 and 31 December 2008	**1,752,516**
Amortisation	
Balance at 31 December 2007 and 31 December 2008	**—**
Net book value at 31 December 2007 and at 31 December 2008	**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 Mineraçao Ltda. The Directors having undertaken an impairment review (see note 18) 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 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Cost				
Opening balance	**13,254,658**	6,454,074	**1,112,164**	418,354
Exploration and development expenditure	**5,248,892**	6,017,472	**622,649**	710,356
Write-off of past exploration costs	**(1,174,269)**	(628,066)	**(265,855)**	(16,546)
Exchange	**(1,617,946)**	1,411,178	**—**	—
Transfer to tangible assets (mining property)	**(10,359,414)**	—	**(519,431)**	—
Total as at end of period	**5,351,921**	13,254,658	**949,527**	1,112,164

The value of these assets is dependent on the development of mineral deposits. The Directors having undertaken an impairment review (see note 18) do not consider there is any impairment to the carrying value of Development and Deferred Exploration Costs at this time.

9. TANGIBLE ASSETS

PROPERTY, PLANT AND EQUIPMENT

	Group				Company		
2008	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 $
Cost							
Balance at 31 December 2007	2,653,614	16,462,008	12,209,624	31,325,246	527,509	1,648,071	2,175,580
Additions	69,226	3,352,765	3,641,646	7,063,637	331,089	—	331,089
Transfer from Group Company	—	—	—	—	33,563	—	33,563
Transfer from development and deferred exploration costs	—	10,359,414	—	10,359,414	—	519,431	519,431
Exchange	(670,562)	(6,097,060)	(3,574,322)	(10,341,944)	—	—	—
Disposals	—	—	(111,261)	(111,261)	—	—	—
At 31 December 2008	**2,052,278**	**24,077,127**	**12,165,687**	**38,295,092**	**892,161**	**2,167,502**	**3,059,663**
Depreciation							
Balance at 31 December 2007	(1,154,678)	(1,134,093)	(3,205,469)	(5,494,240)	(179,204)	(118,443)	(297,647)
Charge for period	(465,745)	(997,473)	(1,666,888)	(3,130,106)	(171,873)	(74,119)	(245,992)
Transfer from Group Company	—	—	—	—	(23,151)	—	(23,151)
Impairment charge	—	—	—	—	(191,804)	(837,949)	(1,029,753)
Exchange	393,325	432,429	1,043,438	1,869,192	—	—	—
Eliminated on sale of asset	—	—	80,426	80,426	—	—	—
At 31 December 2008	**(1,227,098)**	**(1,699,137)**	**(3,748,493)**	**(6,674,728)**	**(566,032)**	**(1,030,511)**	**(1,596,543)**
Net book value at 31 December 2008	**825,180**	**22,377,990**	**8,417,194**	**31,620,364**	**326,129**	**1,136,991**	**1,463,120**
Net book value at 31 December 2007	1,498,936	15,327,915	9,004,155	25,831,006	348,305	1,529,628	1,877,933

Included in Plant and equipment, are assets acquired under finance leases with net book value of US$1,197,619 (2007: US$2,297,532). The associated liabilities are secured by the lessor's title to the leased assets. The Directors having undertaken an impairment review (see note 18) do not consider that there is any impairment to the carrying value of the Group's Tangible Assets at this time.

9. TANGIBLE ASSETS CONTINUED

PROPERTY, PLANT AND EQUIPMENT

	Group				Company		
2007	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 $
Cost							
Balance at 31 December 2006	2,201,439	13,623,179	8,860,453	24,685,071	518,893	1,648,071	2,166,964
Additions	—	497,425	1,516,232	2,013,657	10,747	—	10,747
Exchange	452,175	2,341,404	1,835,070	4,628,649	—	—	—
Disposals	—	—	(2,131)	(2,131)	(2,131)	—	(2,131)
At 31 December 2007	2,653,614	16,462,008	12,209,624	31,325,246	527,509	1,648,071	2,175,580
Depreciation							
Balance at 31 December 2006	(532,884)	(232,097)	(1,716,384)	(2,481,365)	(58,743)	(29,148)	(87,891)
Charge for period	(465,745)	(795,878)	(1,064,498)	(2,326,121)	(121,562)	(89,295)	(210,857)
Exchange	(156,049)	(106,118)	(425,688)	(687,855)	—	—	—
Eliminated on sale of asset	—	—	1,101	1,101	1,101	—	1,101
At 31 December 2007	(1,154,678)	(1,134,093)	(3,205,469)	(5,494,240)	(179,204)	(118,443)	(297,647)
Net book value at 31 December 2007	1,498,936	15,327,915	9,004,155	25,831,006	348,305	1,529,628	1,877,933
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

10. INVESTMENTS HELD AS FIXED ASSETS

The Group consists of the following subsidiary undertakings:

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

* indirectly held.

	Company	
	31 December 2008 $	31 December 2007 $
Carrying value at start of period	**17,339,256**	17,339,256
Impairment (note18)	**(7,212,926)**	—
Carrying value at end of period	**10,126,330**	17,339,256

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

11. INVENTORIES

	Group		Company	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Bullion and work in progress	**100,821**	948,437	**—**	—
Consumables	**830,592**	2,393,517	**—**	—
Inventories	**931,413**	3,341,954	**—**	—

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 US$4,151,115 (2007: US$7,808,008).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Current				
Trade receivables	**912,235**	1,817,843	**596,053**	4,486
Other receivables	**80,463**	85,609	**49,993**	4,242
Trade and other receivables	**992,698**	1,903,452	**646,046**	8,728
Non-current				
Amounts owed by subsidiaries	**—**	—	**30,261,815**	17,536,972
Impairment (note 18)	**—**	—	**(13,285,460)**	—
Other receivables	**—**	—	**16,976,355**	17,536,972

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Cash at bank and in hand	**1,538,956**	18,629,402	**1,516,250**	18,526,555
Bank overdraft	**—**	(99,607)	**—**	—
Cash and cash equivalents	**1,538,956**	18,529,795	**1,516,250**	18,526,555

14. TRADE AND OTHER PAYABLES

	Group		Company	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Current				
Trade payables	**1,796,576**	2,422,185	**86,865**	39,695
Other payables	**274,789**	653,741	**—**	—
Employee benefits	**225,741**	241,410	**32,789**	118,203
Other taxes and social security	**900,437**	846,302	**—**	—
Amounts due to subsidiaries	**—**	—	**419,536**	409,123
Trade and other payables	**3,197,543**	4,163,638	**539,190**	567,021
Non-current				
(Between one and five years)				
Other taxes and social security	**25,467**	39,896	**—**	—
	25,467	39,896	**—**	—

15. NON-CURRENT PROVISIONS

CONTINGENCY PROVISION

	Group		Company	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Opening balance	**420,135**	299,749	**—**	—
(Released)/provided for in year	**(103,015)**	53,468	**—**	—
Exchange	**(81,215)**	66,918	**—**	—
Closing balance	**235,905**	420,135	**—**	—

ENVIRONMENTAL REHABILITATION PROVISION

	Group		Company	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Opening balance	**500,000**	500,000	**—**	—
Provided for in year	**—**	—	**—**	—
Closing balance	**500,000**	500,000	**—**	—
Total non-current provisions	**735,905**	920,135	**—**	—

The contingency provision covers claims brought by former employees of Serabi Mineracao Limitada against that company. Having been in receipt of all agreed termination payments these individuals have subsequently lodged claims with the Brazilian labour courts for further sums alleged to be due in respect of matters such as unpaid wages, overtime due and holiday payments. The Company whilst contesting each claim has made provision in respect of all known claims.

15. NON-CURRENT PROVISIONS CONTINUED

ENVIRONMENTAL REHABILITATION PROVISION CONTINUED

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.

16. 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 lessor's title to the leased assets.

FINANCE LEASE LIABILITIES

	Group Minimum lease payments	
	31 December 2008 $	31 December 2007 $
No later than one year	**1,119,870**	821,864
Later than one year and not later than five years	**188,376**	398,439
	1,308,246	1,220,303
Future finance charges	**(78,970)**	(103,792)
Present value of minimum lease payments	**1,229,276**	1,116,511

	Group	
	31 December 2008 $	31 December 2007 $
Interest bearing liabilities – current		
Finance leases	**1,046,936**	740,379
Bank overdraft	**—**	99,607
	1,046,936	839,986
Interest bearing liabilities – non-current		
Finance leases	**182,340**	376,132

17. SHARE CAPITAL

	2008		2007	
	Number	**£**	Number	£
Authorised				
Ordinary shares of 10 pence each	**250,000,000**	**25,000,000**	250,000,000	25,000,000

On 28 January 2009, the shareholders approved:

i) the sub-division of the existing issued share capital into 140,139,065 ordinary shares of 0.5 pence each and 140,139,065 deferred shares of 9.5 pence each;

ii) that each of the 109,860,935 authorised but unissued ordinary shares of 10 pence each capital be sub-divided and re-designated into 20 ordinary shares of 0.5 pence each; and

iii) that the authorised share capital be increased by £5 million through the creation of 1,000,000,000 new ordinary shares of 0.5 pence each.

The deferred shares carry no voting or dividend rights or any right to participate in the profits or assets of the Company and all the deferred shares may be purchased by the Company, in accordance with the Companies Act 1985, at any time for no consideration. In the event of a return of capital, after the holders of the Ordinary shares have received in aggregate the amount paid up thereon plus £100 per ordinary share, there shall be distributed amongst the holders of deferred shares an amount equal to the nominal value of the deferred shares and thereafter any further surplus shall be distributed amongst the holders of ordinary shares.

	2008		2007	
	Number	**$**	Number	$
Allotted, called up and fully paid	**140,139,065**	**25,285,679**	140,139,065	25,285,679

MOVEMENTS IN ISSUED SHARE CAPITAL

	31 December 2008 Number	**31 December 2008 $**	31 December 2007 Number	31 December 2007 $
Opening balance	**140,139,065**	**25,285,679**	110,751,608	19,338,351
Issue of shares for cash	**—**	**—**	29,069,768	5,884,593
Exercise of options	**—**	**—**	317,689	62,735
Closing balance	**140,139,065**	**25,285,679**	140,139,065	25,285,679

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. SHARE CAPITAL CONTINUED

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES

PRE-IPO SHARE OPTION PLAN

At the beginning of the period there were 10,682,521 options outstanding to Directors and certain employees of the Group under this plan.

All vesting conditions in respect of these options have been met by the holders.

No charge in respect of the fair value attributable to these options has been recorded in these financial statements (2007: $nil) and there is no further charge to be made in future financial statements.

PRE-IPO SHARE OPTION PLAN

Option period	Exercise price	Grant 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 05 – 01 Apr 16	£0.15	25 Apr 05	5,793,279	—	—	—	5,793,279	n/a	7.25
01 Apr 06 – 01 Apr 16	£0.30	25 Apr 05	4,889,242	—	—	—	4,889,242	n/a	7.25
As at 31 December 2008			**10,682,521**	**—**	**—**	**—**	**10,682,521**		**7.25**
Weighted average exercise price			21.9p				21.9p		
30 Nov 05 – 01 Apr 16	£0.15	25 Apr 05	6,110,968	—	317,689	—	5,793,279	44.2p	8.25
01 Apr 06 – 01 Apr 16	£0.30	25 Apr 05	4,889,242	—	—	—	4,889,242	n/a	8.25
As at 31 December 2007			11,000,210	—	317,689	—	10,682,521		8.25
Weighted average exercise price			21.7p	—	15.0p	—	21.9p		

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. During the year the following options were issued under this plan. There have been no further issues subsequent to the year end:

Date of grant	Number of options granted	Exercise price	Exercise period[1]	Fair value
11 Jun 08	250,000	20.65p	11 Jun 09 to 10 Jun 18	7.13p

[1] Options are granted subject to the achievement of profits orientated performance criteria and vest in equal amounts over a three year period commencing on the first anniversary after the date of grant. The performance criteria are specific to each option holder.

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 is being 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:

Risk free rate	5.75%
Volatility (based on share performance)	45.00%
Expected life of option (average)	five years

During the year a charge of US$130,034 has been recorded in these financial statements in respect of these options.

Option period	Exercise price	Grant 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)
18 Jan 07 – 17 Jan 17	£0.3225	18 Jan 07	1,000,000	—	—	—	1,000,000	n/a	8.05
28 Mar 07 – 27 Mar 17	£0.3840	28 Mar 07	150,000	—	—	75,000	75,000	n/a	8.24
15 Nov 07 – 14 Nov 17	£0.3685	15 Nov 07	400,000	—	—	—	400,000	n/a	8.88
15 Nov 07 – 14 Nov 17	£0.2640	15 Nov 07	450,000	—	—	200,000	250,000	n/a	8.88
11 Jun 08 – 10 Jun 18	£0.2065	11 Jun 08	—	250,000	—	—	250,000	n/a	9.45
As at 31 December 2008			**2,000,000**	**250,000**	**—**	**275,000**	**1,975,000**		
Weighted average exercise price			32.3p	20.65p	n/a	29.7p	31.2p		
18 Jan 07 – 17 Jan 17	£0.3225	18 Jan 07	—	1,000,000	—	—	1,000,000	n/a	9.05
28 Mar 07 – 27 Mar 17	£0.3840	28 Mar 07	—	150,000	—	—	150,000	n/a	8.24
15 Nov 07 – 14 Nov 17	£0.3685	15 Nov 07	—	400,000	—	—	400,000	n/a	8.88
15 Nov 07 – 14 Nov 17	£0.2640	15 Nov 07	—	400,000	—	—	450,000	n/a	8.88
As at 31 December 2007			—	2,000,000	—	—	2,000,000		
Weighted average exercise price				32.3p			32.3p		

17. SHARE CAPITAL CONTINUED

OTHER OPTIONS

During the year the Company granted options to consultants to the Company in part consideration for the services provided during the year:

Date of grant	Number of options granted	Exercise price	Exercise period	Fair value
01 Jun 08	100,000	18.75p	01 Jun 08 to 31 May 10	7.52p

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 in the current period this being the period to which the services rendered relate. The following assumptions were made in the calculation of the fair value:

Risk free rate	5.75%
Volatility (based on share performance)	45.00%
Expected life of option (average)	two years

During the year a charge of US$7,518 has been recorded in these financial statements in respect of these options.

18. IMPAIRMENT

As detailed in the accounting policies the Directors are required to undertake a review for impairment at least annually and in particular where events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In such a situation the assets 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).

During 2008 the Group experienced operational difficulties at its Palito mine. In September 2008 the Board announced that its was undertaking a strategic review of options available to the Group and that a restructuring of the operations was being undertaken but it was unlikely that underground mining operations could continue without a period of long term mine development being undertaken, for which the Group did not have the required working capital. At the end of 2008, the underground mining operations at the Palito Mine were suspended and the underground mine placed on care and maintenance. Limited scale surface mining activities have been retained but production levels are significantly lower than those anticipated from underground mining operations and whilst these have been cash generative to date are not yielding levels of cash flow to support the past levels of investment in the Palito mine. Further details are contained within the Chief Executive's Review within the Group's Annual Report.

The Directors have considered each of the Group's exploration and development assets on a project-by- project basis. It has considered three general cash generating units for the purpose of this assessment. These are:

- ➔ the Palito mine itself including the pre-operating cost, exploration expenditures on establishing the current declared reserve and resource base, land and buildings and plant and machinery associated with the mining operations
- ➔ exploration expenditures on areas within the Palito environs but which have not yet been exploited and do not form part of the current declared reserves and resources; and
- ➔ exploration expenditures on other tenements.

Following this review and making estimates of the value in use, the Directors have concluded that no impairment charge against the carrying value of the assets of the Group relating to the Palito mine is required as the estimated value in use is US$34,813,114 compared with the carrying value of the assets of the cash generating group of US$33,372,880. However in respect of the assets of the Company it has been concluded that after consideration of the estimates of future cash flows that could be received by the Company deriving from this cash generating unit, an impairment charge of US$21,528,139 should be taken.

In accordance with IAS 36 – Impairment of Assets, any impairment must first be applied against any goodwill allocated to the unit that is impaired and thereafter allocated to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

The carrying value for the Group of the Palito cash generating unit comprises:

	US$
Goodwill	1,752,516
Mining Property	22,377,990
Land and Buildings	825,180
Plant and Equipment	8,417,194
	33,372,880

No impairment provision has been made in respect of any of the other cash generating units.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. IMPAIRMENT CONTINUED

COMPANY

The carrying value for the Company relating to the Palito cash generating unit comprises:

	Carrying Value before impairment US$	Impairment charge US$	Carrying Value after impairment US$
Loans and Investments into Brazil	45,179,965	19,169,436	26,010,529
Loans to other subsidiaries	1,988,231	1,328,950	659,281
Mining Property	1,974,940	837,949	1,136,991
Plant and Equipment	452,057	191,804	260,253
	49,595,193	21,528,139	28,067,054

In deriving an estimate of the value in use in respect of the Palito mine the Directors' have calculated a Net Present Value of the projected cash flow to be derived from the exploitation of the known reserves of 187,538 gold equivalent ounces as estimated at the end of March 2008.

The Net Present Value calculation used the following key assumptions:

Commencement of operations	1 January 2011
Long Term Gold Price	US$750
Exchange Rate Br R$ to US$	2.356
Discount factor	15%
Cost estimates	Based on historic cost and usage data
Mine Plan	A period of development of some 12 months with development ore initially stockpiled for a five month period during which time no processing or gold production occurs. Processing commencing thereafter and after the initial 12 month period stoping activities are recommenced and thereafter a steady state and ratio of production from stoping and development activity can be maintained
Average monthly plant throughput rate	15,000 tonnes per month
Average annual gold production (2012 onwards)	41,500 gold equivalent ounces
Production Period	5 years

As required by IAS 36 no benefit has been recognised for any additional value that could be generated from the assets through improving the performance of the assets through additional cash outflows. For this reason the mine life has been terminated upon exhaustion of the known reserves and no recognition taken of other mineral resources at Palito.

The gold price used is based on a consensus forecasts from analysts, whilst in accordance with IAS 36 the BrR$:US$ exchange rate used is that prevailing at 31 December 2008. The rate on 23 June 2008 was 1.98.

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

		US$
Delay of project start-up to January 2012	Increase in impairment charge	4,540,800
Decrease in gold price by 5%	Increase in impairment charge	2,890,500
Appreciation of BrR$:US$ exchange rate by 20%	Increase in impairment charge	5,145,000
Increase in discount factor by 1%	Increase in impairment charge	1,555,300
Increase in cost estimates by 10%	Increase in impairment charge	3,390,500

19. CAPITAL MANAGEMENT

The Group has historically sourced capital through share issues on the London Stock Exchange and the Board had managed the capital structure of the Group and aligned this with the risk profiles of its underlying assets. In light of the current levels of working capital available to the Group, it has minimised all its capital and exploration activities to ensure it has sufficient capital to fund on-going production. The Board is seeking opportunities whereby it can introduce new capital into the Group.

20. 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 1985. The loss of the Company during 2008 was US$24,909,990 (2007: loss of US$1,676,095).

21. 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 any affected prospects.

Management estimates that the cost over the next twelve months of fulfilling the current contracted commitments on all the properties in which the Group has an interest is US$263,611.

OPERATING LEASE COMMITMENTS

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

	Group		Company	
	31 December 2008 $	31 December 2007 $	**31 December 2008 $**	31 December 2007 $
Commitments falling due:				
within one year	**271,890**	—	**55,020**	—
between one year and five years	**251,870**	—	**165,060**	—
Total	**523,760**	—	**220,080**	—

CONTINGENCIES

Employment legislation in Brazil allows former employees to bring claims against an employer at any time for a period of two years from the date of cessation of employment and regardless of whether the employee left the company voluntarily or had their contract terminated by the company. The Group considers that it operates in compliance with the law at all times but is aware that claims are made against all companies in Brazil on a regular basis. Whilst the Group makes provision or accrues for all known claims further claims may arise at any time.

22. RELATED PARTY TRANSACTIONS

During the period the Company has made loans to subsidiary entities totalling US$13.2 million. In addition Serabi Mining plc has purchased all of the copper/gold concentrate production of its wholly-owned subsidiary entity Serabi Mineracao Limitada for a value of USD$11.6 million. The price paid is referenced to market values on the date of each sale. The Company makes an onward sale of the concentrate to a refinery and assumes the credit, price, exchange rate and assay risks involved in final settlement with the refinery.

The Company has provided guarantees during the year on behalf of Serabi Mineracao Limitada in respect of finance lease entered into by that company in respect of plant and machinery. As at 31 December the amount due in respect of these finance leases excluding interest was US$994,904. As detailed in note 24 finance lease liabilities amounting to US$871,209 at 31 December 2008 were settled after the year end and the Company has been released from these guarantees.

23. FINANCIAL INSTRUMENTS

The Group's and the Company's financial assets at 31 December 2008 which comprise trade and other receivables and cash, and in the case of the Company include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's and Company's financial liabilities which comprise trade and other payables, accruals and interest bearing liabilities, are classified as liabilities measured at amortised cost.

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

COMMODITY PRICE RISK

The Group and the Company are 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.

An analysis of the effect of a 10% movement in average commodity prices on the Group's profit and loss and equity is as follows:

	2008		2007	
	P&L $'000	**Equity $'000**	P&L $'000	Equity $'000
A 10% increase in the average commodity price	**291**	**291**	290	290
A 10% decrease in the average commodity price	**(291)**	**(291)**	(398)	(398)

An analysis of the effect of a 10% movement in average commodity prices on the Company's profit and loss and equity is as follows:

	2008		2007	
	P&L $'000	**Equity $'000**	P&L $'000	Equity $'000
A 10% increase in the average commodity price	**291**	**291**	—	—
A 10% decrease in the average commodity price	**(291)**	**(291)**	—	—

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. FINANCIAL INSTRUMENTS CONTINUED

INTEREST RATE RISK

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

GROUP

2008	Weighted average effective interest rate %	Non-interest bearing $	Floating $	Fixed interest maturity One year or less $	Fixed interest maturity Over one to five years $	Total $
Financial assets						
Cash	5.50	—	1,538,956	—	—	1,538,956
Receivables	—	992,698	—	—	—	992,698
Total		**992,698**	**1,538,956**	**—**	**—**	**2,531,654**
Financial liabilities						
Payables and accruals	—	3,359,772	—	—	—	3,359,772
Interest bearing liabilities	10.93	—	—	1,046,936	182,340	1,229,276
Total		**3,359,772**	**—**	**1,046,936**	**182,340**	**4,589,048**

2007	Weighted average effective interest rate %	Non-interest bearing $	Floating $	Fixed interest maturity One year or less $	Fixed interest maturity Over one to five years $	Total $
Financial assets						
Cash	4.89	—	18,629,402	—	—	18,629,402
Receivables	—	1,903,452	—	—	—	1,903,452
Total		1,903,452	18,629,402	—	—	20,532,854
Financial liabilities						
Payables and accruals	—	4,290,645	—	—	—	4,290,645
Interest bearing liabilities	11.38	—	99,607	740,379	376,132	1,216,118
Total		4,290,645	99,607	740,379	376,132	5,506,763

COMPANY

2008	Weighted average effective interest rate %	Non-interest bearing $	Floating $	Fixed interest maturity One year or less $	Fixed interest maturity Over one to five years $	Total $
Financial assets						
Cash	5.50	—	1,516,250	—	—	1,516,250
Receivables	—	17,622,401	—	—	—	17,622,401
Total		**17,622,401**	**1,516,250**	**—**	**—**	**19,138,651**
Financial liabilities						
Payables and accruals	—	675,952	—	—	—	675,952
Interest bearing liabilities	—	—	—	—	—	—
Total		**675,952**	**—**	**—**	**—**	**675,952**

2007	Weighted average effective interest rate %	Non-interest bearing $	Floating $	Fixed interest maturity One year or less $	Fixed interest maturity Over one to five years $	Total $
Financial assets						
Cash	4.89	—	18,526,555	—	—	18,526,555
Receivables	—	17,545,700	—	—	—	17,545,700
Total		17,455,700	18,526,555	—	—	36,072,255
Financial liabilities						
Payables and accruals	—	654,132	—	—	—	654,132
Interest bearing liabilities	—	—	—	—	—	—
Total		654,132	—	—	—	654,132

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 and to pay trade payables within their credit terms.

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

23. FINANCIAL INSTRUMENTS 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 does not have any other borrowing or credit facilities. The Group took steps at the end of 2008 to significantly reduce its level of activities to conserve its cash resources. At the current time the Group has limited cash resources but has been generating steady income from its current levels of operation in excess of the costs of those operations. The Board is cognisant that any disruption or significant decline in the current level of operations could have a significant affect on the Group's liquidity and is currently seeking new funding sources that would alleviate current liquidity risk. However given current market conditions there is no guarantee that the Group will be able to raise sufficient new equity or debt financing to overcome such operational difficulties should they arise. In the meantime it will continue to manage liquidity risk by close 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 table below shows the effect on the Group's operating loss (before interest and other income) and equity of a 10% movement of the Brazilian Real against the US Dollar:

	2008		2007	
	P&L (Loss on ordinary activities before interest and other income) $'000	**Equity $'000**	P&L (Loss on ordinary activities before interest and other income) $'000	Equity $'000
10% strengthening of the Brazilian Real against the US Dollar	**(1,354)**	**3,278**	(2,021)	1,970
10% weakening of the Brazilian Real against the US Dollar	**1,732**	**(2,682)**	1,654	(1,612)

The Company's operating loss and equity has no risk to movements in the Brazilian Real against the US Dollar.

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

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

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

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 2008 $	31 December 2007 $
US Dollar	**743,701**	1,727,599
Sterling	**779,568**	16,891,589
Australian Dollar	**9,661**	7,853
Brazilian Real	**6,026**	2,361
	1,538,956	18,629,402
Brazilian Real	**—**	(99,607)
Total	**1,538,956**	18,529,795

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

CREDIT RISK

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US$2,531,654. It is the Group's policy to only deposit surplus cash with financial institutions that hold good credit ratings. Cash deposits are currently held with institutions holding a minimum BFSR rating of C+ as reported by Moody's. Trade receivables at year end were primarily due from Standard Bank plc who have been assigned a BFSR of C- by Moody's and NV Umicore S.A., one of the major materials technology companies with a net asset value of €1.3 billion and generating an annual turnover of €9.2 billion.

The Company's exposure to credit risk amounted to US$19,138,651.

24. POST BALANCE SHEET EVENTS

As set out in note 17, on 28 January 2009 shareholders approved the sub-division of the issued share capital at that date of 140,139,065 shares of 10 pence each into 140,139,065 ordinary shares of 0.5 pence each and 140,139,065 shares of 9.5 pence each.

On 13 May 2009 the Company settled lease commitments which at 31 December 2008 represented a liability excluding future interest of $871,209 through the sale of certain assets.

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Farrer & Co, 66 Lincoln's Inn Fields, London WC2A 3LH on 18 August 2009 at 11.00 am 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 2008 be received and adopted.
2. To re-elect Graham Roberts as a Director. Graham Roberts retires by rotation in accordance with the Articles of Association and being eligible offers himself for re-election.
3. 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.
4. To re-appoint 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 5 will be proposed as an ordinary resolution and resolution 6 will be proposed as a special resolution.

5. 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 value equal to the authorised but unissued share capital of the Company 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.
6. 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 up to an aggregate nominal value equal to the authorised but unissued share capital of the Company as if Section 89 of the Act did not apply to any such allotment provided that this power shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution. 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 .

CLIVE LINE
COMPANY SECRETARY
66 LINCOLN'S INN FIELDS
LONDON WC2A 3LH
25 JUNE 2009

NOTES:

1. A member entitled to attend and vote at the meeting convened by the notice set out overleaf is entitled to appoint a proxy (or proxies) to attend and to vote in his place. A proxy need not be a member of the Company.
2. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the member.
3. 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. If you subsequently want to terminate the authority of the proxy you must send notice to that effect to the Company's registrars so that it is received by the Company before the start of the 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.
4. 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 Annual General Meeting.
5. 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 the day which is two days before the day of the meeting or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than close of business on the day which is two days before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

EXPLANATION OF RESOLUTIONS 5 AND 6

RESOLUTION 5 – AUTHORITY TO ALLOT SHARES

Under the Companies Act 1985, the Directors of a Company may only allot unissued shares if authorised to do so by the shareholders in general meeting. Resolution 5 renews the Director's existing authority granted at the EGM held 28 January 2009 and authorises the Directors to allot shares representing all of the authorised but currently unissued share capital of the Capital. The authority will expire at the next Annual General Meeting of the Company.

RESOLUTION 6 – AUTHORITY TO ALLOT SHARES FOR CASH

The Directors may only allot shares for cash on a non-pre-emptive basis to existing shareholders in the Company if authorised to do so by the shareholders in general meeting.

This resolution renews the authority granted to the Directors at the EGM held on 29 January 2009 to allot shares for cash and dis-applies the pre-emption rights of shareholders in respect of the authorised but currently unissued share capital of the Capital.

GLOSSARY

Alteration	A change in the mineralogical composition of a rock commonly brought about by reactions with hydrothermal solutions or by pressure changes
CIP	Carbon in Pulp – a process used in gold extraction by addition of cyanide
Chalcopyrite	A sulphide of copper and iron
Decline	Inclined roadway within the mine leading from the mine entrance
Development	Excavations used to access underground workings
Dilution	The mixing of barren non-mineral bearing rock (waste) with mineral bearing rock (ore). Usually expressed as a percentage of ore to waste
Electromagnetics	A geophysical exploration tool measuring the magnetic field generated by subjecting the ground to electrical currents
Face	The exposed rock area at the end of each development drive
Garimpeiro	Local artisanal miners
Geochemical	Geological information using measurements derived from chemical analysis
Geophysical	Geological information using measurements derived from the use of magnetic and electrical readings
Gold equivalent	Quantities of materials other than gold stated in units of gold by reference to relative product values at prevailing market prices
Gossan	An iron-bearing weathered product that overlies a sulphide deposit
Grade	The concentration of mineral within the host rock typically quoted as grams per tonne (g/t), parts per million (ppm) or parts per billion (ppb)
High grade feed	Mined product which is delivered to the process plant and has a grade above the targeted average
Jumbo drill rig ("Jumbo")	A self propelled and steered machine used to drill holes in rock which in turn will be charged with explosives and blasted
Level spacing	The vertical distance between floors of the development drives (levels)
Long-hole stoping	A mechanical method where ore is mined out between two sub-levels by drilling a series of "long-holes" (6–9 metres at Palito), which are subsequently charged with explosives and blasted. The broken ore is then loaded and moved to surface
Mineralised	Rock which contains minerals e.g. iron, copper, gold
Oxides	Near surface bed-rock which has been weathered and oxidised by long-term exposure to the effects of water and air
Ramp	Interchangeable with "Decline"
Saprolite	A weathered or decomposed clay-rich rock
Scoop-trams	Self propelled and steered machines used to collect and transport broken rock within the mine
Shrink stoping	A highly selective but labour intensive mining methodology using hand-held machines to drill and blast ore from the stopes
Stopes	The area of mineralised rock that lies between the roof of one development drive and the floor of the development drive immediately above
Stoping	A generic method for extracting ore in underground mining
Strike	The direction of bearing of a bed or layer of rock in the horizontal plane
Structure	A term used to describe an area of rock typically where it shows differing composition or properties to the surrounding rocks
Sulphide	Minerals consisting of a chemical combination of sulphur with a metal
Tailings	The residual waste material that it is produced by the processing of mineralised rock
Tracked mining	A mining method where the equipment used in the mine is not self-steering and is reliant upon a system of metal rail-tracks to be directed within the mine
Vein	A generic term to describe an occurrence of mineralised rock within an area of non mineralised rock
VTEM	The name given to a particular variant of a helicopter-borne time-domain electromagnetic geophysical survey system

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