



## **ANNUAL INFORMATION FORM**

**For the year ended December 31, 2010**

**March 31, 2011**

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## GENERAL MATTERS

Unless otherwise noted or the context otherwise indicates, “Serabi”, the “Company”, “we”, “us” and “our” refers to Serabi Mining plc and its direct and indirect subsidiaries and predecessors or other entities controlled by them.

On December 21, 2010, Serabi consolidated all of its issued and authorized unissued ordinary shares (“Ordinary Shares”) on the basis of one ordinary share for every 10 Ordinary Shares on issue or authorized to be issued. Unless otherwise indicated, the disclosure contained in this annual information form is provided on a post-consolidated basis, including information pertaining to a period or event prior to the date of consolidation.

Certain terms used in this annual information form, including “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” have the meanings set forth under the heading “Glossary of Mining Terms” commencing at page 86.

## STATISTICAL REFERENCES

### Currency Presentation and Exchange Rate Information

This annual information form contains references to the Canadian dollar, the US dollar and the Brazilian Real. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars. US dollars are referred to as “U.S. dollars” or “US\$”, the British Pound Sterling is referred to as “£” and the Brazilian Real is referred to as “R\$”. As at March 22, 2011, the noon buying rate as reported by the Bank of Canada was US\$1.00 = CDN\$0.9718 or CDN\$1.00 = US\$1.0290, £1.00 = CDN\$1.5595 or CDN\$ = £0.6412 and R\$1.00 = CDN\$0.5964 or CDN\$1.00 = R\$ 1.677.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

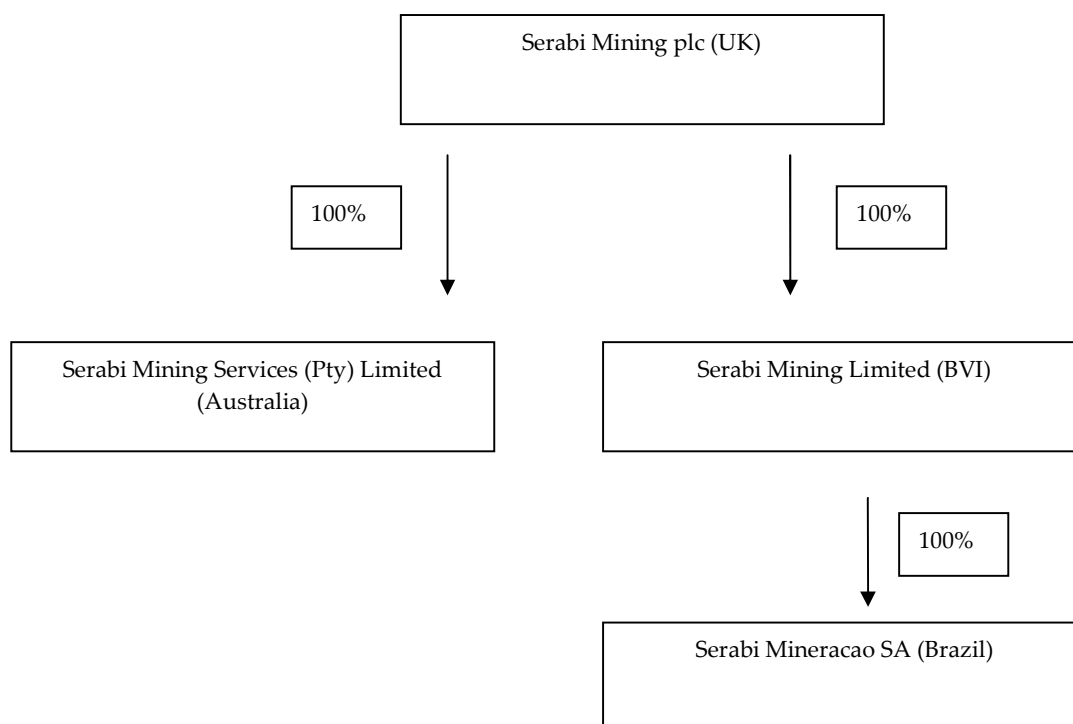
## CORPORATE STRUCTURE

### Incorporation

Serabi Mining plc ("Serabi" or the "Company") was incorporated and registered in England and Wales under the Companies Act 1985 ("CA1985") as a private company limited by shares on May 18, 2004 with the name of Serabi Mining Limited and with the registered number 5131528. On March 17, 2005, the Company was converted to a public company under the provisions of CA1985. The registered office of the Company is located at 66 Lincoln's Inn Fields, London WC2A 3LH and the Company's principal contact office is 30-32 Ludgate Hill, London EC4M 7DR. The Company's telephone number is +44 (0)20 7246 6830 and its website address is [www.serabimining.com](http://www.serabimining.com).

### Corporate Structure

The diagram below sets out the organizational structure of the Company and its material subsidiaries:



- (1) To comply with Brazilian law, Serabi Mining plc holds 1 quota, or 0.00% of the issued and outstanding equity in Serabi Mineracao SA.

## GENERAL DEVELOPMENTS OF THE BUSINESS

Serabi is an AIM-traded gold exploration company focused on the exploration and development of gold projects in Brazil.

The major focus of the Company's activity has been on the Jardim do Ouro project (the "Jardim do Ouro Project"), which includes the Palito mine (the "Palito Mine"), where the Company holds a mining licence covering 1,150 hectares and holds or has in application exploration licences totalling some 54,450 hectares around this mining licence. The Palito Mine is a high grade, narrow vein underground mine which was operated by the Company from late 2004 until the end of 2008, when the underground mining operations were placed on care and maintenance. During this time the mine produced in excess of 110,000 ounces (gold equivalent).

In the period following the decision to place the Palito Mine on care and maintenance the Directors undertook a strategic review of the project and determined that the original expectation that the Palito mine could support production levels in excess of 50,000 ounces per annum were not achievable, and concluded that the high fixed cost

associated with Palito being the single operation in the region, could only be addressed by pursuing a strategy of mine site and district exploration which could lead to resource growth, and if successful, could ultimately deliver a mineral reserve capable of sustaining production levels in excess of 70,000 to 75,000 ounces per annum.

The exploration strategy which has been pursued for the past 2 years has focussed on identifying two or more Palito style and size deposits or equivalent in close proximity to the Palito Mine and its existing camp and processing infrastructure. The Company has already established nine drill targets within three kilometres of the Palito Mine, each of which it believes, based on its exploration results to date, has the potential to yield a Palito style and size deposit. An initial discovery drill programme of 7,500 meters commenced during December 2010 and is expected by the Company to be completed during the third quarter of 2011.

In January 2008 Serabi undertook a helicopter borne VTEM ("electro-magnetic") survey. The survey area totalled 6,000 hectares around the Palito mine and over exploration tenements held by the Group. The gold mineralisation at Palito is associated with metallic sulphides of chalcopyrite-pyrite. Such features display anomalous electromagnetic and conductive properties relative to the surrounding host granites and therefore the VTEM survey was an excellent tool to screen a large area for further conductive bodies that would justify further evaluation. The survey area was determined by estimating a reasonable trucking distance on the basis that any discovery would be mined and then transported to a central processing facility. With the ability to use Palito as a point of reference and therefore understanding what a 600,000 ounces resource looked like as an EM anomaly, the results released in July 2008 identified 66 anomalous areas which the Company prioritised into 18 areas justifying further evaluation. Until the company completed a capital-raising in November 2009 however, no further follow up work could be undertaken. In February 2010 Serabi commissioned FUGRO of Brazil to undertake a 70 line kilometre ground based IP (induced polarisation) survey which covered 12 of the 18 anomalies. As a result of this work and correlating the results with other exploration data and knowledge of the area including historical Garimpeiro activity, the Company has now established 9 drill targets. An initial 7,500 meter discovery drilling programme is scheduled to commence in October 2010.

During 2011, the Company intends to undertake ground IP surveys over the remaining anomalies followed by a programme of discovery drilling on those area considered to be prospective and subject to the results of the initial discovery drilling programmes, to be undertaking resource drilling where appropriate.

On March 30, 2011, the Company completed an initial public offering in Canada pursuant to which 9,000,000 units ("Units") were issued at an offering price of \$0.55 per Unit, for total gross proceeds of \$4,950,000. Each Unit consists of one Ordinary Share and one half of one Ordinary Share purchase warrant. Each whole Ordinary Share purchase warrant (a "Warrant") entitles the holder thereof to acquire one Ordinary Share at an exercise price of \$0.75 until December 2, 2012. The prospectus for the initial public offering also qualified the distribution of 10,070,00 Ordinary Shares and 5,035,000 that were issued in the deemed exercise of 10,070,000 special warrants that were issued by the Company on December 2, 2010 at a price of \$0.55 per special warrants for total gross proceeds of \$5,538,500. The Ordinary Shares and Warrants commenced trading on the Toronto Stock Exchange (the "TSX") on March 30, 2011 under the trading symbols "SBI" and SBI.WT", respectively. Concurrently with the completion of the Canadian initial public offering, three new independent directors were appointed to the board of directors. Those directors are T. Sean Harvey, Doug Jones and Melvyn Williams. See "Directors and Executive Officers" for addition information on the new directors.

## **BUSINESS OF THE COMPANY**

### **General**

Serabi is an AIM and TSX traded gold exploration company focused on the exploration and development of gold projects in Brazil. The Company's principal project is the Jardim do Ouro project (the "Jardim do Ouro Project"). The Jardim do Ouro Project includes the Palito mine (the "Palito Mine") and several areas of exploration interest in close proximity to the Palito Mine. The Palito Mine was operated by the Company for several years before the underground operation was placed on care and maintenance in December 2008 and a subsequent small scale surface mining operation was temporarily halted in June 2010. The Company also has other exploration areas in the same vicinity as the Jardim do Ouro Project, being the Modelo exploration project area (the "Modelo Project") and the Pison exploration project area (the "Pison Project"). All of these projects are located in an area known as the Tapajos

region of the State of Para in Brazil. The Jardim do Ouro Project covers 55,600 hectares, and lies on the NW-SE trending Tocantinzinho Trend, which is the major controlling structural feature in the Tapajos region. Lying along this same trend, some 30 km to the south east of the Palito Mine, is the Sao Jorge gold deposit owned by Brazilian Gold Corporation and 70 km to the northwest lies the Tocantinzinho gold project owned by Eldorado Gold Corporation (measured and indicated mineral resources of 2.1 million ounces and inferred mineral resources of 0.4 million ounces), who also hold 26.7% of the issued share capital of the Company.

The Tapajos region, which encompasses an area of about 100,000 km<sup>2</sup> (350 km by 300 km) in south west Para State, Brazil, is located approximately 1,300 km southwest from the state capital Belem. It is reported to be the world's third largest alluvial gold field and the Company believes that the region is a major, under-explored mineral province. Artisanal miners ("garimpeiros") are understood to have extracted up to 30 million ounces of gold mostly from alluvial and surface weathered bedrock deposits since the 1970's. With the exception of the Palito Mine, there has been no hard rock mining operation established in the region and consequently all historical production has been from alluvial operations and exploitation of the near surface oxide resources by local garimpeiros.

### Jardim do Ouro Project

The Jardim do Ouro Project, the site of previous garimpeiro mining operations, was acquired by the Company in 2001, covers a total area of 55,600 hectares, and is comprised of one mining licence granted on October 23, 2007 covering an area of 1,150 hectares, four exploration licences and five applications for exploration licences covering an aggregate of 54,450 hectares.

The Departamento Nacional de Produção Mineral ("DNPM") recently advised the Company that it was proposing to amend certain of the Company's applications for exploration licences to effect a net reduction of the land area subject to the applications by approximately 2,700 ha. The Company has lodged an appeal to reinstate approximately 600 hectares. None of the areas that the DNPM is proposing to exclude from the applications are within the areas that comprise the current exploration plans of the Company.

Within the Jardim do Ouro Project area is the Palito Mine, a high grade, narrow vein underground mine which was operated by the Company from late 2003 until the end of 2008, when the underground mining operation was placed on care and maintenance. In 2004, the Company undertook an upgrade of the plant to process sulphide ores from the underground operation and in December 2004, the first shipment was made of a copper/gold/silver concentrate to a European smelter. Since that time until the end of 2008, the Company processed a total of 480,000 tonnes of ore through the plant at an average gold head grade of 6.76 g/t. Average plant recovery during the period was 90% and total production was 110,097 gold equivalent ounces.

As of March 2008, the Company had Canadian Securities Administrators National Instrument 43-101 ("NI 43-101") compliant measured and indicated mineral resources of 224,272 ounces (gold equivalent) and inferred mineral resources of 443,965 ounces (gold equivalent) after which time some 22,528 ounces (gold equivalent) were produced from a combination of underground and near surface oxides of which the latter did not form part of the resource calculation.

	<b>Tonnage</b>	<b>Gold (g/t Au)</b>	<b>Copper (% Cu)</b>	<b>Contained Gold (Ounces)</b>	<b>Contained Gold Equivalent (Ounces)</b>
Measured Resources	97,448	9.51	0.26	29,793	32,045
Indicated Resources	753,745	7.29	0.23	176,673	192,228
Measured and Indicated Resources	851,193	7.54	0.23	206,466	224,272
Inferred Resources	2,087,741	5.85	0.27	392,817	443,956

(1) Mineral resources are reported at a cut-off grade of 1.0 g/t.

(2) Equivalent gold is calculated using an average long-term gold price of US\$700 per ounce, a long-term copper price of US\$2.75 per pound, average metallurgical recovery of 90.3% for gold and 93.9% for copper.

In September 2008, the Company announced that it had insufficient working capital to undertake necessary mine development and concluded that with no opportunity to raise additional working capital, as a result of the state of

financial markets at that time, it was necessary to halt mining activity and place the underground portion of the Palito Mine on care and maintenance.

The infrastructure at the Palito Mine remains intact and includes a process plant comprised of flotation and carbon-in-pulp ("CIP") gold recovery circuits capable of treating up to 600 t/day (200,000 t/year) of ore, a camp for over 200 employees and maintenance and workshop facilities. The site is supplied with mains power sourced from a 25 Mw hydroelectric generating station located approximately 100 km north east of the town of Novo Progresso on the Curua River.

The Company is now pursuing a strategy of resource growth before making any decision on when to recommence production at the Palito Mine. Its exploration objective is to identify two or more Palito style and size deposits in close proximity to the Palito Mine itself and its existing camp and processing infrastructure. The Company has established nine drill targets within three kilometres of the Palito Mine, each of which it believes, based on its exploration results to date, has the potential to yield a Palito style and size deposit.

The nine drill targets identified are the cumulative result of a series of exploration activities that commenced in January 2008 when the Company commissioned a 6,000 hectare helicopter borne electromagnetic geophysical ("VTEM") survey over and around the Palito Mine. The Company had identified that gold mineralization at the Palito Mine was associated with the occurrence of massive sulphides (pyrite and chalcopyrite) and that some 20% of the gold resource at the Palito Mine was contained in this style of mineralization. Electromagnetics at the Palito Mine

identifies the conductivity variance between the massive sulphides relative to the host granites. The size and extent of the survey area was determined by estimating a reasonable trucking distance on the basis that any discovery would be mined and the ore transported to a central processing facility. The Company used the electromagnetic signature of the known gold deposit at the Palito Mine as a point of reference to help identify 66 anomalous areas, which the Company prioritized into 18 areas justifying further evaluation. A ground IP survey was conducted in the first half of 2010 covering 13 of these anomalies to ascertain the extent of each anomaly by seeking to identify gold mineralization associated with quartz veins which at the Palito Mine accounted for the remaining 80% of the gold resource. Correlation of the geophysical data with geochemical information and mapping of garimpeiro activity resulted in the nine drill targets. The Company has commenced a 7,500 m drill programme to test these drill targets, which is expected to be completed during the third quarter of 2011, and is proposing a further IP survey over the five remaining anomalies during 2011.

### **Pison Project**

The Pison Project is an isolated site located approximately 300km to the northwest of the Palito Mine with access being primarily by light aircraft. The original tenement holding secured by the Company showed gold mineralization occurring in a stockwork system consisting of quartz-mica-sulphide veinlets with occasional veins reaching up to one to two metres in width in acid volcanic rocks. The site has been worked by garimpeiros but this was limited and reached the practical extraction limit using traditional methods. Exploration prior to Serabi's involvement has been very limited with Rio Tinto having drilled only a few diamond holes with the best results including 32m at 5.32g/t gold within strongly altered rhyolites. Serabi expanded its land position and at the end of 2007 held over 120,000 hectares around the original tenement area. During 2008, the Company conducted and completed a stream sediment sampling programme over the entire tenement holding and as a result has prioritized certain areas and reduced its land holding to some 14,733 hectares. The programme identified significant anomalous areas of which the best catchment anomaly covered an area of 15 km by 5 km and produced one sample of 4.02 g/t gold from a -80 mesh fraction and multiple results of gold in stream sediments of over 0.5 g/t. While the Company is encouraged by these results, it is of the view that to fully explore the potential of the Pison Project will require the involvement of a joint venture partner able to dedicate financial and personnel resources to an exploration programme.

### **Modelo Project**

The Modelo Project covers a land tenement holding of some 40,000 hectares and lies to the south of the Tocantinzinho structure on broadly north/south mineralized structures similar to that hosting the Ouro Roxo, Villa Porto Rico and Bom Jardim deposits. The project exhibits similar geology to the Pison Project (volcanic and granites) and the Company is of the opinion that it may have the potential for granite hosted vein and epithermal style gold mineralization in the volcanics. This project is not currently a priority for the Company and it is its intention to secure a joint venture partner before committing further funding to its evaluation.

### **Employees**



The following table sets forth the average number of persons employed by the Company during the year ended December 31, 2009, the location of employees and general area of responsibility within the Company.

	<b>Brazil</b>	<b>Other</b>	<b>Totals</b>
Management and administration	12	4	16
Exploration	3	-	3
Mine operations	61	1	62
<b>Totals</b>	<b>76</b>	<b>5</b>	<b>81</b>

### **Carrying on Business in Brazil**

Brazil is the largest country in Latin America by area (47% of Latin America) and the fifth largest country in the world. The country has experienced continuous, positive and sustainable economic growth, low inflation rates, and improvements in social well-being in a democratic political environment. Brazil is a constitutional democracy with a strong national policy encouraging foreign investment. No special taxes or registration requirements are imposed on foreign-owned companies and foreign investment capital is treated equal to domestic capital.

According to the Fraser Institute Annual Survey of Mining Companies, Brazil is ranked as one of the world's leading countries for investment based on a combination of its mineral potential and mining legislation. The country offers extensive infrastructure, a large pool of skilled technical and professional personnel, and an established legal system. Mineral resources are defined and mining rights guaranteed under Brazil's Federal Constitution, Federal Mining Code and various rules and regulations.

Brazil is a civil law jurisdiction. The laws governing business activities are found in federal legislation, which includes the *Brazilian Mining Code* and the *Foreign Investment Rules and Regulations*. State and municipal legislation also apply with respect to taxation, environmental and administrative matters. Brazilian business law is similar to corresponding law in other major civil law jurisdictions and provides a legal framework for foreign investment. Foreign investment in Brazil is governed by the *Foreign Capital Law* which requires that foreign investments in Brazil be registered with the Central Bank to ensure foreign remittance of profits and/or interest on equity, repatriation of foreign capital invested in Brazil and reinvestment. In addition, capital remittances must be registered within 30 days with the on-line Brazilian Central Bank electronic system RDE-IED15 (*Registro Declaratório Eletrônico de Investimentos Estrangeiros Diretos*).

#### *Brazilian Mining Laws*

The Brazilian federal government owns and has jurisdiction to control, regulate and grant rights to explore Brazil's mineral resources. The constitutional regime governing mineral deposits and the regulations respecting exploration establish a special legal framework for the Brazilian mining industry. Under the Brazilian Constitution, mineral deposits represent a property interest separate from the surface rights and belong to the Federative Republic of Brazil. The prospecting and mining of mineral resources in Brazil may be carried out by Brazilians or by companies duly incorporated in Brazil, which hold an exploration authorization or a mining concession, as the case may be, duly granted by the DNPM, a department of the Brazilian federal government responsible for controlling and applying the Brazilian Mining Code, and requires an agreement with the landowner. Accordingly, the subsoil and soil are subject to distinct legal treatment and the holder of an exploration authorization or a mining concession has the right to conduct mineral exploration activities or mining activities even where there is a dispute with the landowner.

Before conducting mineral exploration or exploitation activities in Brazil, it is necessary to first obtain an exploration authorization, followed by a mining concession from the Brazilian government. To this end, an exploration authorization request or a mining concession request must be filed at the DNPM, which will evaluate if the request fulfills the necessary legal and technical requirements. These mineral rights normally cover an area of up to 10,000 hectares, but may be smaller in certain areas depending upon the region where the property is located (the DNPM defines the maximum area that each exploration authorization may cover in each region of Brazil).

An application for prospecting must be supported by a location map, exploration plan and motivation report and must comply with certain other requirements. Provided the area of interest is not already covered by a pre-existing application, an exploration authorization or a mining concession, and that all requirements are met, the DNPM normally grants the authorization on a priority of application basis. Applications are sequentially numbered and dated upon filing with the DNPM.

An exploration authorization (*Alvará de Autorização de Pesquisa*) regulates the stage of mineral exploration works. Normally, an exploration authorization is granted for a period of three years, can be renewed for a further period (under special conditions) and may be transferred. Exploration must begin within 60 days of the issuance of the permit and must not be suspended for more than three consecutive months or 120 non-consecutive days. Otherwise, the DNPM has the discretion to terminate the authorization. The holder of an exploration authorization is required to pay an annual fee to DNPM. If under its original term, the fee to be paid to DNPM in connection with an exploration authorization is currently R\$2.02 per hectare, and if under the extension term, the fee to be paid to DNPM in connection with an exploration authorization is currently R\$3.06 per hectare (the extension of the exploration mining authorization's original term must be requested by the holder at least 60 days prior to its expiration). By the end of the term of the exploration mining authorization, a report must be filed and accepted by the DNPM (the "DNPM Report") either proving the technical and economical feasibility of exploiting a mineral deposit, which results in the granting of a mining concession, or demonstrating the absence of a mineable deposit, which results in the termination of the authorization. Upon submission of the DNPM Report, the DNPM has the right to inspect the area to confirm the accuracy of the report and shall approve the report when the existence of an ore deposit has been confirmed. The holder of an exploration license is allowed to receive a provisional license to sell metals covered by such a license until the granting of a mining concession.

The mining concession (*Concessão de Lavra*) is applicable to and regulates the stage of mining exploitation works. Following approval of the DNPM Report, the holder of the exploration authorization has the exclusive right to request the mining concession, which must be exercised or negotiated within a period of one year, extendible for a further year at the DNPM's sole discretion. The mining concession itself is granted for an indeterminate period of time. The grant of a mining concession is subject to the fulfillment of certain conditions, namely having explored the area, an approved DNPM Report and an undertaking that the area will be adapted to the technical and economic conditions necessary to carry out the mining operations and related works according to what was established under the economic exploitation plan (*Plano de Aproveitamento Econômico*) (the "PAE") related to the concession. The PAE must be submitted by the holder together with its application requesting the mining concession. The holder of a mining concession pays to the DNPM a royalty on gold of 1% of sales proceeds less sales tax, transportation and insurance costs.

An application for a mining concession must be supported by information regarding the PAE, including a description of the mining plan, the processing plants, proof of the availability of funds or existence of financial arrangements for carrying out the economic development plan and operation of the mine. Applications for mining concessions must also include an independently prepared environmental plan that deals with water treatment, soil erosion, air quality control, revegetation and reforestation (where necessary) and reclamation. The mining concession, once granted, contains terms and conditions of the concession which will include terms and conditions relating to environmental matters.

After the mining concession is published in the official gazette, the applicant has 90 days to request possession of its respective mineral lode or deposit and six months to start the preparatory work as contemplated in the PAE. Once mining has commenced, it cannot be interrupted for a period longer than six consecutive months, except for proven reasons of *force majeure*, otherwise the concession may be revoked. The applicant must file with the DNPM (before March 15 of each year) a detailed statistical mining report. To explore the mine, it is also necessary to obtain environmental permits.

Throughout this process, the surface rights relating to the mining concession remain in the hands of landowners, typically farmers, ranchers or companies. The surface rights must be individually negotiated to allow the holder of a mineral exploration authorization or a mining concession to access the land and conduct the exploration and mining works. Surface owners must be compensated for disturbance of their farming and other activities. The surface rights owners are obliged by law to provide access to the mineral license holder to conduct exploration. If the parties cannot reach an agreement by mutual negotiations, such disputes are resolved by the courts based upon tradition for the region and type of mining.

Site visits by governmental authorities to properties where mining concessions are granted occur on a regular basis and annual progress or status reports must be submitted by the mining company that holds the mining concession. Those visits or reports may require a mining company to adopt changes to the PAE based on the recommendations made by governmental authorities. Failure to comply with the recommendations may result in fines, damages, restitution and imprisonment for officers of the mining company. A mining company's annual operating permit may not be renewed if the mining company has not complied with the recommendations.

Mining concessions can be transferred between parties qualified to hold them. The Brazilian Constitution sets forth, however, that a transfer of a mining concession requires authorization from the competent government authority. Once a mining concession is granted, a mining company is required to obtain an operating permit for each mine that is operated. The operating permit is renewed annually subject to compliance with environmental matters. No significant fees or other payments are required to be paid in connection with the issuance of an exploration authorization, an application for concession or a mining concession.

#### *Environmental*

Exploration activities and mining in Brazil are subject to environmental licensing. This consists of an administrative procedure, where the relevant environmental authority evaluates the project and authorizes the company to conduct exploration or exploitation works. There are three types of environmental licenses in Brazil: (i) *Preliminary Licenses* (also called *provisory licenses*), which certify the viability of the project (including approval of the site and conception) and establish the basic requirements and conditions that must be fulfilled in subsequent phases; (ii) *Installation Licenses*, which authorize commencement of construction (installation of the enterprise or activity) according to the specifications set out in the approved plans and programs and define the environmental control measures, etc.; and (iii) *Operating Licenses*, which are conceded when the project is ready and able to function following an assessment of compliance with the terms of the preceding licenses. The licensing of projects that could potentially or effectively cause degradation are subject to submission to and approval by the environmental authorities of the environmental impact study.

#### *Tax*

There are three jurisdictions and tax collection levels in Brazil (as defined by Brazilian tax legislation): the Federal, State and Municipal levels. The main taxes levied are: Corporate Income Tax (*Imposto de Renda Pessoa Jurídica*) (the “IRPJ”) with companies generally subject to income tax at a rate of 25%; a project considered to be of priority interest is entitled to a reduction of 75% in the effective income tax rate; and Social Contribution on the Net Profit (*Contribuição Social sobre o Lucro Líquido*) (“CSLL”) at a current rate of 9% (however, there is a 1% bonus for tax regularity if the company fulfils certain conditions). There are several government incentives for start-up projects in Brazil such as subsidized loan financing and tax exemptions or reductions, which vary according to the characteristics and location of each project. International investors have equal access to these incentives, when compared with local investors.

## **MINERAL PROPERTIES**

The Company’s current material mineral project is the Jardim do Ouro Project.

The information in this section is summarized or extracted from the technical report dated December 22, 2010 by Rodrigo Mello, Geologist MAusIMM and Eduardo Rosselot, C.Eng IMMM, of NCL Brasil Ltda (“NCL”) and entitled “NI 43-101 Technical Report for the Jardim Do Ouro Project, Para State, Brazil” (the “Jardim do Ouro Technical Report”). Portions of the following information are based on assumptions, qualifications and procedures which are not fully described herein. Reference should be made to the full text of the Jardim do Ouro Technical Report, which is available on SEDAR as [www.sedar.com](http://www.sedar.com).

### **Project Description and Location**

#### *Location*

The Jardim do Ouro Project is located in the Tapajós mineral province in the south east part of the Itaituba Municipality in the west of Pará State in central north Brazil, near the eastern municipal boundary with the Novo Progresso Municipality.

The most important feature of the project is the Palito Mine, which lies some 4.5 km south of the village of Jardim do Ouro and approximately 15 km via road. This village lies on the Transgarimpeira Road some 30 km west-southwest of the town of Moraes de Almeida, located on the junction of the Transgarimpeira and the BR 163 or Cuiabá – Santarém Federal Highway. Moraes de Almeida is approximately 300 km south south-east by road of the municipal capital and similarly named city of Itaituba.

### Location of the Tapajos Mineral Province



#### Project Ownership

The Jardim do Ouro Project is formed by 21,089 ha of tenements granted in the Tapajós Province, including 1,150 ha of mining lease. In addition, there are 33,378 ha in mineral exploration license applications or extensions. Total area for this property is 55,637 ha. The DNPM recently advised the Company that it was proposing to amend certain of the Company's applications for exploration licences to effect a net reduction of the land area subject to the applications by approximately 2,700 ha. The Company has lodged an appeal to reinstate approximately 600 hectares. None of the areas that the DNPM is proposing to exclude from the applications are within the areas that comprise the current exploration plans of the Company.

To retain the exploration properties, Serabi will need to make an annual payment to the DNPM, which is presently calculated as R\$2.02 per hectare for a granted exploration license, and R\$3.06 per hectare for an exploration license extension. To maintain the mining license, Serabi must comply with the conditions set out by the DNPM in respect to annual reporting and environmental compliances, but no taxes are owed, except those incurred on production.

DNPM legislation allows for the extension of up to three years for exploration properties beyond the period of validity, through a process of report presentation and application for an extension.

Those exploration tenements presently granted as exploration extension licenses, cannot be renewed and must either be relinquished or can be upgraded to a mining concession through submission of an application including a mineral resource statement, economic assessment and mining plan and schedule.

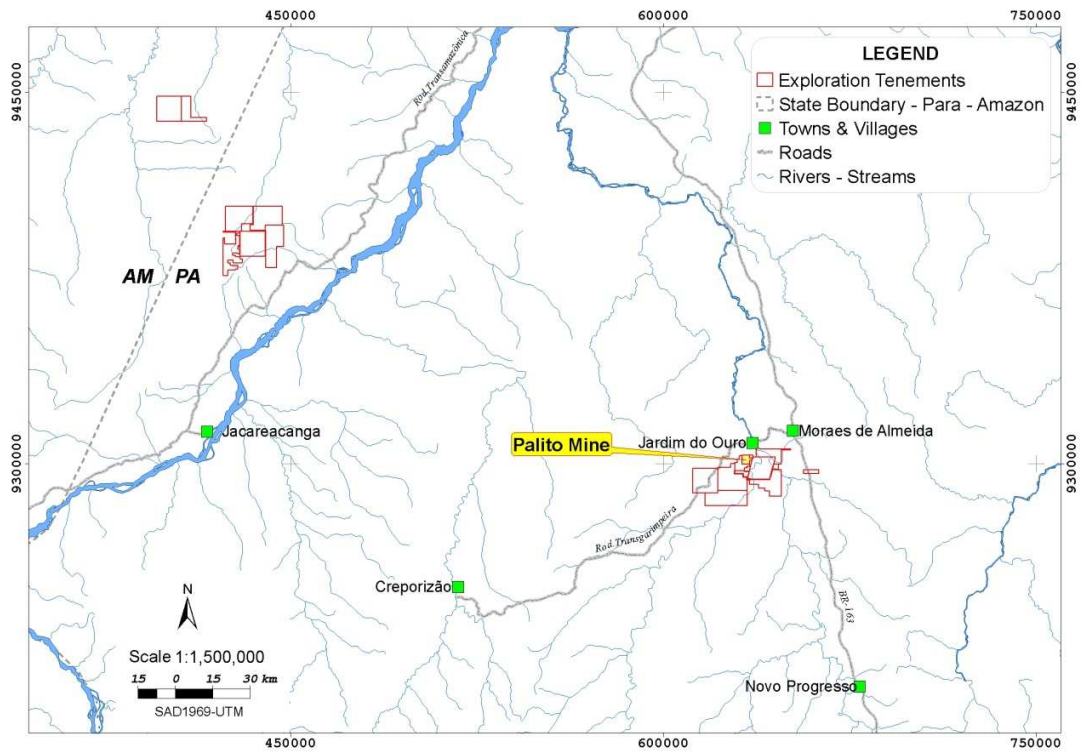
Mining concessions are valid until exhaustion of the resources or cessation of mining. The mining license is valid for an indefinite period. There are no annual fees associated with the maintenance of that license but the holder is subject to paying royalties to the state. The acronym for this royalty is CFEM. The CFEM rates for gold, silver and copper, the primary products of the Palito Mine, are currently 1.0%, 0.2% and 2.0% respectively.

Under applicable mining laws, the holder of a mining license is required to hold an Operating License granted in this case by Secretaria de Estado de Meio Ambiente (SEMA) for the State of Para. This period of validity for such a license is at the discretion of the issuing body. Serabi's current license was issued for a period of two years and expired on December 12, 2010. Serabi has made the necessary application for the license renewal, and while the Company awaits final approval from SEMA, the current license is automatically extended.

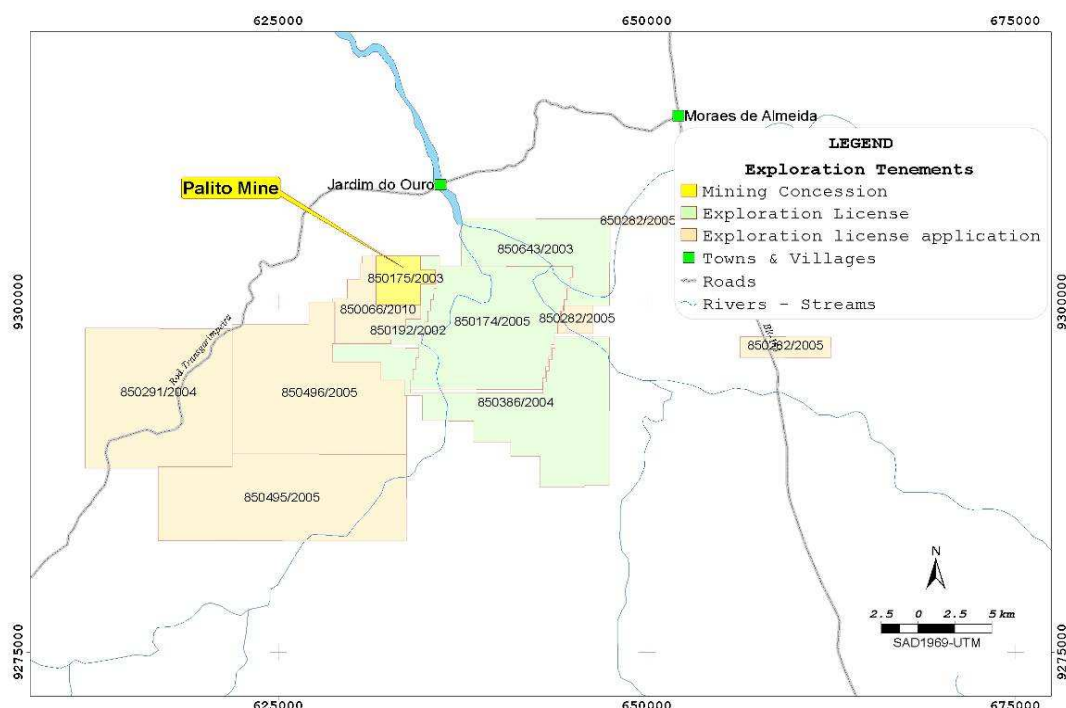
Exploration property boundaries are located by means of geographic coordinates for each vertex, which are published in the DNPM gazette and on the DNPM website. The mining concession is marked by embedded cement filled pylons, at each vertex of the concession, marked in accordance with the published vertices in the DNPM.

The following plans illustrate Serabi's mineral rights and applications in the Tapajos and the Jardim do Ouro Project specifically.

# Serabi Controlled exploration and mining tenements in the Tapajós Province



Plan illustrating Serabi's Jardim do Ouro Project Tenements



Besides the Jardim do Ouro Project, Serabi operates two other separate project areas, in the same Tapajós Province, which are not covered in the Jardim do Ouro Technical Report; the Modelo Property, in the state of Pará, 40,000 ha comprising five exploration permits, and the Pison Project, in the state of Amazonas, represented by 14,733 ha comprising one exploration permit and one application.

#### Surface Rights

Serabi initially acquired the surface rights to the immediate Palito Mine area through a purchase agreement with the existing garimpeiros entered into in 2002 and since that time has acquired from other garimpeiros and/or farmers additional parcels of land with the intention of securing the surface rights. It has also entered into agreement with other parties for access rights in return for making monthly rental payments.

In total, these surface rights cover a total area of 981 ha out of the total Jardim do Ouro tenement holding of 55,637 ha.

Of these surface rights 865 ha, lie within the mining license.

#### Exploration licenses and Mining license

Serabi has four exploration licenses granted within the Jardim do Ouro area covering a total of 21,089 ha and has a further five exploration licenses in application covering an area of 33,378 ha.

The annual commitments and expiry dates of these licenses are as follows:

<u>License Number</u>	<u>Licence type</u>	<u>Hectares</u>	<u>Annual</u>	<u>Potential</u>	<u>Date of expiry</u>
			<u>Commitment</u>	<u>Commitment</u>	
			<u>R\$</u>	<u>R\$</u>	
850.175/2003	Mining concession	1,149.59			
850.643/2003	Exploration license	4,204.76	12,867		09/08/2012
850.386/2004	Exploration license	8,293.27	25,377		TBD <sup>(1)</sup>
850.174/2005	Exploration license	7,917.47	24,227		09/08/2012
850.192/2002	Exploration license	673.19	2,060		12/03/2011

<u>License Number</u>	<u>Licence type</u>	<u>Hectares</u>	<u>Annual Commitment R\$</u>	<u>Potential Commitment R\$</u>	<u>Date of expiry</u>
850.291/2004	Application for exploration licence <sup>(2)(3)</sup>	9,995.38		20,191	
850.282/2005	Application for exploration licence <sup>(2)(3)</sup>	1,535.76		12,339	
850.495/2005	Application for exploration licence <sup>(2)(3)</sup>	9,987.90		20,175	
850.496/2005	Application for exploration licence <sup>(2)(3)</sup>	9,995.47		20,191	
850.066/2010	Application for exploration licence <sup>(2)(3)</sup>	1,860.83		3,759	

- 
- (1) An extension application was submitted on July 16, 2007 and the Company is waiting for the publication of the grant of the licence extension.
  - (2) The Company is waiting for the publication of the grant of the exploration licences.
  - (3) Until the DNPM grants exploration licenses they remain subject to amendment by the DNPM.

#### *Environmental Liabilities*

The Jardim do Ouro Project contains significant ground disturbance within the Palito Mining lease (850.175/2003), as part of the Palito mining and processing activities. Serabi has complied and is in compliance in all material respects with all environmental regulatory requirements related to the exploration and mining activities pursuant to Brazilian environmental laws, and has taken all necessary actions in order to keep the environmental licenses and permits in force, valid and in good standing

Within the Jardim do Ouro Project, outside of the Palito Mine lease, ground disturbance has been primarily by garimpeiro activities, restricted mainly to creeks, including shallow water filled pits and small open pits from which saprolitic materials have been hydraulically extracted and processed by gravity separation. Serabi has conducted a small program of diamond drilling outside of the mining lease in exploration lease 850.174/2005, consisting of drill pad placement and access road construction. To date this has not been remediated, as ongoing exploration in the area necessitates ongoing activity in the affected area.

Serabi presented a closure plan to the Brazilian mining authority, as part of its plan of economic usage of the mine, as required for the mining license application. In this plan, a value close to R\$2.5 million was estimated to cover closure costs, spread over a period of three years, after the mine exhaustion.

#### **Accessibility, Climate, Local Resources, Infrastructure and Physiology**

##### *Access*

Access to the area from Itaituba can be achieved by an unsealed road, crossing the Tapajós River at Itaituba via ferry and disembarking at the village of Mirituba, located on the southern bank of the river, opposite Itaituba. The road continues 30 km south of Mirituba along the BR 230 or Transamazonica Road, where the BR 230 terminates at the BR163. The road continues a further 270 km and 43 bridges south along the BR 163 to Moraes de Almeida and a further 30 km WSW along the Transgarimpeira via Jardim do Ouro, located on the Jamanxim River. In Jardim do Ouro, a second ferry is required to traverse the river to the western bank. A further 2 km west of the village the Palito Mine access road turns south for a further 12 km before arriving at the Palito Mine site, located in the Jardim do Ouro Project Area.

Alternatively, road access can be gained from Santarém to the NE or from Cuiabá to the south in Mato Grosso state via the BR 163, taking the Transgarimpeira Road at Moraes de Almeida to Jardim do Ouro and on to Palito.

Road access to the Palito Mine site can be restricted during the tropical wet season from December to May each year.

Access can also be gained by air from Itaituba or alternate airstrips (Santarem or Novo Progresso) using light aircraft. Palito and Jardim do Ouro have 800 m airstrips of compacted earth which are approximately one hour flying time from Itaituba or 1.5 hours flying time from Santarem.

Itaituba is a well established centre with port facilities capable of handling barge transport of heavy equipment and airport facilities for large freight aircraft. The Palito Mine receives much of its supplies and dispatches its copper-gold concentrate product via barges accessed from Itaituba and trucked to site and vice versa.

Electric grid power has been brought to the mine site via a spur line from Novo Progresso. Backup power is supplied by onsite diesel fired generators.

#### *Physiography, climate and vegetation*

The Jardim do Ouro Project lies in a region termed the Tapajós valley, specifically in the region termed the Rio Novo Basin, located in the central eastern portion of the Brazilian IBGE SB.21.ZA map sheet, on the left margin of the Rio Novo, proximal to the confluence of the Rio Novo and Jamanxim rivers. These rivers in turn drain north into the Tapajós River near Itaituba and then north east into the Amazon River downstream at Santarém.

The Palito Mine lies at an elevation of 260m RL at the approximate coordinates:

Geographic: 55°47' 31.3" W, 6°18' 54.1" S

UTM: SAD 69, Zone 21S; 633617mE, 9301813 mN

Local physiography consists of a rugged topography forming hills and steep sided valleys in the immediate Palito area, and more subdued undulating hills and valleys in the surrounding project area. There are numerous creeks ("Igarapés") draining the incised topography of the Palito area, all of which drain into the Rio Novo and Jamanxim Rivers located within a few kilometres of the site.

The majority of the immediate Jardim do Ouro Project environment is covered by tropical forest typical of the Amazon region, however north and west of the Palito Mine, the forest has been felled to create pastures for the grazing of livestock along the Transgarimpeira Road.

Many of the drainages radiating away from the Palito Mine site have been worked intensely in the 1980's by the garimpeiros resulting in manmade swamps, permanent wetlands and old forest destruction.

The local climate has two well defined seasons, the rainy season from December to May and the dry season the remainder of the year. Regional rainfall averages around 1400 mm per year although this now fluctuates greatly due to the deforestation effect of local farming.

The temperature does not vary significantly ranging between 24°C and 33°C, with an average of around 26°C. Relative humidity ranges from 70% to 80% depending on the season.

#### *Local Resources*

Within the boundaries of the Palito Mine lease there are no permanent inhabitants, however within the greater contiguous tenement holdings in the Jardim do Ouro Project there are a number of cleared grazing properties with permanent dwellings and inhabitants. The nearest community with social services is Itaituba, which has a population of 96,282 (IBGE census of 2007), banking, postal service, health services, communications, education centres, and regular air service to other major cities, including Belém, Manaus and Cuiabá.

Labour employed by the project is preferentially sourced from the local towns and villages, within the state of Pará. Other more job specific professionals unavailable in Pará are sourced preferentially from within Brazil.

Grid electricity is sourced from the neighbouring municipality of Novo Progresso 135 km away, and brought to site via a spur line.

Water is in abundance locally and is sourced from small reservoirs and dams constructed on site for industrial purposes and from water wells for potable water requirements.

Fuel and other major supplies are currently brought in via road from Itaituba and/or Cuiabá via the BR163.

#### **History**

The Palito deposit is located in the eastern portion of the Tapajós Mineral Province where the presence of gold has been reported as early as 1747 from the Colonial Portuguese era. Gold production in the Tapajós commenced in the



mid 20th century via garimpeiros reaching a peak in the 1970's and 1980's with estimated production of between 15 to 30 tonnes per year, from over 500,000 garimpeiros. Production has since declined. However there remain in the order of 2,000 to 5,000 garimpeiros producing in the order of five tonnes of gold per year from the region. Total historical production from the Tapajós is estimated at between 15 to 30 million ounces as reported by the CPRM. However, accurate reports do not exist.

Gold mining in the Jardim do Ouro Project area was initiated by garimpeiros during the 1970's who typically worked alluvial and colluvial gold sources up stream until they came upon the residual source. Generally, the garimpeiros worked the residual mineralized saprolite profile containing free primary and secondary gold. In circumstances where extremely high grade was encountered in fresh rock, the garimpeiros sunk shafts and mined the vein underground by gallery development. The mining method employed traditionally was by hand and hydraulic mining in the saprolite, using basic gravity separation and occasionally mercury amalgamation. In the high grade vein material extracted from fresh rock or deeper open casts, the material was crushed and then gravity separated and/or mercury amalgamated.

Modern exploration was initiated in 1994 by RTDM, which conducted surface geochemical sampling, auger drilling, ground and airborne geophysics, and diamond drilling in the Palito Mine area.

The founders of Serabi commenced operating in Brazil in 1999, with the objective of acquiring, evaluating and mining hard rock gold deposits previously unknown or technically too difficult for the Garimpeiros to exploit.

Having evaluated several opportunities, the group acquired the Palito Mine in 2001, forming the basis for Serabi. In 2002, Serabi purchased RTDM's historical Tapajós exploration database and negotiated access to RTDM's exploration drill core library, following RTDM's decision to withdraw from the Tapajós Province.

Following the acquisition of the Palito Mine in 2001, Serabi commenced re-treatment of high-grade gold tailings from the abandoned garimpeiro workings via a small scale milling and CIP plant in late 2002. This plant produced around 3000 ounces of gold bullion in 2003 and provided valuable lessons for operating in the region. Underground mining commenced in late 2003, exploiting fresh rock sulphide bearing ore.

In 2004, gold bullion production ceased during a plant upgrade to process the sulphide ore won from the underground operation. The upgrade to the circuit included the installation of a crushing plant and a flotation circuit. In August 2004, bullion sales resumed and in November 2004, the first copper/gold/silver concentrate was shipped to Europe for processing.

In May 2005, Serabi filed for public listing on the AIM London Stock exchange where it successfully raised £6.9 million net of expenses. In 2005, the Palito Mine operation reached a throughput rate of 150 tpd and produced 17,261 oz gold equivalent.

In 2006, the Palito Mine's production throughput was increased to 340 tpd and changes in the mining methodology began to take effect as the more selective shrinkage stoping method was replaced by bulk longhole stoping. This resulted in a production of 39,197 oz gold equivalent for the year.

In 2007, a further increase in throughput rate to 550 tpd was undertaken to counter the decrease in grade of the run-of-mine feed caused by excessive dilution of the narrow vein ore zones from long hole stoping. The production for that year was of 33,963 oz gold equivalent. During 2007, the mining methodology was reconfigured to minimise the dilution with long hole stoping heights. Resulting methods were adapted and a new selective mining fleet placed on order for delivery in 2008.

In 2008, the delayed arrival of the new selective mining fleet, severely impacted on development and production rates, and as a result the Palito Mine performed well below plan during the year. By midyear it was clear to the Company that to re-establish the Palito Mine to planned production levels, it would be necessary to place the mine into a dedicated phase of development for a period of some 12 months. However, the implications of such a plan on cash flow along with a significant working capital requirement, at a time when the capital markets were in severe decline made it difficult for the Company to secure the necessary funding to implement such a plan. In the absence of any viable alternative plan, the decision was taken to suspend underground mining by the end of 2008. Gold production for 2008 was 19,676 oz gold equivalent.

Also in 2008, exploration activity focused mainly upon mine site step out drilling and the flying of a 6,000 ha VTEM survey. The hosting of gold mineralization in a sulphide host matrix, means that the mineralization is well suited to geophysical exploration methods. The survey rewarded the Company with 18 high priority targets within a 7 km

radius of Palito Mine, which if successfully proven up, would be expected to be incorporated into the current operating infrastructure .

The main priority of 2009 for Serabi was to stay in business, the global financial crisis and virtual cessation of access to capital markets made life very difficult for companies with limited revenue. All exploration activity was placed on hold. Following the suspension of the underground operation, a change of mine plan was submitted to the DNPM and the Company commenced limited gold production from some oxide ore mining, which had been successfully piloted the previous year. This small scale surface oxide ore mining was restricted largely to the top 20 metres from surface, where the mineralization has been weathered. Beyond a depth of 20 metres the oxide mineralization changes into a transition zone, before finally encountering the harder sulphide ore at depth. The oxide ore is very amenable to processing with Serabi's existing CIP plant from which it is possible to produce gold in the form of bullion bars. However, in both the transition and sulphide zones the gold is associated with copper (in the oxide ore the copper has been leached away) and this material can only be treated through flotation, which produces a concentrate.

The reduction in labour costs following the suspension of underground mine production, meant the gold production from oxide mining activity began to generate meaningful though limited revenue which helped meet site costs. It should be noted that the oxide ore mined was from material outside the declared mineral resource. No official resource estimation has been ever undertaken upon this material.

In fact the Company's aim has been to continue mining and processing oxide ore as long as realistically possible to generate sufficient cash flow to cover or partly cover the mining and process costs at Palito Mine and, in so doing, maintaining legal operations at site. During 2009, the Company produced approximately 5,000 gold ounces from oxide mining activities.

At the end of 2009 the Company completed an equity financing, raising US\$4.5 million. These funds allowed the Company to recommence exploration activity.

The following tables summarize total historical production and gold production since the March 2008 cut-off date of mineral resource estimate.

**Historical production at Palito Mine to June 2010**

Quarter	Tonnes Milled	Head Grade		Plant Total		
		Au (g/t)	Cu (%)	Recovery	Production	
				Au (%)	Au (oz)	Cu (t)
2005 – Q1	8,222	9.33	0.3	84.2	2,077	22.4
2005 – Q2	14,006	8.63	0.33	88.2	3,427	38.2
2005 – Q3	14,315	12.06	0.68	90.2	5,005	81.0
2005 – Q4	21,415	7.65	0.42	91.8	4,837	74.7
2006 – Q1	25,514	9.31	0.47	91.9	7,017	98.0
2006 – Q2	29,851	9.73	0.43	91.3	8,527	107.1
2006 – Q3	29,462	9.2	0.51	91.4	7,974	139.2
2006 – Q4	32,760	9.37	0.73	91.0	8,980	224.6
2007 – Q1	42,705	6.52	0.31	89.8	8,044	125.6
2007 – Q2	45,245	5.95	0.3	91.1	7,888	127.0
2007 – Q3	45,054	5.36	0.23	90.0	7,021	96.2
2007 – Q4	40,481	5.06	0.29	89.9	5,989	110.4
2008 – Q1	34,040	4.52	0.31	89.0	4,217	85.8
2008 – Q2	36,745	5.1	0.26	89.0	4,963	78.9
2008 – Q3	37,704	4.69	0.26	87.4	4,658	81.1
2008 – Q4	29,174	3.92	0.27	89.4	3,165	66.8
2009 – Q1	17,863	4.03	-	90.5	2,134	-
2009 – Q2	19,151	3.24	-	89.3	1,748	-
2009 – Q3	17,470	2.23	-	89.9	1,018	-
2009 – Q4	15,073	1.26	-	78.7	548	-
2010 – Q1	13,291	1.73	-	85.3	786	-
2010 – Q2	4,803	1.82	-	89.8	265	-

### Production since March 2008

Limited mining occurred after the March 2008 cut-off date for the mineral resource statement, and is set forth in the table below.

2008	tonnes	Grade Au g/t	Au oz
Oxide ore gold production <u>not included</u> in March 2008 Mineral Resource	21,000	2.50	1,688
Sulphide ore gold production <u>included</u> in the March 2008 Mineral Resource	65,781	4.16	8,799
Sulphide ore gold production <u>not included</u> in the March 2008 Mineral Resource	16,445	4.75	2,512
Total Q2-Q4 2008	103,226	3.92	12,999
<b>2009</b>			
Oxide ore gold production <u>not included</u> in March 2008 Mineral Resource	69,557	2.76	6,173
<b>2010</b>			
Oxide ore gold production <u>not included</u> in March 2008 Mineral Resource	18,094	1.75	1,020
<b>TOTAL MINED + TREATED SINCE Q2 2008</b>	<b>190,877</b>	<b>3.67</b>	<b>22,528</b>

It can be concluded from this production data that only 8,799 oz of gold came from sources within the March 2008 mineral resource, with the remaining 13,729 oz coming from unreported ore sources outside the declared March 2008 geological resource. As a consequence, the mineral resource has not been materially affected by subsequent production up to June 2010.

### Geological Setting and Mineralization

The Tapajós Gold Province is located in the western portion of Pará State, central northern Brazil and covers a total of some 100,000 km<sup>2</sup>. The Tapajós is in the southern-central portion of the Amazon Craton, generally termed the Brazilian Shield, as opposed to the northern portion of the Craton referred to as the Guyanian Shield and extends into the littoral countries of the northern South American continent.

The Brazilian Shield is nucleated on the Archaean granite-greenstone terrain of the Carajás-Imataca Province in eastern Pará State, and progressively becomes younger and shallower towards the west, grading into granite dominated then into granite-volcaniclastic terrain of Paleoproterozoic age rocks of the eastern Amazonas State. In the Jardim do Ouro region lithologies are dominated by granitoids of Paleoproterozoic age.

### Regional Geology

The Tapajós Province represents a tectonically controlled geological evolution attributed to the Orosirian Proterozoic period, comprising four plutonic events, over a 140 Ma period.

In the Tapajós Province two main units form the basement, the Paleoproterozoic Cuiú-Cuiú metamorphic suite (2.0 - 2.4 Ga) and the Jacareacanga metamorphic suite (>2.1 Ga). The Jacareacanga is considered to be the older suite; however the relationship is not yet well defined.

The Jacareacanga suite is comprised of a sedimentary-volcanic sequence, deformed and metamorphosed to a regional greenschist facies, with units of sericitic and chloritic schists and rare banded iron formations.

The Cuiú-Cuiú suite, which is the basement for the Palito area, is comprised of orthogneisses of dioritic to granodioritic composition, locally mylonitized, deformed tonalitic granitoids and enclaves or rafts of amphibolites.

Both the Cuiú-Cuiú and Jacareacanga suites are intruded by monzogranites of the Paráuari suite (2000 -1900 Ma), tonalites, diorites and granodiorites of the Tropas suite (1907 Ma -1898 Ma) and granites and granodiorites of the

Crepurizão suite (1893 -1853 Ma). These three intrusive suites are considered to have calc-alkaline affiliations and may be considered remnants of a magmatic back arc system interpreted for the region.

Coeval felsic and intermediate rocks; rhyolites, dacites and andesites of the Bom Jardim and Salustiano Formations (1900 – 1853 Ma) and volcanoclastics of the Aruri Formation (1893 -1853 Ma) cut through all older units.

The alkaline, anorogenic, Maloquinha Granite suite (1882 – 1870 Ma) intrudes throughout the Tapajós and is associated with the strong extensional episode, pre-dating the deposition of the Uatumã Volcanics (Irirí Group, Aruri Formation and Salustiano Formation). The Maloquinha Granites are considered to be the deeper intrusive phase of the Uatumã Volcanics and the source of the gold mineralization in the Tapajós.

Younger sedimentary rocks cover the Maloquinha/Uatumã suite of rocks along a NW-SE trending features in the central and western parts of the Tapajós Province.

Regional structural analysis of the Tapajós Province has identified various compressive deformation regimes including ductile, brittle-ductile and brittle. The deformation is interpreted to have occurred as two separate events, the first compressive event, with peak deformation around 1.96 Ma, resulting in the development of ductile and brittle-ductile deformation regimes. The second event occurring at 1.88 Ma resulted in brittle deformation. These events resulted in major north-south, north west-south east and east-west lineament sets.

The geometry of the lineament and structures are compatible with a combination of Riedel fracturing and strike slip fault systems, where the principle vector of compression is oriented in an east-west and ENE-WSW direction

Gold mineralization is not restricted to a particular suite, with deposits located in all suites including; Cuiú-Cuiú Suite (Cuiú-Cuiú), Paráuari Suite (Tocantinzinho, São Jorge and Palito), Tropas Suite (Ouro Roxo), Salustiano and Bom Jardim Formation (V-series deposits, Bom Jardim), Maloquinha Suite (Mamoal). Gold mineralization associated with quartz and hydrothermal alteration assemblages is reported in all the fracture orientations of the Reidel system, and are dominated by fractures oblique to the principle strike-slip shear orientation.

#### *Local Geology*

The lithology in the area is dominated by alkaline granitoids. In the immediate Palito Mine area three dominant types of these rocks occur.

To the east, the Rio Novo Granite, a medium to fine grained, inequigranular quartz-plagioclase granite or syenogranite. The Rio Novo Granite is then sharply contacted against the Palito Granite on its western margin, a quartz-plagioclase granite or syenogranite of fine, inequigranular texture, differing visually from the Rio Novo in phenocryst size and density. Proximal and sub-parallel to the contact between these two granites is the Palito Central Fault Zone (PCFZ), a 70° (magnetic) trending zone of -50° NW dipping, slight offset dextral faults.

To the west, the Palito granite has a chilled contact with a biotite-hornblende-quartz-plagioclase granite, hornblende syenogranite or aegerine-riebeckite granodiorite locally termed the Fofóinha Granodiorite.

Intruded into these alkaline granitoids are feldspar porphyrite dykes and sills of dacitic composition, which occur more prolifically proximal to the PCFZ.

Gabbroic bodies termed the Rio Novo Gabbro are evident in the local area, but are restricted to within the Fofóinha Unit.

The mineralized structures themselves are generally represented as dark grey-green intensely sericite-silica-pyrite-chalcopyrite +/- chlorite, carbonate, pyrrhotite, sphalerite altered granite hosts, that in many circumstances are no longer recognisable as granitoid protolith. This intense hydrothermal alteration forms the lower grade mineralization selvage and the host to the higher grade quartz-sulphide and massive sulphide zones. Alteration zones range in width from decimetre to metre wide zones. Distal from the structures and intense hydrothermalised zone, the granite hosts are intensely potassically altered, grading in to the regional scale background potassic alteration within 1 to 5m of the mineralized structure.

A description of the lithotypes encountered in the Palito Mine system is given below.

#### *Rio Novo Granite*

The Rio Novo Granite occurs in the eastern part of the mine and further to the east encasing the Palito Granite. It contains xenoliths of granodiorite (Fofóinha Granite), which indicates it is a later phase of the Fofóinha granite

intrusive, which is confirmed by the satellite image interpretation. This unit cuts the older Paráuari intrusive suites and is overlain by volcanics of the Iri Group.

The Rio Novo granite is porphyritic in texture, of medium grain size, varying slightly to a coarser or finer texture, and varying from a pink to a pink-orange to red or red-greenish colouration depending on the level of hydrothermal alteration. Granophyric textures are also common along with lesser developed miarolitic cavities, silicified broken and brecciated zones which are more intensely hydrothermally and propylitically altered, which gives the rock a grey to greenish coloration. This occurs specifically along the contact with the Palito Granite, in proximity to the contact with the Palito granite, the Rio Novo granite displays a strong red colouration due to potassic metasomatism.

Zones intensely broken by brittle faulting are also common in these rocks, normally with breccia associations and veins of carbonate and fluorite.

The macroscopic and petrographic characteristics of these rocks are not indicative of affinities with alkaline granites of the Maloquinha Suite, resembling more a late stage of the Parauari Suite, but this is yet to be resolved with further geochemistry.

#### Palito Granite

The Palito Granite hosts the larger proportion of mineralized structures within the Palito Mine system. In surface exposure it is of limited extent, with exposures restricted to old Garimpo workings. Derived soil horizons are a red - brown colour areno-argillaceous type.

The Palito Granite is pervasively potassic altered and presents an intense red colour. The granite is medium grained, inequigranular, with subtle, finer grained local variations in contact zones with the surrounding granites, due to the cooling effect along the edges of the intrusion. Occasionally the granite presents miarolitic cavities, crystalline quartz and poorly developed granophyric textures. In near surface exposures the granite appears strongly hydrothermalised and shows characteristics of differential weathering, reflecting features relating to phased emplacement or magmatic flow.

#### Fofquinha Granodiorite

This granodiorite occurs to the north and the northwest of the Palito Mine system and appears as a later stage intrusion into the Rio Novo Granite. Outcrop is scarce and as such the granite/granodiorite has been poorly sampled.

The Fofquinha is of medium to coarse grain size (0.5 to 1.0 mm and rarely 10 mm), is inequigranular to slightly porphyritic in texture and can present up to 15 - 35% of mafic minerals, mainly amphibole and iron oxides, especially magnetite. Its colour varies from grey to green grey and the coarse plagioclase crystals show intense zonations. A possible compositional variation from tonalite to monzodiorite has been observed macroscopically.

In some samples the granodiorite is enriched in magnetite which disappears when the rock shows evidence of the effect of potassic metasomatism, probably related to the intrusion of the Rio Novo or Palito granites.

Based on all the above aspects and macroscopic characteristics, it is possible to classify these granitoids as members of the Paráuari Suite.

#### Rio Novo Gabbro

The Rio Novo Gabbro occurs as rounded intrusions varying from 100 m to 500 m in diameter. The best known occurrence defined to date lies approximately 0.5 km directly west of the Palito Mine system and is clearly defined by airborne magnetics. A second possible gabbro occurrence lies approximately 1.2 km north of the Palito Mine and west of the Tatu prospect. In the field it is easily identified from the occurrence of dark red clay soils.

The gabbro is affected by brittle faulting and hydrothermal alteration which also affected the surrounding granites. Local zones of brecciation and xenoliths of the Fofquinha granodiorite within the gabbro, demonstrate emplacement post dating the granodiorite.

The gabbro probably is a unit of the regionally occurring Ingarana Gabbro. This rock type is described in Projeto PROMIN – Tapajós CPRM (2002) as a stock forming irregularly along NW-SE trending lineaments, intruding into the Paráuari Granite Suite and overlain by the Iri Group of volcanics. The gabbro is denominated the Rio Novo olivine gabbro by the CPRM.

Regionally the Ingarana Gabbro hosts mineralized (gold and sulphide) vein systems, as seen in the Bom Jardim garimpo and along the course of the Igarapé Bom Jardim.

### Sub-volcanic Dikes

Sub-volcanic rock types were recognized in the drill core as dikes cutting all lithotypes in the area. The dikes locally reach 30m width, but in general rarely exceed 1m width.

These sub-volcanic rocks are grey-pink or light brown, porphyritic, with a very fine to aphanitic matrix and granitic composition. Mirolitic cavities are common, with small concentrations of mafic minerals and sulphides.

These sub-volcanics are clearly hydrothermally altered, including potassic metasomatism, propilitization, sericitization and sulphidisation.

Feldspar porphyries of dacitic and rhyodacitic composition form sub volcanic dikes, cutting through all the lithotypes encountered in the Palito Mine area. They are of light and dark grey to pink colour with white phenocrysts of plagioclase and quartz and occasional biotite within a finer matrix of the same minerals.

These dikes are common in the PCFZ region and occur to a lesser extent away from it. They vary in width from less than a metre to up to 30m. They exhibit all the alteration suites affecting their host granites including potassic metasomatism, propilitization, sericitization and sulphidisation.

### Deposit Types

Gold deposits within the Tapajós Province can be broadly classified into three main types:

- Mesozonal deposits;
- Epizonal intrusion centred or intrusion related; and
- Alluvial, colluvial and supergene enriched saprolitic deposits.

Primary gold deposit types occur as the first two categories of deposit type; (1) mesozonal and (2) epizonal intrusion related. Tapajós deposits are structurally controlled deposits but host rock control is important in locally providing a necessary factor in the metal precipitation process.

Primary deposit types are generally sited in fractured and sheared host environments such as;

- quartz and quartz sulphide stock work and associated alteration hosted disseminated sulphide;
- quartz vein,
- quartz-sulphide veins +/- selvage alteration hosted disseminated sulphide;
- massive sulphide veins +/- selvage alteration hosted disseminated sulphide; and
- disseminated sulphide within alteration.

Historically in the Tapajós, the third category of deposit types has produced most of the gold won in the region, with a significant contribution from the supergene enriched laterite and saprolite deposits. A large percentage of the gold contained within this category is residual in nature, but physically concentrated along stone lines or weathering fronts, liberated from auriferous veins (quartz, quartz-sulphide or sulphide) nearby and secondarily enriched by redox chemical processes as opposed to being physically transported away from the source.

The exploration potential for the Tapajos Province is considered highly prospective for further discovery of primary deposits. A majority of the primary deposits known in the Tapajós are related to the quartz vein and quartz-sulfide veins. The extensive acid to intermediate volcanics intruded by coeval granitic intrusives provide the conditions for formation of mesothermal and epizonal and/or "epithermal" deposits.

The mesothermal granite-hosted systems are associated with a range of deposit types; porphyry, orogenic lode gold (and intrusion related gold systems. These granite hosted systems all share many characteristics, with distinction among the genetic models becoming difficult to strictly apply in the region.

Within the regional context of the Jardim do Ouro Project, significant granite hosted deposits have recently been discovered that share geological features with the Palito Mine deposit and the Jardim do Ouro Project.

The Tocantinzinho gold deposit owned by Eldorado Gold Corporation (measured and indicated mineral resources of 2.1 million ounces and inferred mineral resources of 0.4 million ounces), which lies approximately 70 km to the NW of the Palito Mine, is a mineralized intrusive granite. The deposit is some 900 m strike length and 200 m wide. The granite has intruded into the TZ structure (a NW-SE trending regional supracrustal structure) which also hosts the

Palito Mine deposit. The vein arrays within the Tocantinzinho deposit are of similar architecture to that of the veins within the Palito Mine. Gold is associated with quartz veins and sulfides (pyrite and chalcopyrite). Hydrothermal alteration of the monzogranites, and a series of later stage microgranite and dacitic/rhyolitic dykes are all very similar attributes between the two deposits.

The Sao Jorge gold deposit owned by Brazilian Gold Corporation (measured and indicated mineral resources of 350,000 ounces and inferred mineral resources of 460,000 ounces) is a series of vertically dipping quartz-sulfide vein sets, located approximately 45 km SE of the Palito Mine deposit and is another gold mineralized system hosted in hydrothermally altered monzogranites, contained in structurally controlled fracture vein systems, striking some 700 m in a NW-SE direction, some 60m wide. This deposit again lies within the TZ structure, (as do Palito and Tocantinzinho).

The TZ structure also hosts a number of significant prospects in addition to these other defined deposits. Magellan's Cuiu-Cuiu, some 150 km NW of the Palito Mine is a significant mineralized system, which is currently undergoing intense drilling activity.

In the nearer district to Jardim do Ouro, but located in parallel TZ structures are a number of significant artisanal operations. Mamoa is a large area of garimpo activity approximately 20 km NNW of the Palito Mine. The area is historically a large producer of saprolite hosted gold, and recent gold prices have reinvigorated the activity in the area.

To the south west (15km) of the Palito Mine the Sao Chico garimpo is currently being operated by Gold Anomaly Ltd. This small Australian listed company is presently constructing a small Gecko, high pressure jig, gravity gold plant to exploit a series of high grade quartz-sulfide veins.

Also south west (20 km) of the Palito Mine, Aurora Gold Corp. has recently published a 130,000 oz gold deposit at the Sao Domingos project. This deposit is a series of narrow high grade veins dipping moderately to the SW and striking NW-SE. The nature of the mineralization is considered the same as Jardim do Ouro Project.

Weight of evidence suggests that Palito is not an isolated deposit, but part of a series of deposits in a significantly gold endowed district (both locally and regionally). It is therefore considered that potential for further discovery of significant primary gold deposits in the Jardim do Ouro Project is favourable. The nature of the deposits in the district also provides potential for deposit styles other than high grade quartz-sulfide vein type encountered at Palito. Potential for larger intrusive-related deposits such as Tocantinzinho and Sao Jorge within the Jardim do Ouro Project is considered a real possibility.

### **Deposit Geology and Mineralization**

The mineralization control of the mineralization type found on the Jardim do Ouro Project is related to the schematic mega-system of strike-slip faulting and Riedel fracture systems of the Tapajós as described by the CPRM (2008) publication "Província Mineral do Tapajós: Geologia, Metalogenia e Mapa preliminar para Ouro em SIG" (Figure 9-1). The Palito Mine veins appear to relate to intersection of "Y" and "P" and/or "R" (sinistral strike-slip) faulting on 305° and 315° and/or 295° orientations respectively within "R" 070° trending structural corridors.

Mineralization is best developed in the veins along the "Y" 305° and "P" 315° orientations, however wider zones are encountered where the "Y" and/or "P" orientation intersects with "R" 295° veins, which are mineralized to a lesser extent. It is also characteristic that the greatest densities of "Y", "P" and "R" vein intersections occur within 070° structural corridors.

Mineralization within the Palito Mine is hosted within all three granitoids encountered in the immediate environment and is intimately associated with vertical to sub-vertical quartz-chalcopyrite-pyrite veins and pyrite disseminations filling the brittle-ductile fault sets. It is postulated that the mineralizing fluids intruded into the existing structural architecture and deposited in dilational jogs within the fractured granites.

In the Jardim do Ouro Project mineralization, where encountered, occurs as a similar style of veins to the Palito Mine; however the host rock varies depending on locality. Mineralization has been encountered within the Rio Novo Gabbro, and within and along contacts with the sub-volcanic dikes in addition to the three host granites at the Palito Mine.

Bonanza gold grades are associated with massive chalcopyrite-pyrite blowouts within the quartz veins, typically on the intersection of "Y" or "P" and "R" veins. The principal vein system at the Palito Mine has a strike length in excess



of 900m along broadly N306°, however this varies from N300° to N325° locally. Individual veins average widths of approximately one metre, varying between 20 cm and up to 4 m.

Secondary gold deposits are also encountered immediately above the mineralized veins, within the regolith profile. These deposits generally manifest themselves within the residual saprolite and laterite portions of the profile. These deposits are developed through the weathering process and often upgrade the primary gold grades within the narrow weathered vein through a supergene enrichment process, which also enlarges the footprint of the sulphide vein mineralization.

The secondary deposits contain free primary gold within the oxidised sulphides in the vein material and free gold associated with the secondary iron oxides (goethite, hematite) along fractures and joint planes within the saprolite adjacent to the veins and in pisolites and lateritic cements at the paleo-surface above the vein.

The secondary deposits are generally not high tonnage deposits, as the residual saprolite profile is only around 5-8m depth, underlying up to 5m of barren transported cover. However they can be up to 10 times broader than the source mineralized vein, due to weathering dispersion of the gold.

These saprolite deposits were favourably targeted by the garimpeiros as they contained enriched gold grades, manifesting as free gold, easily extracted by a gravity process.

The paragenesis of the gold mineralization occurs within pyrite and chalcopyrite associated with sphalerite, argentite and tellurobismuthinite /tetradimite and is typical of deposit types classified as “Au+Ag+Te in syenites, diorites and monzonites with fluorite”.

The principal sulphide composition occurring in the granites is pyrite (30-40%), chalcopyrite (20-25%), arsenopyrite (2-5%) and pyrrhotite (2-10%) with minor occurrences of covellite (2-3%), chalcocite (2-3%), sphalerite and bismuthinite (traces). Electrum occurs as rare inclusions in chalcopyrite and along fractures in the pyrite. Native bismuth and telluro-bismuthinite / tetradimite also occur as inclusions in the pyrite and chalcopyrite. In the granodiorite the dominant sulphide is pyrrhotite (30-40%) with lesser pyrite and chalcopyrite compared to the granites.

The sulphides occur as segregates in the quartz veins, as disseminated within the grey hydrothermal alteration selvage or as massive sulphide veins of decimetre to metre widths. The veins are 30-35% quartz, with the sulphide making up volume, however this may vary from <10% to 90% on occasion.

The quartz veins feature occasional druses of cubiform pyrite which contain only lower gold grades.

Chalcopyrite formed after pyrite, as the chalcopyrite has enveloped pyrite and unfilled and cemented fractured grains of pyrite. Gold is always associated with chalcopyrite in these instances.

Gold occurs as fine grains of 10 to 15 microns confined to the chalcopyrite and arsenopyrite. In many cases the gold grade is highest in zones of hydraulic brecciation, where the alteration zone, sulphides and vein quartz show multiple stages of reactivation.

The nature of the sulphide mineralization at the Palito Mine deposit varies along strike and plunge extents. The deposit is a quartz-sulphide and massive sulphide vein deposit hosted within a granites and granodiorites of the Parauari Suite of intrusives. The nature of the sulphides changes across the deposit from being dominantly pyrite and chalcopyrite in the granites to being dominantly pyrrhotite and pyrite with lesser chalcopyrite in the granodiorite. Within the granodiorites, the pyrrhotite-pyrite sulphides tend to be lower gold grade, due to the lesser occurrence of chalcopyrite, which hosts the gold. This is likely a result of the increased mafic content in the granodiorites affecting the paragenesis of the sulphide deposition.

The hydrothermal alteration of the host rocks is strongly alkaline and has resulted in potassification and ferruginization, which has accentuated the original alkaline character of the host rocks and also resulted in intense silicification.

Hydrothermal alteration associated with mineralization is intense sericitization and chloritization, where intense potassic alteration has resulted in a rock where the original lithotype is no longer compositionally or texturally identifiable. The alteration zone appears as a dark grey rock formed of relict quartz crystals of 0.5mm -1mm in a groundmass of feldspar pseudomorphs of sericite, clay minerals and rare grains of epidote and carbonate.

Quartz is the only major mineral preserved, along with rare zircon and apatite from the protolith. Feldspars are totally pseudomorphed by sericite as well as lesser muscovite and biotite. Chlorite occurs as infill of shears and

veinlets and as rare aggregated crystal masses and occasionally intercalated with biotite with inclusions of zircon and apatite and prehnite.

Grey hydrothermal alteration is confined to the selvage of the ruptile fractures and rarely extends more than 0.5m into the host granite. The alteration is generally always present to some degree along the mineralized structures; however the quartz-sulphide and sulphide veins are not always present. On occasion the structure may appear as a sericite, chlorite, and ankerite vein only several centimetres wide before opening up into a traditional hydrothermal selvage.

Distal to this selvage of hydrothermal replacement, there is a zone of intense potassic alteration extending from 1 to 10m outwards to the background country rock potassic metasomatism. Within the granodiorites this potassic alteration is more restricted.

## Exploration

Exploration in the Jardim do Ouro Project area commenced with RTDM from 1994 to 1997. Early work focused on testing the depth potential of the near surface garimpeiros in the primary sulphide zones. Six diamond drill holes were completed and the area surrounding the Palito Mine screened with surface geochemistry on surface soil, rock chip and rock grab samples. Preliminary geological mapping covered areas of readily accessible exposures and a broad spaced (300m line spacing) regional aeromagnetic survey was flown.

Serabi commenced exploration in 2002 with surface exploration, mapping, rock chip sampling and the initial stages of diamond drilling and shallow auger drilling. This exploration has been ongoing since 2003 and undertaken and managed by Serabi's own exploration department. At various times since 2003 Serabi has augmented exploration with various programs of third party contractor drilling, geophysics including both airborne, terrestrial and down hole electrical and/or magnetic surveys which are detailed in the following sections. In addition various complementary studies on structure, lineament analysis, satellite imagery and petrology.

Tabled below is a summary of the exploration completed to date, except drilling which is covered in a later section.

### Exploration Summary

Year	Company/Contractor	Activity
1994	RTDM	1031 spot soil samples
2003	Serabi	147m of post hole auger drilling (TRRN series holes)
2003	Fugro	Terrestrial geophysics including ground magnetics and dipole-dipole IP
2004	Serabi	11,116.78m of shallow auger drilling (TRJD series holes)
2004	Fugro	Terrestrial geophysics including Fixed Loop electromagnetics and IP
2005	Serabi	1368.47m in underground face sampling and gallery channel sampling
2005	Serabi	18 rock chips
2006	Serabi	1,713m in underground channel sampling
2006	Serabi	3009.83m in post hole auger drilling
2006	Serabi	69 spot soil samples (35m auger drilling), 43 rock chips
2007	Serabi	590.75m in surface trenching
2007	Serabi	1513 spot soil samples (756m auger), 7 rock chips
2007	Serabi	Ground magnetic survey
2007	Fugro	Fixed loop EM and down hole EM surveys
2008	Serabi	4325.79m in underground channel and gallery sampling
2008	Serabi	836 spot soil samples
2008	Serabi	1244.6m of deep auger drilling for 1206 samples
2008	Geotech/Microsurvey	6650 line km of heliborne VTEM, magnetic and laser topography
2008	Senografia	Acquisition of SPOT 5 satellite imagery of Jardim do Ouro, Modelo and Pison Project areas

Year	Company/Contractor	Activity
2009	Serabi	413m of surface trenching
2009	Serabi	977.18m of hard rock channel sampling
2009	Serabi	835.3m of auger sampling comprising 729 samples
2009	Serabi	Data compilation and integrated dataset modeling
2010	Fugro	45 line kms of dipole-dipole IP surveying
2010	Serabi	405m of surface trenching
2010	Serabi	168m hard rock channel sampling

### *Geophysics*

The Jardim do Ouro Project is partially covered by a broad 300m line-spaced airborne magnetic and radiometric survey commissioned by RTDM as part of their Sao Jorge survey in mid 1996.

Serabi commissioned several phases of geophysical surveys during the years preceding this report and a number of reviews.

In 2002, Fugro Ground Geophysics was commissioned to undertake a ground magnetic and dipole-dipole induced polarization survey over the immediate Palito Mine area. This survey was undertaken in December 2002 and reported in early 2003. It defined numerous anomalies in the area and defined well the Palito Main Zone mineralization and numerous other anomalies which were subsequently tested by diamond drilling in following years.

In November 2003, Fugro Ground Geophysics was commissioned to undertake a TEM fixed loop electromagnetic survey over two areas over the adjacent mineralized zones and also augment the ground magnetic coverage. This survey was undertaken in late 2003 and early 2004.

In 2006, Fugro Ground Geophysics was commissioned to undertake further TEM fixed loop electromagnetic surveys over the Chico da Santa Prospect area adjacent to Palito Mine and the southern strike extension of the Palito mineralization at the Palito deposit. Due to equipment failure this survey was conducted over the final months of 2006 with a hiatus over the December to February 2007 period resuming in March and completed in April 2007.

In late 2006, GeoDecon were commissioned to review the 2002 Fugro Ground Geophysics surveys utilizing Serabi's improved geological understanding of the mineralization and structures. This report was received in February 2007.

In 2007, as part of the extended TEM electromagnetic survey, Fugro Ground Geophysics also conducted down hole electromagnetic surveys on 14 drill holes within the Palito Main Zone, Chico da Santa, Ruari's Ridge and Palito West prospects.

In April 2007, a terrestrial ground magnetic survey was undertaken in house by Serabi in the Tatu prospect area of the Jardim do Ouro Project, some 2 km NE of the Palito Mine, targeting the magnetic/quartz vein hosted mineralization apparent in that prospect.

In September of 2007, Geotech/Microsurvey were commissioned to undertake a helicopter borne, Vertical Time Domain Electromagnetic Survey over an area of 6,500 ha within the Jardim do Ouro Project covering the area from the Rio Novo prospect 5 km SE of Palito Mine to 1.5 km NW of the Palito Mine. This survey also included specification for magnetic and laser topography. This survey was conducted at 100 metre line spacing on a NE/SW line direction, perpendicular to the known mineralization trends.

In July 2008, VTEM data processing was completed and reported by David McInnes of Montana GIS, along with the reprocessing of the 2002 Fugro IP data. Significantly, the IP re-processing indicated that the main mineralized vein sets at the Palito Mine could be well constrained in the inversion modeling.

In May 2009, a complete dataset integration (incorporating all geophysical, geological, geochemical and structural datasets) was completed by Serabi. Target generation and appraisal was completed resulting in 18 integrated targets being promoted.

In March 2010, Fugro-LASA-GeoMag geophysics contractors were commissioned to undertake a 45 line km induced polarization survey over three grid areas incorporating 13 of the 18 integrated targets. This data was subsequently processed and modeled by David McInnes in May 2010. This modeling defined nine priority drill targets.

#### *Geochemistry*

The Jardim do Ouro Project has been partially covered by a range of geochemical sampling techniques and methodologies since reporting on the project area commenced.

RTDM in the period 1994-1997 undertook various ad-hoc sampling programs, including limited stream sediment sampling, rock chip sampling from both in-situ exposures where possible and float. RTDM also conducted a number of broad regional soil traverses in the region as baseline geochemical orientations.

Since Serabi commenced exploration in 2002, it has completed systematic soil geochemistry coverage over the immediate Palito Mine environment and a number of regional soil grids using Serabi exploration crews and either manual or small motorised auger drills.

The soil geochemistry coverage has been completed on a systematic 100m X 50m grid using soil auger holes to either 2.5m or 5m depths, with sampling intervals every 2.5m. Initially the soil geochemistry was analysed at the Palito laboratory facilities using a methyl isobutyl ketone ("MIBK") or di-isobutyl ketone ("DIBK") digest and atomic absorption spectrometry finish to a detection limit of 100 ppb. Geochemical results showed the mineralized areas in the Palito Mine area were defined by a >400 ppb Au in soil result.

Subsequent assessment and evaluation of the soil results in 2007, suggested that re-analysis using a 10 ppb detection limit could prove useful in defining more subtle footprints of yet undiscovered mineralization. As a result, a program to resubmit all available soil sample historical sample pulps was completed at SGS Geosol laboratories. As a result, re-assessment of the soil geochemistry in the Palito Mine and Jardim do Ouro Project area did not significantly change the values for definition of the known mineralization, however a great level of confidence was gained from the results and better definition of the mineralization was achieved.

Since 2007, all soil geochemical sampling conducted away from the immediate Palito Mine area has been analysed using external laboratories and a 10 ppb lower detection limit.

In 2008, a small program of deeper reconnaissance auger drilling was contracted to Explorer Services of Belem, and managed by Serabi's exploration department. This program was designed to confine the saprolite mineralization at the Bill's Pipe prospect NW of the Palito Mine.

Also in 2008, a regional stream sediment geochemistry sampling program was contracted to Explorer Services to complete coverage of the entirety of the Jardim do Ouro Project. This program involved Serabi defining the sample points and Explorer Services collecting a 200 gm < 200 mesh sample and a 3 kg < 2 mm sample which were subsequently submitted to SGS Geosol of Belo Horizonte for analysis using a 10 ppb detection limit.

This program defined a number of anomalous areas outside the immediate Palito Mine area, defined by a greater than detection (>10 ppb) analysis. To date these anomalous areas have not been followed up.

#### *Remote Sensing*

In 2008, Seniografia was contracted to provide Serabi with a series of Spot 5 Satellite images of the Jardim do Ouro Project, along with the Modelo and Pison Project areas.

Also in 2008, as part of the Geotech/Microsurvey geophysical program, Serabi acquired a laser altimetry of the survey area surrounding the Palito Mine and immediate environment.

Serabi have also used in addition publically available Landsat and SRTM terrain images for spatial and lineament analyses.

#### *Exploration Strategy*

Serabi has been exploring the Jardim do Ouro Project since 2003 and during this time has gained a robust understanding of the geology, geochemistry and geophysical signatures and controls of the mineralization within the Palito Mine and the Jardim do Ouro Project area.

Serabi believes it has developed a successful formula for the discovery of new deposits in the Jardim do Ouro area, following a tested methodology.

Exploration uses the following process

- Ground selection – NW-SE structural corridor, with NE-SW breaks
- Remote sensing and remote geophysics, VTEM, magnetic
- Ground geophysics (IP, EM) and shallow geochemical sampling and/or drilling (auger/RAB)
- Diamond drilling based on integrated models and ranking.

Specifically, Serabi believes that exploration should focus on structural corridors parallel to, or extensions of the Palito trend (310°) and specifically where the Palito Central Fault (070°) analogies exist.

Topographic highs or the flanks are considered more prospective due to silicification of the country rock making them more resistive to weathering.

IP is a viable method to delineate drill targets on a prospect scale.

The structural setting of the Palito deposit is not unique as lineament analysis defines several other look-alike settings in the immediate area.

The fluid source for the vein mineralization may be close, hence it is worth considering other mineralization models, such as fertile intrusions (gabbros or discrete granite intrusions).

#### *Exploration Program*

The exploration strategy is to explore and build Serabi's resources. With existing measured and indicated mineral resources of 224,272 ounces (gold equivalent) and inferred mineral resources of 443,965 ounces (gold equivalent) in place at the Palito Mine, the discovery of just two similar sized deposits from the 18 priority targets identified in the 2008 airborne geophysical survey forms the basis of Serabi's minesite exploration strategy. The exploration activity is therefore focused upon advancing these 18 targets through extensive ground-based geophysical and geochemical programmes. The initial airborne VTEM survey identified anomalous areas of electro-magnetic properties. Previously at the Palito deposit such anomalous zones were shown to be coincident with the existence of areas of massive sulphide mineralization, which represents some 20% of the known mineralized areas of the Palito deposit, with the remaining gold mineralization consisting of a more disseminated form located within quartz sulphide veins. Earlier success at the Palito Mine demonstrated that this type of mineralization can be successfully identified by the use of ground-based IP. By mid 2010, a 45 line-kilometre IP survey had been completed, covering 13 of the original 18 targets. Of these 13 targets, nine targets have been advanced to drill ready status. Drilling of these nine targets commenced in December 2010 with a 7,500m discovery drilling programme.

Serabi has developed a US\$7.63 million, 18 month budget to continue exploration for the discovery of additional mineralized systems in the Jardim do Ouro Project, divided into "near mine" and "regional exploration" initiatives. A fixed exchange rate of R\$1.65/US\$1.00 was used for the purpose of the budget estimation.

The near mine exploration program consists of approximately 7,500m of diamond drilling to test integrated geophysical/geological models developed in 2008-2010. In addition, approximately 45 line kilometres of additional IP surveying is planned to expand on the IP anomalies defined in 2010 and to complete coverage of those integrated targets on the eastern side of the "Rio Novo" river, along strike of the Palito mineralized system.

Geochemical and shallow surface exploration is anticipated in conjunction with the ongoing exploration consisting of grid construction, line cutting and access, surface soil, shallow auger or rotary air blast ("RAB") drilling and trenching.

Regionally, a program of approximately 15,000 ha of new helicopter borne VTEM/magnetic is budgeted to pursue prospective areas NE and SW of the Palito Mine lease along interpreted 070 degree corridors and to the NW along strike of the Palito mineralized system.

## Drilling

Totals for metres drilled at Jardim do Ouro Project including exploration and resource work are shown below.

**Drilling Summary**

Sample Type	Total Metres	No. of Assays	Metres Sampled	No. of Holes
Core-Surface	85744	23183	20133.63	510
Core-Underground	16487	5965	5062.65	336
Reverse Circulation	4410	4036	4260.2	74
RAB	4239	1810	4198.5	320
Auger	16353	7497	16262.11	4472
Channel Samples	15294	15111	11795.97	5724
Total	142527	57602	61713.06	11436

### *Diamond Drilling*

RTDM completed six diamond drill holes in late 1996 in the initial phase of drilling targeting the mineralization associated with the Palito Main Zone and proximal prospects. This drilling totalled 1610.06m in holes FJO-01 to FJO-06. It successfully intersected the mineralization within the Palito Mine system. However the narrow nature of the mineralization and the lack of a large tonnage low grade potential of the system predetermined that RTDM would not continue to develop the project. Serabi has incorporated this drilling into the database and subsequently re-logged and re-sampled the core for confirmatory analysis.

The resource estimation covers diamond drilling up until the cut off period of March 31, 2008. Subsequent exploration surface diamond drilling has been completed in the Palito South and in the Palito West areas. Underground diamond drilling continued within the mine until suspension of mining activities in December 2008.

Surface diamond drill holes not included in the resource estimate are the holes PDD0419 to PDD0454, totaling 8,158m. Significant results from surface diamond drilling not included in the resource estimation are tabled below.

**Significant intercepts on surface core drillholes executed after the March 2008 resource estimate**

Hole	From (m)	To (m)	Interval	Au g/t	Cu %
PDD0421	15.45	16.00	0.55	8.36	0.22
	186.00	189.87	3.87	18.85	0.31
	277.35	278.53	1.18	1.92	0.83
PDD0423	228.43	229.50	1.07	3.22	0.00
PDD0428	101.28	101.89	0.61	1.64	0.10
PDD0432	270.96	274.90	3.94	3.02	0.02
	279.14	282.94	3.80	7.44	0.23
PDD0436	83.08	83.85	0.77	2.1	0.05
	292.10	293.15	1.05	5.61	0.37
PDD0437	31.64	32.82	1.18	3.75	0.42
	90.07	91.02	0.95	6.23	0.01
PDD0444	55.15	56.12	0.97	3.43	0.04
	58.90	59.83	0.93	34.75	0.24
PDD0447	227.70	228.33	0.63	0.36	0.22
PDD0448	175.23	176.33	1.10	0.99	0.12
	180.08	181.00	0.92	1.06	0.01
PDD0450	54.25	56.80	2.55	2.43	0.55
including	55.65	56.80	1.15	3.56	1.1
PDD0452	75.64	76.55	0.91	5.01	0.04
PDD0424	91.49	92.54	1.05	1.45	0.03
	228.44	229.51	1.07	9.33	0.50
PDD0426	80.41	81.25	0.84	2.39	0.04
	194.85	196.49	1.64	1.91	0.19
PDD0431	65.72	66.30	0.58	22.2	0.05
	114.83	115.39	0.56	15.8	0.06
	140.27	142.00	1.73	6.75	0.09
	275.31	276.48	1.17	2.52	0.06
PDD0445	22.35	23.20	0.85	52.15	0.88
	57.70	58.63	0.93	1.33	0.08
PDD0346Ex	177.17	178.20	1.03	1.52	0.32
PDD0449	15.62	16.28	0.66	9.51	1.74
	93.06	95.20	2.14	9.04	0.16
PDD0451	7.00	8.80	1.80	6.01	0.07
	20.81	22.30	1.49	25.61	0.41
	98.74	99.28	0.54	2.02	0.31
PDD0453	85.84	86.66	0.82	17.1	0.15
PDD0454	79.50	80.45	0.95	11.46	0.11

- (1) Assay intercepts are calculated based on a minimum grade 1g/t Au using a 0.5 gm Au lower cut and a maximum internal waste interval of 1.2m.

Underground diamond drilling not included in the 2008 mineral resource estimate includes drill holes PUD297-PUD334, totaling 2,133m. Significant results from underground diamond drilling not included in the resource estimation are tabled below.

Significant intercepts on underground core drillholes executed after the March 2008 resource estimate

Hole	From (m)	To (m)	Interval	Au g/t	Cu %
PUD0298	31.32	31.84	0.52	1.77	0.08
PUD0298	34.37	35.75	1.38	13.46	0.21
PUD0300	54.89	55.62	0.73	0.99	0.55
PUD0302	8.61	10.14	1.53	2.70	0.02
PUD0303	27.28	36.54	9.26	2.68	0.2
PUD0303	43.88	45.78	1.90	2.93	0.27
PUD0304	39.00	39.51	0.51	2.56	0.17
PUD0304	52.53	53.62	1.09	1.03	0.02
PUD0298	31.32	31.84	0.52	1.77	0.08
PUD0298	34.37	35.75	1.38	13.46	0.21
PUD0300	54.89	55.62	0.73	0.99	0.55
PUD0302	8.61	10.14	1.53	2.70	0.02
PUD0303	27.28	36.54	9.26	2.68	0.2
PUD0303	43.88	45.78	1.90	2.93	0.27
PUD0304	39.00	39.51	0.51	2.56	0.17
PUD0312	15.29	16.30	1.01	5.01	0.09
PUD0312	29.15	30.06	0.91	1.33	0.01
PUD0313	1.38	3.58	2.20	0.96	0.22
PUD0313	6.05	9.66	3.61	21.31	1.75
PUD0313	13.77	15.44	1.67	18.87	0.02
PUD0313	28.84	29.57	0.73	3.11	0.11
PUD0313	45.42	46.15	0.73	1.60	0.26
PUD0313	48.22	50.07	1.85	22.53	0.67
PUD0313	55.05	55.61	0.56	10.65	1.71
PUD0314	0.42	1.47	1.05	2.88	0.05
PUD0314	3.86	6.70	2.84	2.32	0.10
PUD0314	10.58	11.45	0.87	1.15	0.05
PUD0314	38.55	39.48	0.93	20.39	0.25
PUD0315	7.18	14.10	6.92	0.92	0.11
PUD0315	15.65	24.19	8.54	0.70	0.11
PUD0316	11.54	19.48	7.94	8.43	0.36
PUD0317	17.87	23.43	5.56	13.05	0.59
PUD0317	25.41	26.41	1.00	6.63	1.59
PUD0317	28.73	31.05	2.32	0.52	0.14
PUD0317	43.42	49.29	5.87	0.38	0.74
PUD0317	50.26	56.03	5.77	1.77	0.33
PUD0317	70.77	72.70	1.93	3.80	0.14
PUD0318	6.92	11.72	4.80	12.41	1.31
PUD0318	14.11	18.70	4.59	0.62	0.35
PUD0318	47.03	57.82	10.79	52.29	1.74
PUD0318	67.63	76.56	8.93	2.36	0.13
PUD0319	4.08	4.64	0.56	2.80	0.01
PUD0319	5.91	6.58	0.67	2.79	0.04
PUD0319	12.97	18.93	5.96	26.20	0.18
PUD0319	26.27	26.79	0.52	2.09	0.04
PUD0319	30.98	31.48	0.50	14.36	0.02



Hole	From (m)	To (m)	Interval	Au g/t	Cu %
PUD0319	42.70	44.48	1.78	4.33	0.02
PUD0319	50.71	58.09	7.38	3.93	1.23
PUD0319	60.23	64.88	4.65	3.25	0.10
PUD0320	21.58	23.48	1.90	5.77	0.07
PUD0322	15.29	17.25	1.96	0.66	0.04
PUD0324	16.60	18.64	2.04	1.16	0.03
PUD0324	22.18	26.68	4.50	0.94	0.03
PUD0325	11.40	20.73	9.33	2.02	0.07
PUD0325	21.37	26.59	5.22	0.87	0.07
PUD0331	16.68	17.29	0.61	12.89	0.06
PUD0333	12.56	13.46	0.90	3.84	0.02

- (1) Assay intercepts are calculated based on a minimum grade 1g/t Au using a 0.5gm Au lower cut and a maximum internal waste interval of 1.2m

#### *Reverse Circulation Drilling*

Reverse Circulation ("RC") drilling has been undertaken by Serabi on two occasions. In 2006, Wilemita Ltda, was commissioned to undertake a drilling program on the Bill's Pipe, Chico da Santa and Ruari's Ridge prospects.

In 2007, GeoLogica Sondagens were contracted to undertake a program of RC drilling on the Chico da Santa prospect.

In both circumstances the use of RC was attempted to expedite the drilling programs and provide a rapid turn-around for diamond drill planning and to assess the potential of the shallower, saprolite and oxide mineralization in the near mine environment.

Due to the shallow, limited extent of the saprolite and weathered profile in the region, RC proved to be less effective than anticipated, due mainly to the depth of the regolith profile encountered and because of the hard abrasive nature of the granites, production was not significantly faster than that of diamond drilling.

In the period May to early July 2009, a small program of 393.6m of RC drilling was conducted to explore for shallow oxide mineralization over existing identified lodes. The program was executed by Serabi's crawler underground drill rig which completed a series of shallow drill holes prefixed with PRC in and around the Palito West and G3 south lodes. The rig was operated by Serabi personnel.

The results of the PRC drilling are not included in the resource estimation as they were completed post the March 31, 2008 cut-off for the estimation.

#### *RAB Drilling*

RAB or Rotary Air Blast drilling was undertaken by Serabi in 2009 to test a series of soil geochemistry anomalies in the immediate Palito Mine area. This RAB drilling program was contracted to GeoLogica Sondagens of Belo Horizonte.

The use of RAB drilling was again undertaken to expedite the assessment of soil geochemistry anomalies, which was previously conducted by Serabi's exploration team using auger drilling. Ground conditions and logistical issues proved to be limiting and the RAB drilling was less effective and slower than anticipated.

It should be noted that RAB drilling was used purely as an exploration tool and no RAB results are included in the resource estimation.

### **Topographic Surveys**

#### *Surface Surveys*

Surface surveys are carried out by the Serabi survey department using total station and theodolite optical equipment. Surveys include opening lines for soil and drill traverses, marking topographic reference stations, pre-location of

programmed drill collars, relocation of collars and alignment of drill azimuths after drill pad or earthwork preparation, pick up of earthworks, roads and other infrastructure.

#### *Underground Surveys*

Underground surveys are carried out by the Serabi survey department using total station and theodolite optical equipment. Underground survey encompasses marking up of planned developments and pick-ups of actual developments, surveying of stopes, drives, raises, winzes and ramps, location and alignment of drill holes and collars.

All active headings are surveyed at 3 day intervals. Gradient lines are extended to the active faces on developments.

Waste development is controlled by survey through the setting of direction lines and gradient using back and fore sights and a bearing.

Survey pickups are processed with the Topograph software package and exported to an Autocad package where they are appended to the archives.

#### *Drill Collar & Down Hole Surveys*

All drill collar positions are surveyed in using a theodolite and maintained in the Serabi database.

Drill holes are surveyed down the hole using a Reflex E-Z shot tool, which records the dip and azimuth at selected intervals down the hole, (nominally 30m intervals). These surveys are then recorded by the geology department and maintained along with all relevant surveys in the Serabi database.

#### *Topography*

In addition to the locally surveyed collars and topography surrounding the Palito Mine infrastructure, Geotech/Microsurvey completed a laser altimetry survey in conjunction with the airborne geophysical survey over the Jardim do Ouro Project in January 2008.

This survey was completed on 100m spaced 30° angled traverses, collecting altimetry readings, of the altitude of the helicopter in relation to the ground every 0.1 seconds. These altimeter readings were then levelled, through synchronization with helicopter flight altimeter and used to create a digital elevation map of the area surveyed.

### **Sample Preparation, Analysis and Security**

#### *Drill Core Sampling*

Drill sampling is undertaken at the geological core logging facilities at the Palito Mine site. Every drill core is cut and sampled. Sampling protocol is such that sample intervals are a minimum of 0.5m and a maximum of 1.2m, although there are a small amount of exceptions to this within the database.

Sample selection is based on geological intervals, if the interval exceeds 1.2m it is divided equally, but not less than 50 cm, into sample intervals covering the zone of interest. Should a zone of interest sampled be less than 50 cm, then the sample interval is extended to exceed the zone of interest, incorporating the country/gangue rock. All exploration drill core is half core sampled, with the samples placed in a plastic bag, clearly marked with the appropriate sample number and sealed. They are then placed into larger 50 litre bags, which are in turn sealed, marked and dispatched to the laboratory.

Part of the core samples, 22% of the total core samples, were analysed at the Palito laboratory. The majority are underground core drillholes, whose necessary turn-over period is shorter than regular surface core holes. The remainder, 88% of the samples (20311 samples within a total of 26137 samples) were sent to either the ALS Chemex, with preparation at Goiás and assaying at Brisbane, in Australia, or to the SGS Geosol laboratory, with preparation at Itaituba and assaying at Belo Horizonte, Brazil. Both laboratories used standard 30g fire assay fusion and aqua regia analysis for gold and copper. Both laboratories are reputed and certified commercial laboratories. Once Palito established an onsite analytical laboratory in 2005, all samples were primarily quarter cored, with quarter core samples sent to the Palito laboratory for analysis via MIBK, which was then changed to DIBK in mid 2006, for gold and aqua regia for copper analysis.

To improve turnaround times, cost saving on analysis, and provide agility to drill hole programming, only half core samples of those intervals returning anomalous gold or copper grade from the Palito Mine site laboratory were dispatched to SGS Geosol for fire assay and copper analysis.

In 2007, this process of quarter and half core analysis was abandoned, due to the establishment of a core preparation facility in Itaituba by SGS Geosol, which improved turnaround time on analysis and also due to the limited capacity of the Palito laboratory to process exploration drill samples due to the increase in mine production and mill samples assuming a higher priority to those of exploration at the site laboratory.

In October 2007, under advice received from NCL, Serabi began sample preparation of half core samples at the onsite laboratory and dispatch of prepared samples to SGS Geosol for analysis. This process continued until February 2008, when again the increased production of drill samples exceeded the preparation facilities of the laboratory and all samples were again dispatched to SGS Geosol via Itaituba for analysis.

In May 2008, Alex Stewart Analytical assumed management of the Palito Mine site laboratory facilities completing a re-design and updating of the laboratory facilities, aimed at enabling certified assays to be undertaken on site without the requirement to send samples offsite for regular analysis. In August 2008, Alex Stewart passed management of the laboratory back to Serabi, having completed the redesign and reappointing of laboratory facilities.

All underground BQ size drill core is whole core sampled, and has undergone the same evolution of sample analysis as the exploration core. All underground drill core is held for a period of 3-6 months post drilling and then disposed as landfill.

#### *Reverse Circulation Drill Sampling*

RC sampling was conducted generally on a metre by metre basis for the entire hole with the exception of the RC program completed in 2009 when 1.2m intervals were used.

All samples were passed through a Jones Riffle Splitter quartering the entire sample and repeating until a <2kg sample weight was achieved. The samples were placed in a plastic bag, clearly marked with the appropriate sample number and sealed. They were then placed into larger 50 litre bags, which were sealed, marked and dispatched to the laboratory. When the drill sample was too moist or wet to pass through the riffle splitter, the sample was dried either by sun drying or by oven warming until sufficiently dry to pass through the splitter.

The samples were prepared and assayed by SGS Laboratories by 30g charge fire assay for gold and aqua regia for copper or via a combination of preparation and analysis at Palito laboratory via aqua regia for gold and copper with pulps submitted to SGS for 30g fire assay gold and aqua regia analysis.

#### *Channel Sampling*

Channel sampling was routinely completed as grade control for the mining operation. These samples are both faces and back samples collected along the development drives and mining fronts.

The samples are collected using a similar protocol to the diamond drill sampling protocol with a minimum length of 50cm and a maximum length of 1.2m.

Generally 2-5kg of chips for the channel sample is collected. The samples are then delivered to the Palito laboratory where they are prepared and analysed for gold and copper by aqua regia.

#### *RAB & Auger Drilling & Soil Sampling*

Serabi has completed over 4,200m of RAB drilling and 16,300m of soil auger drilling (both manual and motorised) in both post hole and spot auger soil sampling. RAB and auger results were not used in the resource estimation.

### **Analytical Methods and Quality Assurance**

Quality assurance during the assaying process is established at the laboratory with well defined protocols for two different types of analytical methods as described below, depending on the types of samples.

#### *Drill Core Methods*

Serabi utilized the analytical services of SGS Geosol for all its drill core samples. The laboratory is located at Belo Horizonte, but the sample preparation is performed at their Itaituba facilities.

#### *Method Of Sample Preparation For Assaying*

When samples arrive at the SGS Geosol sample preparation facility, they are dried at 110° C. When dry, the entire sample, usually about 2-3 kilograms, is crushed to minus 2 mm size and a 1 kilogram sample split is taken from the crushed product by means of a Jones splitter. This split sample is then ground to a -150 mesh pulp, and a 125 grams-size homogenized fraction removed: 50 grams of which are used for the analysis and 75 grams of which are stored in a marked envelope for future reference.

Prior to sample preparation, samples which have been marked specifically because visible gold had been observed during the rough logging of the full core are handled slightly differently from the normal samples. The entire sample is crushed and ground to -150 mesh. The sample is then passed through a 150 mesh screen. The undersize, the bulk of the sample, is weighed and treated exactly as a normal sample, with 125 grams extracted, 50 grams of which go for fire assay and 75 grams are stored for future use. The oversize is then collected, weighed, pulverized, and treated as a separate sample. Both analyses are reported separately but the laboratory calculates a weighted average of the two results in its final report. This reported single value is ascribed to the sample interval.

#### *Method Of Gold Analysis By Fire Assay/AA Finish*

- (a) 50 grams of the pulverized sample is weighed into a crucible which contains a combination of fluxes such as lead oxide, sodium carbonate, borax, silica flour, baking flour or potassium nitrate. After the sample and fluxes have been mixed thoroughly, a silver inquart and a thin layer of borax is added on top.
- (b) The sample is placed into a fire assay furnace at 2000° F for one hour. At this stage, lead oxide is reduced to elemental lead and slowly sinks down to the bottom of the fusion pot or crucible collecting the gold and silver along its way to the bottom of the melt.
- (c) After one hour of fusion, the crucible is removed from the furnace and its contents poured into a conical cast iron mould. Elemental lead, which contains the precious metals, sinks to the bottom of the mould and any unwanted materials, the glassy slag, floats to the top. When cooled, the cone is removed from the mould and by hammering the glass is eliminated and a "lead button" formed.
- (d) The lead button is then put onto a preheated cupel made of bone ash and reintroduced into a furnace for a second stage of separation at 1650° F. The lead button becomes liquefied and reacts with and is absorbed by the cupel. The gold and silver which have higher melting points remain on top of the cupel.
- (e) After 45 minutes of cupellation, the spent cupel is then taken out of the furnace and cooled. The doré bead which contains the precious metals is then transferred into a test tube and dissolved in hot Aqua Regia solution heated by a hot water bath.
- (f) The amount of gold in solution is determined with an Atomic Absorption spectrometer (AA). The gold value, in parts-per-billion, or grams-per-tonne, is calculated by comparison with a set of known gold standards.

#### *Channel Samples Assaying*

The channel samples are assayed at the Palito laboratory where they are prepared and analyzed for gold and copper by aqua regia (DIBK).

With the objective of checking the results of the Palito laboratory, a group of channel sub-samples was chosen by NCL and sent to the SGS laboratory, in Belo Horizonte. The criteria adopted was to select the samples contained in the ore body models, in the vicinity of in situ resources, thus excluding the samples located in waste zones and those near the mined out areas. For the proposed list of samples, 99 sub-samples were taken from coarse rejects and 1075 sub-samples were collected from pulp rejects. The tests were to assess the quality of sample preparation and the analytical accuracy and precision of the Palito laboratory through direct comparison with a commercial facility.

The conclusions of such study are that the Palito laboratory Au results presented poor repeatability and a moderate bias when compared with SGS results. However, most of the problems are related to results below 0.7 g/t Au. This seems to be related to a detection limit of the Palito laboratory being higher than expected. If we consider values above this threshold, the repeatability improves significantly, reaching the generally accepted limits of variance (90% of the samples with HARD<20%). Most of the bias also is eliminated using this procedure. For resource estimation, it was decided to adjust the grades of the Palito laboratory, reducing any grade below 0.7 g/t to 0.01 g/t. Although conservative, this procedure has little impact on the average grade of the ore (2% reduction in the grade of the dataset analyzed) and is effective in the improvement of the quality of the information. This procedure also showed improved quality of the coarse rejects results.

For copper analysis, the Palito laboratory yielded results so different to SGS' results that it was recommended not to use the copper results of the Palito laboratory until the procedures used for this metal are reviewed and new tests ensure a better repeatability of results, compared with a commercial laboratory.

These recommendations were accepted by Serabi and adopted: the gold values obtained from the Palito laboratory and below 0.7 g/t were adjusted to 0.01 g/t, and the copper values from the same laboratory were deleted from the database used for the present resource evaluation.

## **Data Verification**

### *Quality Control Measures and Results*

A wide range of standards has been purchased from Rocklabs, for inclusion into all batches dispatched for analysis at both SGS Geosol and Palito laboratories. Blanks are inserted at the start of each batch of samples submitted for analysis and a standard and blank are then alternated every 10 samples, giving approximately 10% of samples submitted as quality control/quality assurance. Historically standards were inserted for each 20/30 samples submitted to the laboratories, but this regime was changed in mid 2007 for tighter control.

Blanks are sourced from a granite outcrop on site and are submitted routinely with each batch.

In addition to standards submitted by Serabi to the laboratories, the laboratories report on their own internal standards and blanks. Laboratory reports also contain duplicates, repeats and laboratory check results.

### *SGS Standards Performance*

The SGS laboratory results for standards are generally within an acceptable difference with the certified grade. Results of the vast majority are within two standard deviations from the expected mean, if considering the population of results from the round robin test realized by Rocklabs.

## **Mineral Processing and Metallurgical Testing**

The ore from the Palito Mine was subject to several metallurgical testwork programs from 2004 to 2007, and a full scale metallurgical plant has been operating continuously at the Palito Mine since Q3 2004 for almost five years. With approximately 550,000 tonnes of ore processed, and approximately 100 Koz of Au produced, there is plenty of empirical data on the metallurgical behaviour of the ore.

### *Metallurgical Tests*

Metallurgical tests have been conducted upon comminution, flotation, cyanide leaching, dense media separation and gravity separation. Most of the testwork results had been carried out at AMMTEC Australia and Knelson Research and Technology Centre, Canada.

## **Mineral Resource Estimates**

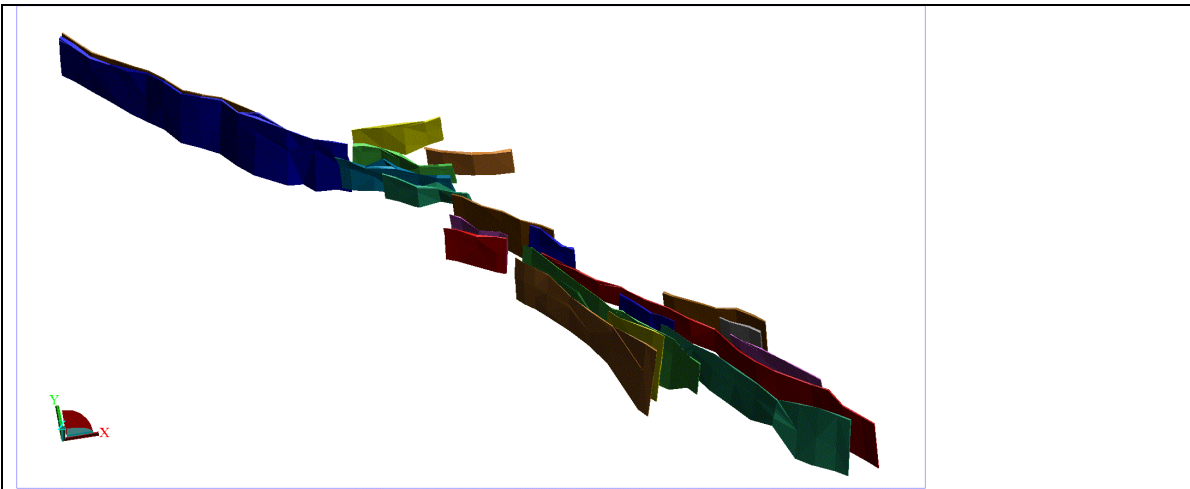
### *General Considerations*

In March, 2008, NCL prepared a resource estimate for the Palito deposit, using 3D modeling and geostatistics. This model has not been updated. Although additional drilling was available and limited mining has occurred, these are considered to be of low impact, therefore this 2008 estimate can be considered as representative of the current mineral resources of the Jardim do Ouro Project.

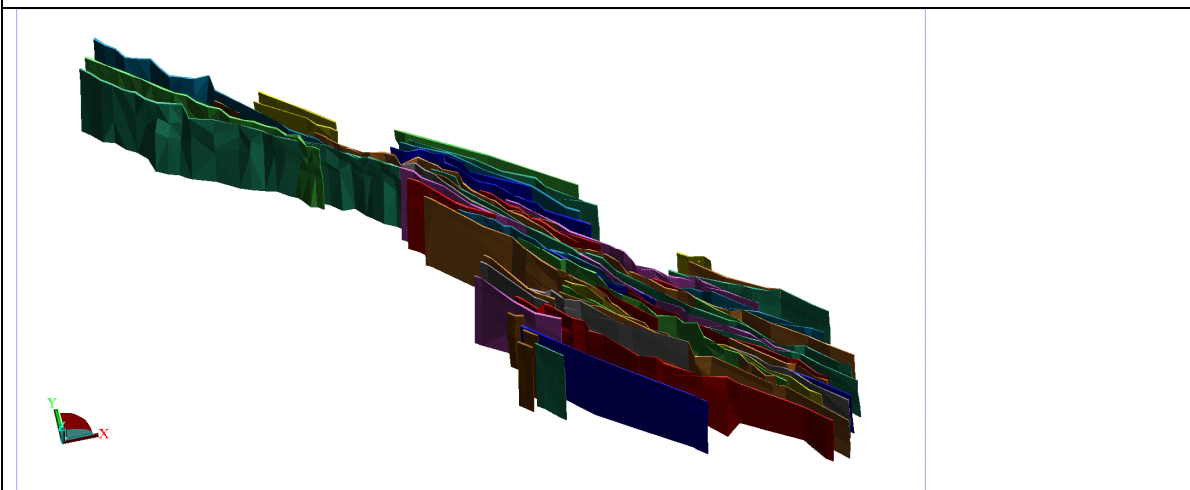
In this section, the resource evaluation performed in March, 2008 is reported. Only a single ore type was considered in this evaluation, the fresh rock ore formed by hydrothermally altered granite, termed "veins", amenable to the CIL process. Four different deposits were evaluated separately, Palito Main Zone ("PMZ"), Chico da Santa, Palito West and Ruari Ridge.

Mineral resources reported herein were estimated and classified according to the Australian JORC Code, which are equivalent to those of the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM").

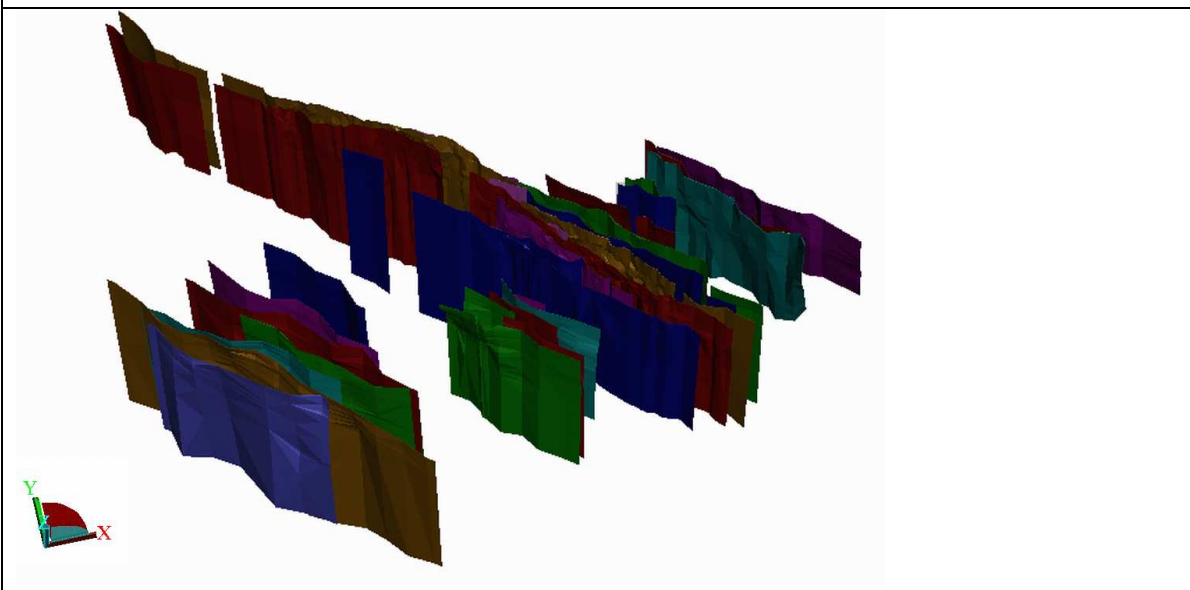
### Evolution of the orebody modelling for the Palito deposit



Resource wireframes December 2004



Resource wireframes December 2005



Resources wireframes March 2008

#### *Software and Database*

The modelling and geostatistical analysis of these deposits were made using three different software packages: Gemcom (modeling, kriging and block model construction), Excel (exploratory data analysis, model validation) and GSLIB (variography and exploratory data analysis).

The data was provided to NCL by Serabi in MS-Access (channel and drillhole data) and DXF format (topography, excavation and mined out areas).

The basic stats of the database received for resource evaluation are below.

**Drilling database basic statistics**

<b>Sample Type</b>	<b>Nr of samples</b>	<b>Metres drilled</b>	<b>Nr of Holes</b>
Channel	9947	8776	4167
Diamond Drilling	26303	94536	787
RAB	593	626	6
Reverse Circulation	3839	3935	48
Auger	795	1707	49
<b>Total</b>	<b>41477</b>	<b>109580</b>	<b>5057</b>

#### *Specific Gravity*

Serabi provided a database with 1,048 measurements of specific gravity, mainly composed of hydrothermally altered granite, which is the typical ore from the mine. Only fresh rock samples were evaluated. The method used is the accepted method for these measurements, considering the observed lack of porosity and voids of the ore and waste granite. After extracting one spurious value the simple average of 2.675 g/cm<sup>3</sup> was calculated.

#### *Data Capture*

Given the difficulty in creating a solid enclosing all the representative samples, vertical sections were used for constructing the solids, however this resulted in samples further away from the section position not being correctly captured. For this reason, the samples representative of these solids were selected individually. Each interval selected was assigned a Lithological code. In several places, sub economical intervals were selected based on the geology, in order to maintain the continuity of the vein.

#### *Exploratory Data Analysis*

Using these lithological codes, NCL summarized statistics for gold and copper on the raw data samples for each lithological unit as shown below.

#### Exploratory Data analysis for samples within the veins

<b>Au</b>	<b>Palito Main Zone</b>	<b>Chico da Santa</b>	<b>Palito West</b>	<b>Ruari Ridge</b>
Nr of Samples	4,138	151	126	210
Minimum (g/t Au)	0	0.01	0.01	0.01
Maximum (g/t Au)	718.00	66.69	181.00	68.11
Average (g/t Au)	11.93	5.39	10.02	3.08
Standard Deviation	39.20	11.11	26.33	8.73
Coefficient of Variation	3.29	2.06	2.63	2.84
Nr of Samples	4,140	152	127	210
Minimum (% Cu)	0	0	0	0
Maximum (% Cu)	21.10	4.70	4.50	2.80
Average (% Cu)	0.16	0.30	0.19	0.12
Standard Deviation	0.85	0.74	0.51	0.34
Coefficient of Variation	5.25	2.48	2.76	2.93

#### Compositing

After statistical analysis of the length of the original samples, 0.7 m was chosen as the length for compositing the samples in order to have all values at a similar support. Composites with length less than 0.15m (20 % of the chosen composite length) were discarded, representing less than 2% of loss of the samples, in terms of length sampled.

#### Exploratory Data analysis for composites

<b>Au</b>	<b>Palito Main Zone</b>	<b>Chico da Santa</b>	<b>Palito West</b>	<b>Ruari Ridge</b>	<b>Total</b>
Nr of Samples	6,591	220	156	291	7258
Minimum (g/t Au)	0.00	0.00	0.00	0.00	0.01
Maximum (g/t Au)	700.00	66.69	181.00	68.11	68.11
Average (g/t Au)	12.05	4.73	8.55	3.40	3.40
Standard Deviation	35.60	9.19	23.75	8.67	8.66
Coefficient of Variation	2.96	1.94	2.78	2.55	2.54
<b>Cu</b>					
Nr of Samples	2,350	195	137	208	292
Minimum (% Cu)	0.00	0.00	0.00	0.00	1
Maximum (% Cu)	21.10	4.70	4.50	2.80	2.80
Average (% Cu)	0.39	0.26	0.20	0.11	0.08
Standard Deviation	1.27	0.61	0.51	0.30	0.26
Coefficient of Variation	3.26	2.37	2.50	2.65	3.19

#### 3D Geological Models

Four types of solids were used in the construction of the block model:

1. Orebodies: strictly speaking, interpretation of zones representing the material with reasonable prospects of being mineralized
2. 3D excavations: surveyed tunnels and mined out zones
3. 2D excavations: mined out zones where no survey was available. The 2D lines were put in 3D and extruded, to form a solid whose intersection with the orebodies mark the mined out zones in these
4. Topographic surface based on survey data.



To draw contours of the mineralization, the geology and the grade were used, as observed in the drillholes and excavations. The thickest interval was used, comparing the thickness indicated by either the granite hydrothermally altered (acronym: ZAH) or the gold mineralization, as defined by gold grades above 0.7 g/t. The other factor taken into account in the selection of the intervals was the minimum true thickness of 0.7 m.

The interpretation and modeling of the four main orebodies was a result of teamwork between Serabi and NCL geologists. The other solids or strings used, regarding, excavations and mined out outlines were made available by Serabi in Gemcom format.

#### Block Model Parameters

The block size used was 5 x 5 x 3 m. It is recognized that a larger block would allow less conditional bias. However, a block of this size would be inadequate for mine planning. For global estimates, it is expected that no significant problem would occur using a block size in the order of one tenth of the drill density, but for grade control, it is recommended that a larger block should be used.

#### Variography

Three different types of software were used to carry out the variogram analysis to determine grade continuity.

Following the variogram analysis, it was decided the ordinary Kriging algorithm would be the appropriate estimation method. The Kriging parameters used are tabulated below:

	Pass 1	Pass 2	Pass 3
X	20	60	75
Y	10	40	50
Z	10	40	50
Search type	octant	octant	octant
Min Nr octants	4	4	1
Max per octant	8	8	8
Min N Comp.	6	6	2
Max N Comp	64	64	64
Nr of discretizations	2x2x2	2x2x2	2x2x2

#### Block Model Construction

In addition to the modeled veins, the excavations were also modelled (drifts and stopes). The sequence of block model construction in the Gemcom software is the following:

1. Modelling and kriging of the mineralized veins
2. Add the modelled excavations (3D representations)
3. Add the extruded 2D excavations. This step was necessary in some veins in cases where the excavation had not been surveyed.
4. Extract the blocks above the topographic surface.
5. Classification of the resources by categories

A GEMCOM percent format was used, where the blocks contain a parameter representing the percentage of the block within a certain vein. Each vein was interpolated using samples with the same Rock Code.

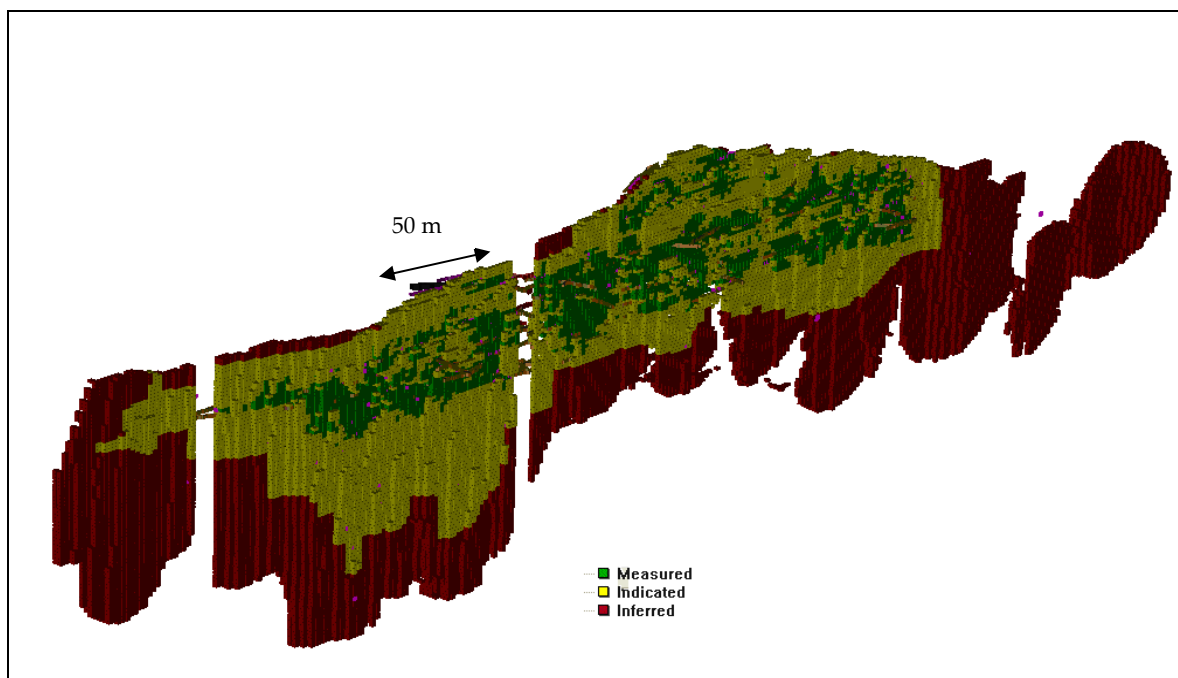
#### Mineral Resource Classification

The classification methodology was based on discussions between NCL and the Serabi exploration team. The criteria established were as follows:

- **Measured Resources:** Measured resources are the portions of the orebody that are well sampled by channel samples (spacing 3-5 m) and close to mined areas. For practical purposes, an outline was designed around mined drifts and stopes up to a maximum of 20m, which is a distance the team considers that a well defined vein can be extrapolated with confidence. Any indicated block contained in that outline is transformed to measured.

- **Indicated resources:** As defined in the 2<sup>nd</sup> Pass of the Kriging parameters, blocks which have at least two mineralized intercepts in the defined neighbourhood. The adopted neighbourhood is an ellipsoid measuring 60 m down the plunge and 40 m in the two other directions, which is seen as an adequate given the continuity of the mineralization. The vein code of these intercepts must be same as the block being classified, and the intercepts must be from different octants (required four octants minimum). NCL interpreted the results and where necessary, changed the category of portions of the block model at the geologist's judgment. The idea was to allow a more critical review of the block model, increasing or decreasing the confidence in zones where other geological factors surmount the amount of drilling in order to estimate confidence. Isolated blocks of indicated category were reclassified as inferred, and isolated blocks within major indicated blocks were turned to indicated.
- **Inferred resource:** As defined in the third pass, the search range has a limited enlargement (75m down the plunge and 50m in the other two directions), but for this category, a single drillhole is enough for the definition of inferred resources.

3D View of the G3 vein, with block model, classified. View to NW



Resources were considered only if the grade of the block is above 1.0 g/t Au. This marginal cut off was defined using only mine and processing cost (US\$34/ton), gold price of US\$1200/oz and metallurgical recovery of 93%.

Part of the veins, in zones with lower grade, would not be considered mineral resources, since the possibility of being economical is minimal

#### *Model Validation*

To verify the results of the estimates, a set of checks were made on the model for each area:

- Visual validation of grades and classification. Comparison with the previous sections and tabulations was extensively used.
- Comparison between the moving window average grade of composites and kriged values. Since the orebodies are flat aligned with the Y axis, inspection along the northing and elevation are enough to check adherence of block grades to sample grades.
- Comparison between the kriging results and the declustered mean

In all tests the models were considered consistent and robust.

## Results

The following table summarizes the mineral resources as at March 31, 2008 and estimated for 1.0 g/t Au cut-off for each area.

### Mineral Resources Estimate as at March 31, 2008

	Tonnage	Gold (g/tAu)	Copper (%) Cu	Contained Gold Ounces	Equivalent Ounces
<b>Measured Resources</b>					
Palito Main Zone (PMZ)	97,448	9.51	0.26	29,793	32,045
Pali West (PW)	—	—	—	—	—
Chico da Santa (CS)	—	—	—	—	—
Ruari Ridge (RR)	—	—	—	—	—
<i>Total Measured Resources</i>	<i>97,448</i>	<i>9.51</i>	<i>0.26</i>	<i>29,793</i>	<i>32,045</i>
<b>Indicated Resources</b>					
Palito Main Zone (PMZ)	593,175	7.15	0.23	136,417	148,546
Pali West (PW)	46,844	13.16	0.26	19,825	20,902
Chico da Santa (CS)	78,987	5.91	0.23	15,011	16,681
Ruari Ridge (RR)	34,740	4.85	0.22	5,420	6,100
<i>Total Indicated Resources</i>	<i>753,745</i>	<i>7.29</i>	<i>0.23</i>	<i>176,673</i>	<i>192,228</i>
<b>TOTAL Measured &amp; Indicated</b>	<b>851,193</b>	<b>7.54</b>	<b>0.23</b>	<b>206,466</b>	<b>224,272</b>
<b>Inferred Resources</b>					
Palito Main Zone (PMZ)	821,405	6.04	0.18	159,614	172,927
Pali West (PW)	200,256	8.22	0.23	52,934	57,140
Chico da Santa (CS)	434,664	6.01	0.23	84,036	93,100
Ruari Ridge (RR)	631,417	4.74	0.43	96,232	120,789
<i>Total Inferred Resources</i>	<i>2,087,741</i>	<i>5.85</i>	<i>0.27</i>	<i>392,817</i>	<i>443,956</i>

- (1) Mineral resources are reported at a cut-off grade of 1.0 g/t.
- (2) Numbers may not add up due to rounding.
- (3) Equivalent gold is calculated using an average long-term gold price of US \$700 per ounce, a long-term copper price of US \$2.75 per pound, average metallurgical recovery of 90.3% for gold and 93.9% for copper.

## Conclusions

A mineral resource estimate for the areas Palito Main Zone, Chico da Santa, Palito West and Ruari Ridge has been completed with 25 different mineralized structures. Each vein has been interpreted and 3D wireframes built. The samples contained within these wireframes were selected and the ordinary kriging algorithm used to interpolate block model grades. The models for the different areas were validated by the NCL and Serabi staff, who concluded that the models are consistent with the available geological data.

## Mineral Reserve Estimates

No mineral reserves are reported presently for the Jardim do Ouro Project. A previous JORC compliant mineral reserves statement was prepared by NCL in March 2008. However, in recognition that the mine has been under care and maintenance since Q4 of 2008, NCL has not quoted a mineral reserve in the Jardim do Ouro Report.

However, although Serabi's current strategy is to focus on the exploration of the Jardim do Ouro Project, the Company's recent history of operating activities at the Palito Mine area for over five years (Q4 2004 to Q2 2010), has led to the development of significant infrastructure that could be used in the future implementation of the project. This infrastructure includes:

- Underground Mine at the Palito Main Zone
- Ore Processing Facilities
- Tailings Storage Facilities
- Power Supply
- Water Supply
- Mine Camp (accommodation, offices, workshops and warehouses)
- Access Roads and Air Strip

### *Previously Declared Mineral Reserves*

There is a past JORC compliant mineral reserves statement prepared by NCL in March 2008, based on the measured and indicated resources declared at that time.

The mineral reserves estimated and stated in March 2008, were 732,492 tonnes at 7.34 g/t gold and 0.22 % copper, containing 172,836 ounces of gold and 187,538 ounces of equivalent gold. Equivalent gold was calculated using an average long-term gold price of US\$700 per ounce, a long-term copper price of US\$2.75 per pound, average metallurgical recovery of 90.3% for gold and 93.9% for copper. From the total declared contained equivalent gold, 9.5% corresponded to proved reserves in Palito Main Zone and 90.5% to probable reserves.

**Reproduced below is a summary of the 2008 JORC compliant reserves statement by category and by mineralized structure. Its inclusion, however, is for reference purposes only and cannot be relied on. The Company does not currently have any mineral reserves.**

### **Mineral Reserve Summary as at March 31, 2008**

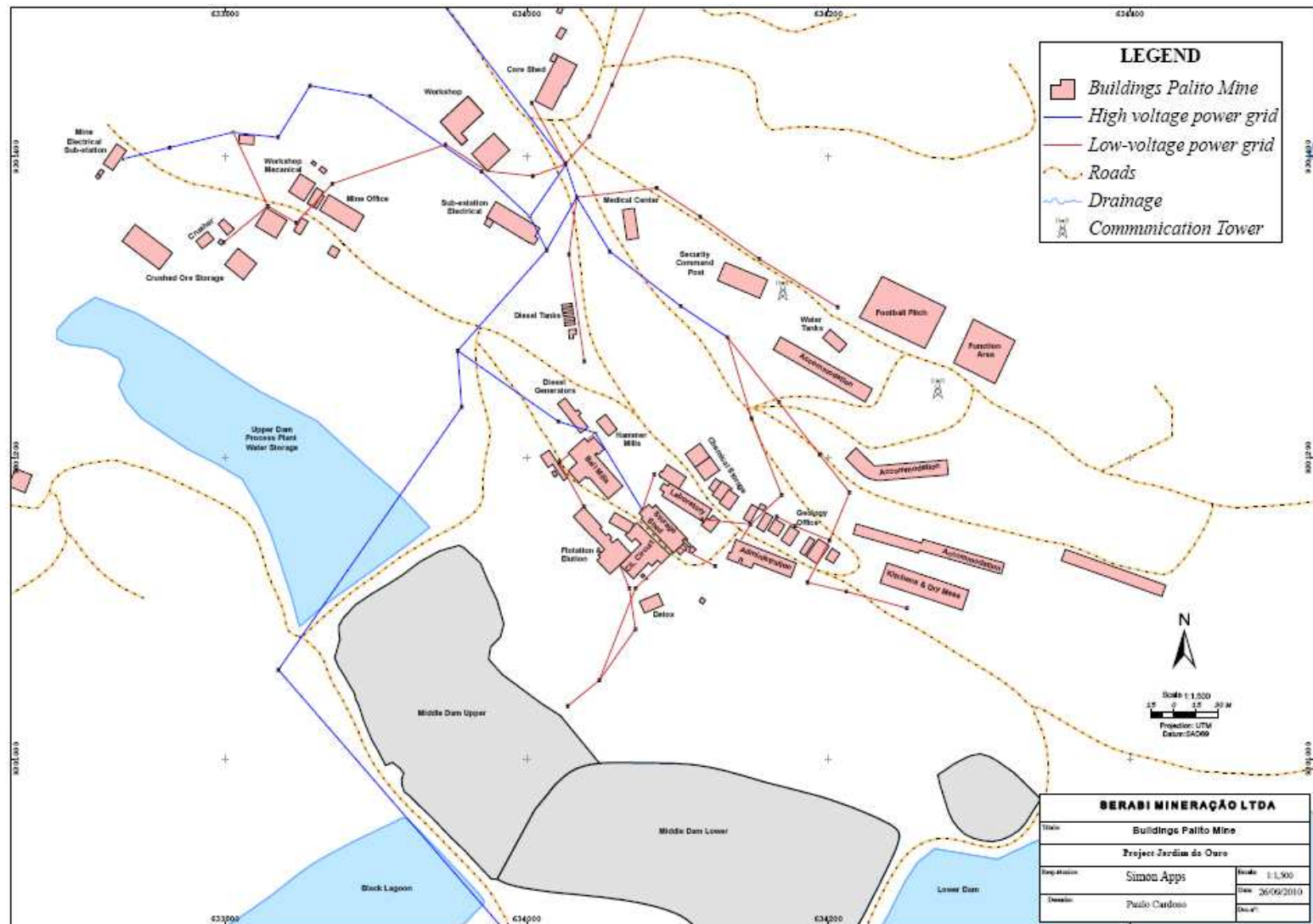
Ore Source	Tonnage	Gold (g/tAu)	Copper (% Cu)	Contained Gold Ounces	Contained Gold Equivalent Ounces
<b>Proved Reserves</b>					
Palito Main Zone (PMZ)	56,464	9.06	0.29	16,456	17,910
Pali West (PW)	—	—	—	—	—
Chico da Santa (CS)	—	—	—	—	—
Ruari Ridge (RR)	—	—	—	—	—
<i>Total Proved Reserves</i>	<i>56,464</i>	<i>9.06</i>	<i>0.29</i>	<i>16,456</i>	<i>17,910</i>
<b>Probable Reserves</b>					
Palito Main Zone (PMZ)	547,535	6.92	0.22	121,904	132,614
Pali West (PW)	54,642	10.85	0.20	19,063	20,063
Chico da Santa (CS)	55,485	6.52	0.23	11,639	12,786
Ruari Ridge (RR)	18,365	6.39	0.24	3,773	4,166
<i>Total Probable Reserves</i>	<i>676,028</i>	<i>7.19</i>	<i>0.22</i>	<i>156,379</i>	<i>169,628</i>
<b>TOTAL Proved &amp; Probable</b>	<b>732,492</b>	<b>7.34</b>	<b>0.22</b>	<b>172,836</b>	<b>187,538</b>

### **Infrastructure**

The infrastructure includes:

- Underground Mine at the Palito Main Zone
- Ore Processing Facilities
- Tailings Storage Facilities
- Power Supply
- Water Supply
- Mine Camp (accommodation, offices, workshops and warehouses)
- Access Roads and Air Strip

The following figure shows a general layout of the site infrastructure



## General Site layout - Infrastructure

### Palito Underground Mine

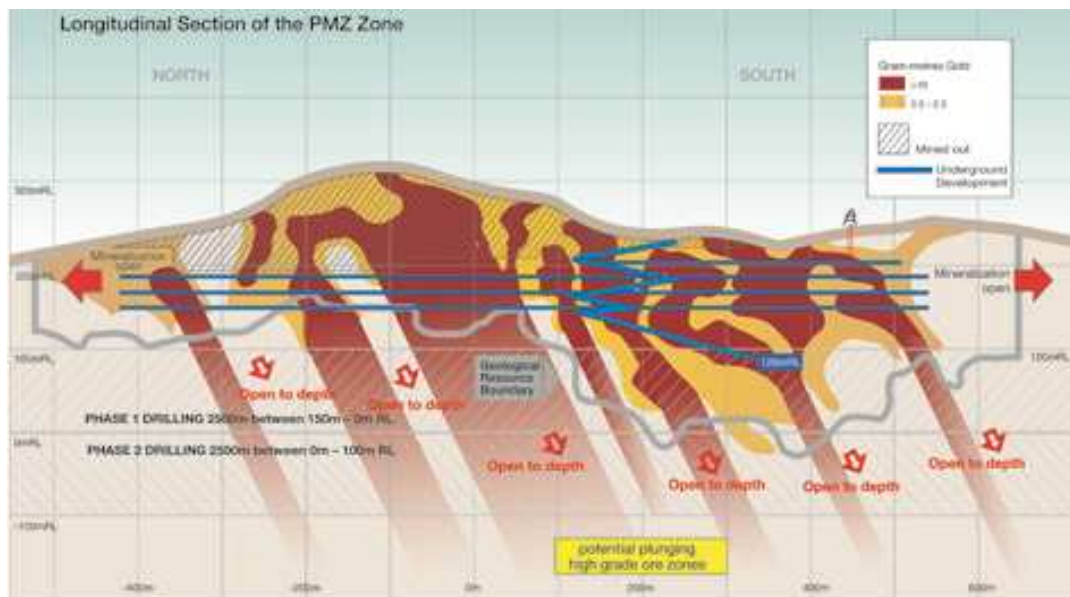
Underground mining at the Palito Mine began in 2004 with production at a rate of 150 tpd, increasing gradually to approximately 600 tpd in year 2008. Total underground mine production during this period was approximately 460,000 tonnes.

Following a successful period of selective mining using a shrinkage stoping method, in an effort to increase production, a more mechanised bulk mining method (long hole open stoping method) was introduced. However, levels of dilution were higher than expected, giving rise to lower than planned head grades. Efforts were made in 2007 to manage dilution and plans established to put in place a more selective mining method albeit still mechanised. New equipment was ordered but was some 6-12 months late in being delivered and commissioned. Essential mine development was consequently delayed, hence when the equipment arrived in mid-2008, the Company found it impossible to recapture this lost development fast enough and with the markets in rapid decline and little access to additional working capital, the underground mining operation was suspended at the end of 2008 and the mine placed on care and maintenance.

The underground portion of the Palito Mine consists of an access ramp located at the footwall of the mineralized structures, providing access to the veins on 12m vertical intervals. The ramp portal is located at elevation 235 masl, and the total ramp development is of the order of 1,000m of ramp, the deepest level being 114m. The mine is currently flooded up to level 178m.

After the underground portion of the Palito Mine was placed in care and maintenance, most of the underground mobile equipment fleet, and part of the stationary mine equipment was sold. The cost and time frame to re-habilitate the underground portion of the Palito Mine is currently unknown.

### Palito Mine Long Section



### Ore Processing Facilities

The project has a fully implemented process plant that operated continuously producing copper-gold concentrate and bullion for almost five years, from September 2004 until mid 2010. During this period of time, the plant was fed with 550,000 tonnes of ore, of which 85% came from underground portion of the Palito Mine at the Palito Main Zone area. The rest came from low scale near surface open pit mining.

The plant has a capacity to process over 600 tpd of sulphide ore. The process flowsheet consists of a crushing circuit, a milling circuit, and a flotation circuit followed by concentrate filtration and storage facilities. The flotation tailings are fed to a cyanide agitation leaching CIP plant, followed by elution and gold refinement circuits, to produce bullion.

The tailings from the CIP circuit flow to detoxification tanks for neutralisation of cyanide, and are eventually pumped to a tailings storage dam situated 1.5km from the process plant.

By the end of 2008, a circuit to process oxidized ore from the near surface open pit mining was implemented. This circuit consists of feeding the ore directly to two dedicated Hammer mills that discharge to the main ball mills, from where the ore bypasses the flotation circuit, to go directly to the CIP, elution and gold refinement circuits to produce bullion.

The first phase of the Palito plant was built in 2004 using mainly second hand equipment, and was gradually expanded to reach the current configuration. Currently Serabi is preparing the plant to go on a care and maintenance mode, in order to preserve it in good condition.

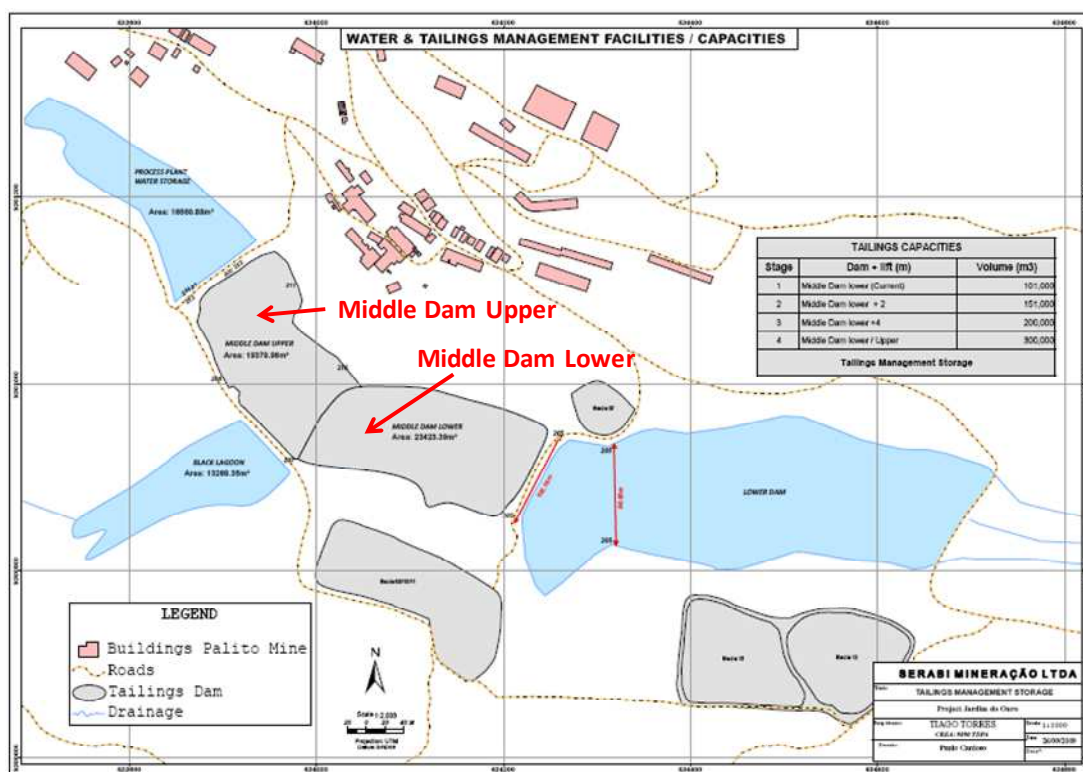
#### Tailings Disposal Facilities

The final section of the process facility consists of two detoxification tanks for neutralisation of cyanide, from where the tailings are pumped to and deposited in a tailings storage facility situated 1.5km from the process plant.

The tailings storage facilities currently consist of two contiguous dams named Middle Dam Lower and Middle Dam Upper, after a 4m raise of the wall could have a spare capacity of 300,000 m<sup>3</sup>. This capacity is enough to store between 450,000 tonnes and 500,000 tonnes of tailings. The Company believes the current operating permits allow the Company to raise the dams beyond 4 m.

As the current tailings storage facility sits on top of a prospective geophysical anomaly, and the site has not been subject of condemnation drilling. In 2007, Serabi retained Golder's Associates Brazil to conduct a survey of alternative sites to re-locate the tailings dam. Other alternative sites were identified, but no further engineering or design work was completed.

#### Existing Tailings Storage Facilities





### *Power Supply*

Power is fed to the project through a 34.5 kV power line constructed by the local electric company CELPA in 2006. The line is 30 km long, connecting with the village of Moraes de Almeida. Originally the line was fed by a diesel power plant located in the village of Novo Progresso, and in 2009 it was connected to the hydro generated northern Brazil power grid, which takes power from the Curua Hydro plant, approximately 100km NE of Novo Progresso..

When the Palito Mine was operating at full capacity, the total installed capacity was 1,300 kW, and the contracted power demand with CELPA was 1,600 kW. After the closure of the underground mine and the processing facilities, the contract with CELPA was reduced to 680 kW in November 2009.

The project also has a backup diesel generating facility to secure the power supply if there is a power cut on the CELPA grid. This generating facility consists of four diesel generators with a capacity of 340 kW each, and a total capacity of 1,360 kW. Apart from the above main generating facility there are two spare ancillary diesel generators with a total capacity of 760 kW.

### *Water Supply*

The project has a water supply system consisting of a dam that contains water from the following sources:

- Mine water that is pumped from the underground working ends
- Recycled process water, after neutralization and decantation.
- Rain water

The total water consumption during the period of normal operation of the mine was in the range between 40 m3/h and 50 m3/h, including the process plant and the mine.

Water is an abundant resource in the area, and the current water supply system is not a limiting factor for a future re-start of the Palito operation or even possible expansions of the processing facilities or the mine throughput.

Fresh drinkable water for use in the camp is supplied by conventional water wells. The total fresh water consumption when the mine was operating at full capacity was approximately 60m3/day.

### *Camp*

Serabi has established a full mining camp at the Palito Mine. The camp consists of accommodation for the personnel, offices, warehouses, maintenance facilities, and a wide variety of services that make the camp self sufficient in many aspects.

The accommodation facilities consist of four units that can host up to 250 people. Serabi Mineracao also provides a daily bus service for employees and contractors living in Jardim do Ouro.

There are mine offices that are basic but in sound condition. Workshops and warehouses are adequately sized and are in good order.

Fuel is stored on site in storage tanks with an approximate capacity of 90,000 L of diesel. All the fuel storage tanks are located in a contained fuel storage area. There is an explosives storage facility located away from the main offices that is currently in care and maintenance.

There is a well equipped laboratory on site, currently being used

The site is self sufficient for most of the required services. The mine has access to radio telephones (two lines), high speed broadband satellite internet within a secure domain, two telephone land lines and radio communications. Serabi has the facilities to provide catering services for all the personnel.

Serabi has built and operates a clinic and hospital at the Palito Mine.

Serabi contracts its own security service. There is a guard house at the entrance to the mine.

### *Access Roads and Air Strip*

The mine is accessed by unsealed road from the nearest town and delays can be expected during the wet season. An airstrip, suitable for light planes, was implemented in 2006, and is currently fully operative. Serabi Mineracao owns bulldozers, front end loaders and trucks which are used for site construction, road building and road maintenance.



## **Environmental Studies, Permitting and Social or Community Impact**

### *Environmental Liabilities*

The Jardim do Ouro Project contains significant ground disturbance within the Palito Mining lease (850.175/2003), as part of the Palito mining and processing activities. Serabi is in compliance in all material respects with all environmental regulatory requirements related to the exploration and mining activities pursuant to Brazilian environmental laws, and has taken all necessary actions in order to keep the environmental licences and permits in force, valid and in good standing

Within the Jardim do Ouro Project, outside of the Palito Mine lease ground disturbance has been primarily by garimpo activities, restricted mainly to creeks, including shallow water filled pits and small open pits from which saprolitic materials have been hydraulically extracted and processed by gravity separation. Serabi has conducted a small program of diamond drilling outside of the mining lease in exploration lease 850.174/2005, consisting of drill pad placement and access road construction. To date this has not been remediated, as ongoing exploration in the area requires the disturbed areas to remain active.

Serabi presented a closure plan to the Brazilian mining authority as part of the plan of economic usage of the mine, required for the mining license application. In this plan, a value close to R\$2.5 million was estimated to cover closure costs, spread over a period of three years, after the mine exhaustion.

### *Operating Permit*

The Palito Mine has valid operating permits that allow both exploration and operating activities to take place. The key permit in place is the Operating license – Protocol #2711/2008 issued by Secretaria de Estado de Qualidade Ambiental (SEMA), renewable annually. Serabi has made the necessary application for the license renewal, and while the Company awaits final approval from SEMA, the current license is automatically extended.

The license allows the extraction and processing of gold and associated minerals in the mine license area of 1,712ha up to a maximum rate of 700 tonnes per day.

Other valid permits include:

1. Cadastro Ambiental Rural (proof of land ownership and use for industrial purposes) – Protocol # 12787/2010 – issued by SEMA
2. Outorga (license to extract water for industrial use) valid until 12/01/2013 and issued by SEMA - #193/2010
3. Anexo - Outorga (license to extract water for domestic use) valid until 12/01/2013 and issued by SEMA
4. License to Procure, Store, Use Explosives at site - # 1871 issued by Ministry of Defence valid until 30/10/2011

## **Exploration Interpretation and Conclusions**

NCL concluded the following:

- NCL supports Serabi's decision of focusing funds on brown-field exploration. Additional resources would improve the economics of the project, diluting fixed costs and diminishing the risks.
- NCL considers the exploration potential of the Jardim do Ouro Project to be high. This perception is supported by the demonstrated gold endowment of the area, the geophysical anomalies (VTEM and IP) revealed and the data integration work, which leads to the impression that other Palito mineralized systems may be discovered within distance to the mill feasible for truck transport
- With respect to the existing mineral resource, NCL consider that the limits of the deposit are not well defined, with several zones where the limits are still open. Besides the down dip projection of all orebodies, the most important veins, the G2 and G3 at the PMZ area, are open to the north. The other orebodies are relatively insufficiently closed.
- The level of understanding of the structure, alteration and mineralization at the Palito Mine is reasonable for adequate resource evaluation; however, the relationship among them could be improved, thus improving the mine reconciliation.
- Mineralization is well defined in its lateral limits, but is open at the strike extension for most of the orebodies:
- For PMZ, the main veins (G2 & G3) are open to the north, while three of the smaller veins (Cedro, Jatobá and Munguba) are open to both ends.
- The orebodies Ruari Ridge and Chico da Santa are open in both directions, to the north and to south.
- None of the orebodies are closed at depth.

- The Palito laboratory gold results were accepted for the grade interpolation, after transforming any value lower than 0.70 g/t to 0.01 g/t Au. This procedure was used to eliminate the portion of the results with uncertainty greater than the acceptable. However, this procedure does not correct the fact that average grades of channel and UG drillholes, analysed by wet chemistry at the Palito laboratory, are higher than nearby exploration holes, analysed by fire assay at SGS.

## Recommendations

NCL have recommended the following:

- Exploration program must continue to test the geophysical anomalies and determine the true potential of the area. A budget of US\$7.6 million is proposed to develop the exploration activities along a period of 18 months. It includes the near mine (up to three km to the existing facilities) and green-field, if farther than that this distance. Support activities are also included.
- The structure affects the mineralization through slip faults which dislocate the veins laterally and possibly through the control of high grade shoots within the veins.
- The Quality Control protocol should be modified, following the recommendations detailed in the section entitled 'Analytical Methods And Quality Assurance'. Batches which failed the Quality Control acceptance threshold, either for blanks and standards, need to be repeated by the laboratory.

### Exploration Budget

	<b>US\$</b>
Discovery drilling programme (7,500 metres) - Palito Mine	\$1,909,091
Ground IP over untested geophysical anomalies - Palito Mine	\$209,091
Geochemistry and surface exploration programmes - Palito Mine	\$763,636
VTEM Survey - wider Jardim do Ouro tenements	\$296,970
Geochemistry and surface exploration programmes - wider Jardim do Ouro tenements	\$72,727
Capital purchases	\$424,741
Land rentals and taxes	\$337,212
Brazil exploration staff costs	\$1,373,485
Exploration support expenditures	\$2,243,410
<b>Total exploration budget</b>	<b><u>\$7,630,363</u></b>

## RISK FACTORS

*The Company, and the Ordinary Shares of the Company, should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this annual information form prior to making an investment in the Company. In addition to the other information presented in this annual information form, the following risk factors should be given special consideration when evaluating an investment in any of the Company's securities.*

*Future exploration at the Company's projects or elsewhere may not result in increased mineral resources.*

Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Company discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals. There is no assurance that current or future exploration programs will result in any new economically viable mining operations or yield new resources to replace and expand current resources.

*There is no guarantee that the Company's applications for exploration licences will be granted on a timely basis or at all or that the existing exploration licences of the Company can be renewed or converted into mining licences. In addition, there can be no assurances that title to any of the Company's mineral properties will not be challenged or disputed.*

There is no guarantee that any application for additional exploration licenses may be granted by the DNPM. The DNPM may refuse any application. Persons may object to the granting of any exploration license and the DNPM may take those objections into consideration when making any decision on whether or not to grant a license.

If and when exploration licenses are granted, they will be subject to various standard conditions including, but not limited to prescribed license conditions. Any failure to comply with the expenditure conditions or with any other conditions on which the licenses are held, can result in license forfeiture. Generally, the licenses are granted for a term of three years and further renewal of an exploration license is at the discretion of the DNPM and on such

conditions as the DNPM may in its discretion impose. Renewal conditions may include increased expenditures and work commitments or compulsory relinquishment of areas of the licenses comprising the Company's properties. The failure of the DNPM to renew the Company's exploration licences or the imposition of new conditions or the inability to meet those conditions may adversely affect the operations, financial position and/or performance of the Company.

Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired.

*The exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing.*

Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of a property interest. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations.

*The Company has had negative cash-flow and expects to have negative cash-flow for the foreseeable future.*

For the financial year ended December 31, 2009 the Company had negative cash flow from operations and expects to have negative cash-flow from operations for the foreseeable future. The net proceeds from the Offering, the SW Offering and its existing available working capital should be sufficient to fund the operations of the Company over the next 18 months. Failure to raise additional capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations.

*The Company faces numerous exploration, development and operating risks.*

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries of commercial quantities of ore.

*The Company is considered to be a development stage company and although it generated revenue from mining operations in the past those operations have been discontinued. There can be no assurance that the Company will re-commence commercial production, generate any revenues or be able to operate profitably.*

The development of the Company's properties will require the commitment of substantial resources to complete exploration programs and to bring the properties into commercial production. There can be no assurance that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of additional properties and other factors, some of which are beyond the Company's control.

*If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Company's financial condition and result of operations.*

Mineral resource estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, and assumptions about operating costs and metal prices, all of which may prove unreliable.

The Company cannot be certain that the resource estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals if commercial production is commenced. Future production could differ dramatically from such estimates for the following reasons: mineralization or formations at the properties could be different from those predicted by drilling, sampling and similar examinations; declines in the market price of gold may render the mining of some or all of the resources uneconomic; and the grade of ore may vary significantly from time to time and the Company cannot give any assurances that any particular quantity of metal will be recovered from the resources.

The occurrence of any of these events may cause the Company to adjust the resource estimates or change its mining plans, which could negatively affect the Company's financial condition and results of operation.

*The Company's exploration and development properties may not be successful and are highly speculative in nature.*

Exploration for gold is highly speculative in nature. The Company's exploration activities in Brazil involve many risks, and success in exploration is dependent upon a number of factors including, but not limited to, quality of management, quality and availability of geological expertise and the availability of exploration capital. The Company cannot give any assurance that its current or future exploration efforts will result in the discovery of a mineral reserve or new or additional mineral resources, the expansion of current resources or the conversion of mineral resources to mineral reserves.

As well, mineral deposits, even though discovered, may be insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by additional factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment and other factors, which may make a mineral deposit unprofitable to exploit.

The Company's mineral properties are in the exploration stage and are without known bodies of mineral reserves, although a mineral resource has been established at the Jardim do Ouro Project. Development of such properties will only follow upon obtaining satisfactory exploration results and the completion of feasibility or other economic studies.

*The risks and hazards associated with mining and processing may increase costs and reduce profitability in the future.*

Mining and processing operations involve many risks and hazards, including among others: environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel. These risks may result in: damage to, or destruction of, the Company's properties or production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability.

The Company cannot be certain that its insurance will cover the risks associated with mining or that it will be able to obtain or maintain insurance to cover these risks at affordable premiums. The Company might also become subject to liability for pollution or other hazards against which it cannot insure or against which the Company may elect not to insure because of premium costs or other reasons. Losses from such events may increase costs and decrease profitability.

*The Company may experience higher costs and lower revenues than estimated due to unexpected problems and delays.*

New mining operations often experience unexpected problems during the development and start-up phases and such problems can result in substantial delays in reaching commercial production. Delays in construction or reaching commercial production in connection with the Company's development of its mines would increase its operating costs and delay revenue growth.

*The Company's vulnerability to changes in metal prices may cause its share price to be volatile and may affect the Company's operations and financial results.*

If the Company commences production, the profitability of the Company's operations will be dependent upon the market price of mineral commodities. Metal prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause

commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Company's investment in mining properties and increased amortization, reclamation and closure charges. In addition to adversely affecting the Company's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

*The Company is subject to extensive environmental legislation and the costs of complying with these regulations may be significant. Changes in environmental legislation could increase the costs of complying with applicable regulations and reduce levels of production.*

All phases of the Company's operations are subject to environmental regulation in Brazil. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations.

Environmental legislation relating to land, air and water affects nearly all aspects of the Company's operations. This legislation requires the Company to obtain various operating licenses and also imposes standards and controls on activities relating to exploration, development and production. The cost of obtaining operating licenses and abiding by standards and controls on its activities may be significant. Further, if the Company fails to obtain or maintain such operating licenses or breaches such standards or controls imposed on its activities, it may not be able to continue its operations in its usual manner, or at all, or the Company may be subject to fines or other claims for remediation which may have a material adverse impact on its operations or financial results. While the Company is unaware of any existing material environmental liabilities, it cannot guarantee that no such liabilities currently exist or will occur in the future.

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Company's financial condition and results of operations. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of further protecting human health and the environment. Some of the issues expected to be under future review by environmental agencies include reducing or stabilizing air emissions, mine reclamation and restoration, and water quality. Other changes in environmental legislation could have a negative effect on production levels, product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Company to predict their impact. The Company anticipates capital expenditures and operating expenses will increase as a result of compliance with the introduction of new and more stringent environmental regulations. Failure to comply with environmental legislation may result in the issuance of clean up orders, imposition of penalties, liability for related damages and the loss of operating permits. While the Company believes it is now in material compliance with existing environmental legislation, it cannot give assurances that it will at all future times be in compliance with all federal and state environmental regulations or that steps to bring the Company into compliance would not have a negative effect on its financial condition and results of operations.

Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations. To the extent such approvals are required and but are not granted, the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties.

*Currency fluctuations may affect the costs of doing business and results of operations.*

Currency fluctuations may affect the Company's costs and the Company has not entered into any derivative financial instruments to hedge such fluctuations. The Company pays for goods and services in Canadian dollars, U.S. dollars, British Pound Sterling and Brazilian Real and the Company receives the proceeds of financings in Canadian dollars and British Pound Sterling. As a result of the use of these different currencies, the Company is subject to foreign currency fluctuations. Foreign currencies are affected by a number of factors that are beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. Adverse fluctuations in the relative value of these currencies could materially and adversely affect the Company's results of operation and financial position.

*Compliance with current and future government regulations may cause the Company to incur significant costs and slow its growth.*

The Company's activities are subject to extensive Brazilian laws and regulations governing matters relating to occupational health, labour standards, prospecting, exploration, production, exports and taxes. Compliance with these and other laws and regulations could require the Company to make significant capital outlays which may slow its growth by diverting its financial resources. The enactment of new adverse regulations or regulatory requirements or more stringent enforcement of current regulations or regulatory requirements may increase costs, which could have an adverse effect on the Company. The Company cannot give assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these regulations and regulatory requirements could lead to substantial fines, penalties or other sanctions.

The Company is currently subject to 13 known claims under Brazilian labour legislation by former employees in respect of alleged unpaid compensation. The average monthly salary of the claimants was between R\$436 and R\$7,678 while the claims range between R\$18,597 and R\$1,282,310. The total of current claims is R\$4,133,000. Based on previous experience, it is the Company's belief that settlement will be no more than 15% of the claimed figure and will be settled in instalments over a 12 to 18 month period.

If some or all of the foregoing labour claims are successful or are not settled on the basis anticipated by the Company, there could be material adverse impact on the financial condition of the Company.

*The Company is required to obtain and renew governmental permits and licences in order to conduct mining operations, which is often a costly and time-consuming process.*

In the ordinary course of business, the Company will be required to obtain and renew governmental permits and licenses for the operation and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Company's efforts to obtain and renew permits and licenses are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licensing authority. The Company may not be able to obtain or renew permits and licenses that are necessary to its operations, or the cost to obtain or renew permits and licenses may exceed what the Company expects. Any unexpected delays or costs associated with the permitting and licensing process could delay the development or impede the operation of the Company's projects, which could adversely affect the Company's revenues and future growth.

*The Company's operations are conducted in Brazil and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties.*

These risks and uncertainties vary from time to time and include, but are not limited to: terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income and other taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

*The Company is a holding company that conducts operations through foreign subsidiaries and substantially all of its assets are held in such entities.*

Any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the

perception that such limitations may exist now or in the future, could have an adverse impact on the Company's valuation and stock price.

*Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure.*

Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

*If the Company loses key personnel or is unable to attract and retain additional personnel, the Company's mining operations and prospects could be harmed.*

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, additional key financial, administrative and mining personnel as well as additional operations staff will be required. Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting, training and retaining qualified personnel, the efficiency of operations may be affected.

*The mining industry is intensely competitive in all of its phases and the Company competes with many companies possessing greater financial and technical resources than itself.*

Competition in the precious metals mining industry is primarily for mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future.

*It may be difficult for investors to enforce judgments against directors, officers and experts resident outside of Canada.*

The Company and its subsidiaries are incorporated, continued or otherwise organized under the laws of foreign jurisdictions and some or all of the directors and officers of the Company and some or all of the experts named in this annual information form reside outside of Canada. In addition, some or all of the assets of those persons and the Company and its subsidiaries are located outside of Canada. Although the Company and all non-resident directors and certain non-resident officers of the Company have appointed Heenan Blaikie Corporate Services (Ontario) Inc., 333 Bay Street, Suite 2900, Toronto, Ontario M5H 2T4 as their agent for services of process in Canada, it may not be possible for investors to collect from the Company or such directors and officers or enforce judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation against the Company, its directors and officers and certain of the experts named in this annual information form. Moreover, it may not be possible for investors to effect service of process within Canada upon the experts referred to above.

## **DIVIDEND POLICY**

The Company does not have a dividend policy in place and has never declared or paid dividends on the Ordinary Shares. Any future dividend payment will be made at the discretion of the board of directors and will depend on their assessment of earnings, capital requirements, the operating and financial condition of the Company and any other factor that they deem necessary to consider at that time.

## **DESCRIPTION OF SHARE CAPITAL**

### **Authorized Shares and Attributes of Ordinary Shares and Deferred Shares**

The Company has an authorized capital of £30,000,000 comprised of 333,735,776 Ordinary Shares of 5 pence each and 140,139,065 Deferred Shares of 9.5 pence each. Each Ordinary Share entitles the holder to one vote and all the Ordinary Shares rank equally as to dividends, voting powers and participation in assets upon the dissolution or winding up of the Company. The Deferred Shares arose following a subdivision of the Company's shares which was approved on January 28, 2009 by special resolutions of the shareholders of the Company. The Company was incorporated with Ordinary Shares having a par value of 10 pence per share. During 2008, the share price fell below

the par value and the Company was therefore obliged to undertake a subdivision of its shares as it was legally precluded from issuing any new shares at a discount to the par value of the shares. Each Ordinary Share with a par value of 10 pence was divided into one new Ordinary Share with a par value of 0.5 pence and a Deferred Share of 9.5 pence. 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 2006, 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 among the holders of Ordinary Shares.

Pursuant to a resolution approved at the Company's last annual general meeting of shareholders held on June, 29 2010, Serabi's shareholders waived any pre-emption rights and gave authority to the board of directors of the Company to allot shares, grant rights or convert any security into shares up to an aggregate of £1,638,000 of new Ordinary Shares. This authority expires on the later of the next annual general meeting of shareholders or September 29, 2011. The Company utilized £777,050 of this authority in connection with the offering of special warrants in December 2010, £699,740 in connection with its initial public offering in Canada completed March 30, 2011 and £6,223 has been utilized in connection with other share issues. Under the Articles of Association, the board of directors may call an extraordinary general meeting and request approval from the shareholders to issue further Ordinary Shares which may or may not be subject to pre-emption rights.

On December 21, 2010, the issued and the authorized unissued Ordinary Shares of the Company were consolidated on the basis of one ordinary share with a par value of 5 pence for every 10 Ordinary Shares on issue or authorized to be issued.

#### **Warrants**

The Warrants are governed by the terms of a warrant indenture dated December 2, 2010 and a supplemental warrant indenture dated March 30, 2011 (together, the "Warrant Indenture") between the Company and Computershare Trust Company of Canada, as warrant agent (the "Warrant Agent"). The following summary of certain provisions of the Warrant Indenture does not purport to be complete. Reference should be made to the full text of the Warrant Indenture, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Warrant Indenture includes, among other things, provisions for adjustments in the class, number and price of the Ordinary Shares to be issued upon exercise of the Warrants upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the Ordinary Shares, or the amalgamation of the Company. No adjustment in the exercise price of the Warrants or the number of Ordinary Shares issuable upon the exercise of the Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the number of Ordinary Shares issuable upon exercise by at least one one-hundredth of an Ordinary Share.

No fractional Ordinary Shares are issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants do not have any voting or pre-emptive rights or any other rights to which a holder of Ordinary Shares would be entitled. The Company and the Warrant Agent, may, from time to time, without the consent of the holders of Warrants, amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by "extraordinary resolution", which is defined in the Warrant Indenture as a resolution proposed at a meeting of the holders of Warrants at which there are at least two holders of Warrants present in person or represented by proxy, representing at least 10% of all the then outstanding Warrants (or if such quorum is not present, then at an adjourned meeting, at which the holders of Warrants present in person or by proxy shall form a quorum) and passed by the affirmative vote of holders of Warrants entitled to acquire not less than 66 2/3% of all the then outstanding Warrants represented at the meeting. All actions which may be taken and all powers that may be exercised by the holders of Warrants at a meeting may be taken and exercised by holders of Warrants representing at least 66 2/3% of the aggregate number of all the then outstanding Warrants by an instrument in writing signed in one or more counterparts by such holder of Warrants in person or by attorney duly appointed in writing.



The Company has designated the Warrant Agent at its offices in Toronto, Ontario, where the Warrants may be surrendered for exercise or exchange.

The Warrants and the Ordinary Shares issuable on the exercise thereof have not been and will not be registered under the U.S. Securities Act or any state securities law, and the Warrants may not be exercised in the United States by or on behalf of a "U.S. person" as defined in Regulation S under the U.S. Securities Act unless an exemption from registration is available and the Company has received an opinion of counsel in form and substance satisfactory to it, acting reasonably, to such effect.

### TRADING PRICE AND VOLUME

The outstanding Ordinary Shares are admitted for trading on AIM under the trading symbol "SRB". The Ordinary Shares and Warrants were listed and posted for trading on the TSX on March 30, 2011 under the trading symbols "SBI" and "SBI.WT", respectively. The following table sets forth the market price ranges and the aggregate volume of trading of the Ordinary Shares on AIM for the periods indicated. The market price ranges and aggregate volumes for periods prior to December 21, 2011 have not been adjusted to reflect the consolidation of the Company's Ordinary Shares completed on December 21, 2010 pursuant to which the issued and the authorized unissued Ordinary Shares of the Company were consolidated on the basis of one ordinary share for every 10 Ordinary Shares on issue or authorized to be issued.

<b>Period</b>	<b>High (£)</b>	<b>Low (£)</b>	<b>Volume</b>
<b>2010</b>			
December (22–31)	0.3996	0.2808	354,600
December (1-21)	0.0400	0.0300	1,199,718
November	0.0420	0.0300	23,747,500
October	0.0435	0.0290	37,298,700
September	0.0480	0.0150	43,524,200
August	0.0225	0.0150	5,069,100
July	0.0220	0.0170	8,133,100
June	0.0274	0.0088	26,954,500
May	0.0220	0.0150	5,554,300
April	0.0250	0.0150	14,059,500
March	0.0272	0.0150	17,980,100
February	0.0169	0.0130	5,716,000
January	0.0175	0.0140	10,010,500

### ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

<b>Designation of class</b>	<b>Number of securities held in escrow or that are subject to a contractual restrictions on transfer</b>	<b>Percentage of class</b>
Ordinary Shares	12,000,000	18.76%

Pursuant to a subscription agreement dated June 15, 2010 between the Company and Eldorado Gold Corporation whereby Eldorado Gold Corporation subscribed for 12,000,000 Ordinary Shares of 0.5 pence each in the Company at a price per Ordinary Share of £0.30 pence, Eldorado Gold Corporation also gave an undertaking not to dispose of these Ordinary Shares until June 22, 2011.

### DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the name, municipality of residence, position held with the Company, principal occupation and number of shares beneficially owned by each person who is a director and/or an executive officer of the Company. Messrs. Roberts and Line are due to retire by rotation at the next annual general meeting of shareholders of the Company, subject to earlier resignation or removal. Messrs. Harvey, Jones and Williams having been appointed during the period since the last annual general meeting will be required offer

themselves for re-election by shareholders at the next annual general meeting. If not re-elected they will be required to vacate office immediately following the conclusion of the annual general meeting. Mr Hodgson holds office until the 2012 annual general meeting of shareholders, subject to earlier resignation or removal. Each of Eldorado Gold Corporation and Greenwood Investments Limited has the right to nominate one director to the board of directors of the Company for so long as it owns at least 15% of the issued Ordinary Shares. Neither Eldorado Gold Corporation nor Greenwood Investments Limited has nominated a director to the board of directors.

<b>Name and Municipality of Residence</b>	<b>Date of Appointment</b>	<b>Position with the Company</b>	<b>Principal Occupation<sup>(1)</sup></b>	<b>Ordinary Shares held</b>
MICHAEL J HODGSON Cornwall, UK	February 1, 2007	Chief Executive Officer and Director	Chief Executive Officer of the Company	441,320
CLIVE M LINE ACA Surrey, UK	March 14, 2005	Chief Financial Officer, Secretary and Director	Chief Financial Officer and Director of the Company	466,653
CHRIS SPURWAY Queensland, Australia	-	Chief Geologist	Consultant Geologist	-
ULISSES MELO Minas Gerais, Brazil	-	General Manager, Corporate Development	General Manager, Corporate Development of the Company	-
T. SEAN HARVEY <sup>(2)(3)(4)</sup> ONTARIO, CANADA	March 30, 2011	Director	Businessman	200,000
DOUGLAS JONES <sup>(2)(3)(4)</sup> Perth, Western Australia	March 30, 2011	Director	Managing Director, Chalice Gold Mines Limited	100,000
GRAHAM S ROBERTS Surrey, UK	May 25, 2004	Non-executive Chairman and Director	Consultant	278,030
MELVYN WILLIAMS <sup>(2)(3)(4)</sup> COLORADO, USA	March 30, 2011	Director	Chief Financial Officer, Brigus Gold Corp.	45,000

(1) Please see biographies below for details of principal occupation for five preceding years.

(2) Independent director.

(3) Member of the audit committee.

(4) Member of the remuneration committee.

The following are brief biographies of the executive officers and directors of the Company.

***Michael J Hodgson – Chief Executive Officer and Director***

Mike has worked in the mining industry for over 20 years and has extensive international experience. Most recently he worked as chief operating officer and vice president technical services for Canadian-based Orvana Minerals Corporation. Prior to that, he provided consulting services to a number of mining companies in Europe and South America. Previous appointments include manager 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 the Institute of Materials, Minerals and Mining, a Chartered Engineer of the Engineering Council of UK and a “Qualified Person” in accordance with the NI 43-101 – *Standards of Mineral Disclosure for Mineral Projects*.

***Clive M Line – Chief Financial Officer, Secretary and Director***

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 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.

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

***Chris Spurway – Chief Geologist***

Chris has worked in mineral exploration for 20 years, predominantly in the gold sector and for the last seven years has focussed on Brazil. Chris’ previous recent appointments include Exploration Manager–South America for Troy Resources and Geology Manager for Emmerson Resources Ltd. Prior to this, Chris spent 10 years with AngloGold Ashanti (and takeover target Acacia Resources) in a range of exploration and resource definition roles within the company’s projects in Australia. Other geological roles include positions with Tri Origin Minerals and CRA Exploration.

Chris has a BSc (Hons) in Geology from the University of Sydney, and is a member of the AusIMM, the Society of Economic Geologists and the Geological Society of Australia. Chris also holds a Graduate Certificate in Management (University of New England) and other certifications in Management, OH&S, Geology, Geochemistry and Geophysics.

***Ulisses Melo – General Manager Brazil***

Ulisses, who was previously the Chief Financial Officer of Serabi Mineração SA in Brazil, took over the role of General Manager in April 2009. He has overall responsibility for the day-to-day affairs of Serabi Mineração SA. Prior to joining Serabi, Ulisses spent five years working with the international accounting firm Arthur Andersen and a further 10 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.

***T. Sean Harvey –Director***

Sean has over 10 years investment banking and merchant banking experience, primarily focused on the basic industry (mining) sector and for the last 10 years has held senior executive and board positions with various mining companies. Mr. Harvey was President and CEO of Orvana Minerals Corp. from 2005 to 2006. Previously, he was President and CEO of TVX Gold at the time of its sale to Kinross Gold in 2003 and, subsequent to that, was President and CEO of Atlantico Gold, a private company involved in the development of the Amapari Project in Brazil, that was sold to Wheaton River Minerals Ltd. (presently Goldcorp Inc.). Mr. Harvey also currently sits on the board of directors of several other mining companies.

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

***Douglas Jones –Director***

Doug is a geologist with 34 years' experience in international mineral exploration, having worked extensively in Australia, the Americas and Europe. His career has covered exploration for gold in a wide range of geological settings, volcanic and sediment-hosted zinc-copper-lead and IOCG style copper-gold deposits. As Vice President, Exploration for Golden Star Resources Limited from 2003 to 2007, he had oversight of that company’s exploration

activities in Brazil and has reviewed opportunities in the Tapajos region of Brazil. He is currently the Managing Director of Chalice Gold Mines Limited a gold exploration company listed on the Australian Stock Exchange ("ASX") and the TSX and is also a non-executive director of ASX-listed Lontown Resources Limited and TSX and AIM-listed Minera IRL Limited.

Doug has a BSc in Geology from the University of New England and received his Doctorate from the same university in 1987.

***Graham Roberts – Non-executive Chairman and Director***

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.

Graham 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.

***Melvyn Williams –Director***

Mel is currently the Chief Financial Officer and Senior Vice President of Finance and Corporate Development of Brigus Gold Corp. Mr. Williams has over 30 years of financial experience, much of that time spent within the mining industry. From November 2003 through January 2004, Mr. Williams served as Chief Financial Officer of Atlantico Gold, a private Brazilian mining company which held the Amapari gold project, and was sold to Wheaton River Minerals Ltd. in January 2004. From 2000 to November 2003, he served as Chief Financial Officer of TVX Gold Inc., a gold mining company with five operating mines and an advanced development project in Greece. His background also includes services with Star Mining Corporation, LAC North America, Riominas LSDA and Rossing Uranium, (both of which are Rio Tinto subsidiaries).

Mel is a Chartered Certified Accountant and received an MBA from Cranfield in the United Kingdom. Mr Williams is also a director of Andina Minerals Inc.

**Corporate Cease Trade Orders**

To the Company's knowledge, no director or executive officer of the Company is, or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company, including the Company, that: (i) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, in any case that was in effect for more than 30 consecutive days (an "order") that was issued while the director, proposed director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an order that was issued after the director, proposed director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

**Bankruptcies**

To the Company's knowledge, no director or executive officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company: (i) is, or has been within the 10 years before the date hereof, a director or executive officer of any company, including the Company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

## **Penalties or Sanctions**

To the Company's knowledge, no director or executive officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor in making an investment decision.

(1)

## **AUDIT COMMITTEE**

In accordance with applicable Canadian securities legislation and, in particular, National Instrument 52-110 – *Audit Committees* ("NI 52-110"), information with respect to the Company's audit committee is contained below. The full text of the Audit Committee Charter, as passed unanimously by the board of directors, is attached to this annual information form as Appendix A.

### **Composition of the Audit Committee**

The audit committee is comprised of Messrs. Williams (Chair), Harvey and Jones. Each member of the audit committee is considered to be independent within the meaning of NI 52-110. All members of the audit committee are financially literate in that they have the ability to read and understand a set of financial statements that are of the same breadth and level of complexity of accounting issues as can be reasonably expected to be raised by the Company's financial statements.

### **Relevant Education and Experience**

Mr Williams is a Chartered Certified Accountant and holds an MBA from Cranfield School of Management. Mr Williams has over 30 years of financial experience much of which has been spent in the mining industry. Currently serving as the Chief Financial Officer and Senior Vice President of Finance and Corporate Development of Brigus Gold, he also served as Chief Financial Officer of TVX Gold Inc. Mr. Williams is the Chairman of the Audit Committee of Andina Minerals Inc.

Mr Harvey has qualifications in economics and law and had a 10 year career in investment and merchant banking primarily focused in the mining area taking up executive positions within the mining industry. He has served as the Chief Executive Officer for TVX Gold Inc and Orvana Minerals and is currently the Chairman of Andina Minerals Inc. and serves on the audit committees of Persus Mining Limited and Andina Minerals Inc.

Mr Jones is currently the Managing Director of Chalice Gold Mines an ASX and TSX listed company with gold exploration interests in East Africa. Mr Jones has been involved in various capacities in exploration activities for over 34 years and has managed the budgeting and cost control and reporting activities of exploration programmes and companies across various jurisdictions and for several multi-national corporations.

### **Pre-Approval Policies and Procedures for Non-Audit Services**

The audit committee is responsible for pre-approving all non-audit services to be provided by the external auditor to the Company other than *de minimis* non-audit services referred to in section 2.4 of NI 52-110. In particular, the chair of the audit committee is authorized to approve any non-audit services. Furthermore, the audit committee is required to evaluate the independence and objectivity of the external auditors. The audit committee also has the authority to engage independent legal counsel and other advisors as it determines necessary to carry out its duties and responsibilities.

## External Auditor Service Fees

<i>Expressed in US Dollars</i>	<b>Financial Years Ended December 31,</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
Audit Fees <sup>(1)</sup>	\$96,866	\$155,933
Audit-Related Fees (2)	-	-
Tax Fees (3)	\$7,208	\$25,131
All Other Fees (4)	-	\$7,731
<b>Total Fees</b>	<b>\$104,074</b>	<b>\$188,795</b>

<sup>(1)</sup> The aggregate audit fees billed.

<sup>(2)</sup> The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audits or reviewing the Company's financial statements and are not included under "Audit Fees".

<sup>(3)</sup> The aggregate fees billed for services related to tax compliance, tax advice and tax planning. The services performed for the fees paid under this category may briefly be described as tax return preparation fees.

<sup>(4)</sup> The aggregate fees billed for services other than those reported above. The services performed for the fees paid under this category may briefly be described as flow-through accounting services.

## EXPERTS

The auditors, PKF (UK) LLP, London, United Kingdom, report that they are independent of the Company in accordance with the rules of professional conduct of the Institute of Chartered Accountants of England and Wales. Partners and associates of PKF (UK) LLP do not own any of the issued and outstanding Ordinary Shares nor do they have any other beneficial ownership, direct or indirect, of securities of the Company or of any associated party or affiliate of the Company.

Certain information in this annual information form relating to the Company's mineral projects is summarized or extracted from the Jardim do Ouro Technical Report which was prepared by Rodrigo Mello and Eduardo Rosselot of NCL (Brasil) Ltda. To the best knowledge of the Company, none of the foregoing persons, has any interest in any securities of the Company or its associates or affiliates, nor do they expect to receive or acquire any such interests.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no pending legal proceedings to which the Company is or is likely to be a party or of which its subsidiary or properties are or are likely to be subject except as follows.

In June 2010, the Company's wholly owned subsidiary Serabi Mineracao SA ("SMS") was held to be in breach of certain conditions of its operating licence by the Brazilian Federal Environmental Agency IBAMA, as a result of which SMS was required to suspend activities at the Palito Mine and a fine was levied of R\$3,597,300 (approximately US\$2.2 million). On 23<sup>rd</sup> September 2010, the Company announced that IBAMA had lifted the notice having acknowledged that the conditions of the operating licence which had given rise to the original suspension notice had been fulfilled. On February 16, 2011, the Company received confirmation from IBAMA that the original penalty of R\$3,597.300 (approximately US\$2.2 million) had been cancelled. At the same time, IBAMA notified the Company that it had assessed a revised penalty of R\$1,500 (approximately US\$903) in respect of the alleged administrative breaches. The Company paid this fine.

Under Brazilian labour legislation former employees have two years in which to file any claim with the labour courts in respect of alleged unpaid compensation irrespective of whether the employee was dismissed or terminated their employment of their own accord. There are currently 13 known claims pending settlement. The average monthly salary of the claimants was between R\$436 and R\$7,678 while the claims range between R\$18,597 and R\$1,282,310. The total of current claims is R\$4,133,000. Based on previous experience it is the Company's belief that settlement will be no more than 15% of the claimed figure and will be settled in instalments over a 12 to 18 month period.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than with respect to compensation arrangements with the Company, none of the directors or executive officers of the Company and no associate or affiliate of the foregoing persons has or has had any material interest, direct or

indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect the Company.

### **REGISTRAR AND TRANSFER AGENT**

The registrar and transfer agent in Canada for the Ordinary Shares of the Company is Computershare Investor Services Inc, Toronto, Ontario. Computershare Investor Services PLC, Bristol, United Kingdom is the Company's registrar and transfer agent for its Ordinary Shares in the United Kingdom. Computershare Trust Company of Canada, Toronto, Ontario is the warrant agent in Canada for the Warrants.

### **MATERIAL CONTRACTS**

The following are the material contracts of the Company within the two years before the date of this annual information form, other than contracts entered into in the ordinary course of business that are either outstanding as at the date of this annual information form, or are to be entered into as a result of the Offering:

1. the Warrant Indenture, discussed under "Description of Share Capital";
2. the subscription agreement dated June 15, 2010 between the Company and Eldorado Gold Corporation pursuant to which Eldorado Gold Corporation subscribed for 12,000,000 Ordinary Shares of 0.5 pence each in the Company at a price per Ordinary Share of £0.30 pence. Eldorado Gold Corporation has agreed not to dispose of these Ordinary Shares until June 22, 2011. The Company has also agreed that provided Eldorado Gold Corporation continues to own 15% or more of the issued share capital of the Company, Eldorado Gold Corporation will have the right to nominate a director to the board of directors of the Company. The Company has granted Eldorado Gold Corporation warrants exercisable at any time prior to June 16, 2010 to acquire up to a further 1.5 million Ordinary Shares exercisable at £0.40 per Ordinary Share. The Company has also granted an option entitling Eldorado Gold Corporation to subscribe for such number of Ordinary Shares as would enable Eldorado Gold Corporation to maintain its percentage interest in the share capital of the Company in the event that the Company issues Ordinary Shares for cash (or cash equivalent), provided that Eldorado Gold Corporation continues to own 15% or more of the issued share capital of the Company; and
3. the Orderly Marketing Agreement dated November 9, 2009, between the Company and Beaumont Cornish Limited, the Company's Nominated Adviser and Greenwood Investments Limited pursuant to which Greenwood Investments Limited made an undertaking not to dispose of any of the Ordinary Shares it held in the Company for a period of 12 months which expired on November 17, 2010. Serabi agreed that, while Greenwood Investments Limited holds more than 15% or more of the issued share capital of the Company, Greenwood Investments Limited shall have the right but not the obligation to nominate a director to the board of directors of the Company.

The reports noted above and the material contracts are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **ADDITIONAL INFORMATION**

Additional financial information relating to the Company is available in its financial statements and management's discussion and analysis for the financial year ended December 31, 2010. All of these documents, as well as additional information relating to the Corporation, are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## GLOSSARY OF MINING TERMS

The following is a glossary of technical terms that appear in this annual information form:

**“Ag”** means silver.

**“Au”** means gold.

**“assay”** in economic geology, means to analyze the proportions of metal in a rock or overburden sample; to test an ore or mineral for composition, purity, weight or other properties of commercial interest.

**“CIM”** means the Canadian Institute of Mining, Metallurgy and Petroleum.

**“CIP”** or **“Carbon in Pulp”** means a process used in gold extraction by addition of cyanide.

**“chalcopyrite”** is a sulphide of copper and iron.

**“cut-off grade”** the lowest grade of mineralized material that qualifies as ore in a given deposit; rock of the lowest assay included in an ore estimate.

**“deposit”** is a mineralized body which has been physically delineated by sufficient drilling, trenching, and/or underground work, and found to contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures; such a deposit does not qualify as a commercially mineable ore body or as containing ore reserves, until final legal, technical, and economic factors have been resolved.

**“DNPM”** means the Departamento Nacional de Producao Mineral.

**“electromagnetics”** is a geophysical technique tool measuring the magnetic field generated by subjecting the sub-surface to electrical currents.

**“garimpeiro”** is a local artisanal miner.

**“geochemical”** refers to geological information using measurements derived from chemical analysis.

**“geophysical”** refers to geological information using measurements derived from the use of magnetic and electrical readings.

**“geophysical techniques”** include the exploration of an area by exploiting differences in physical properties of different rock types. Geophysical methods include seismic, magnetic, gravity, induced polarization and other techniques; geophysical surveys can be undertaken from the ground or from the air.

**“gold equivalent”** refers to quantities of materials other than gold stated in units of gold by reference to relative product values at prevailing market prices.

**“gossan”** is an iron-bearing weathered product that overlies a sulphide deposit.

**“grade”** is the concentration of mineral within the host rock typically quoted as grams per tonne (g/t), parts per million (ppm) or parts per billion (ppb).

**“g/t”** means grams per tonne.

**“hectare”** or a **“ha”** is a unit of measurement equal to 10,000 square metres.

**“IBAMA”** is the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis.

**“indicated mineral resource”** is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

**“inferred mineral resource”** is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.



**“IP”** refers to induced polarization, a geophysical technique whereby an electric current is induced into the sub-surface and the conductivity of the sub-surface is recorded.

**“measured mineral resource”** is that part of a mineral resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

**“mineralization”** the concentration of metals and their chemical compounds within a body of rock.

**“mineralized”** refers to rock which contains minerals e.g. iron, copper, gold.

**“mineral reserve”** is the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

**“mineral resource”** is a concentration or occurrence of diamonds, natural solid inorganic material or natural fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

**“mt”** means million tonnes.

**“NCL”** means NCL Brasil Ltda.

**“NI 43-101”** means Canadian Securities Administrators’ National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*.

**“ore”** means a metal or mineral or a combination of these of sufficient value as to quality and quantity to enable it to be mined at a profit.

**“oxides”** are near surface bed-rock which has been weathered and oxidised by long-term exposure to the effects of water and air.

**“ppm”** means parts per million.

**“RC”** refers to reverse circulation drilling.

**“RAB”** refers to rotary air blast drilling.

**“saprolite”** is a weathered or decomposed clay-rich rock.

**“sulphide”** refers to minerals consisting of a chemical combination of sulphur with a metal.

**“tailings”** are the residual waste material that it is produced by the processing of mineralized rock.

**“tpd”** means tonnes per day.

**“Vein”** is a generic term to describe an occurrence of mineralized rock within an area of non mineralized rock.

**“VTEM”** refers to versa time domain electromagnetic, a particular variant of time-domain electromagnetic geophysical survey to prospect for conductive bodies below surface.

**SCHEDULE "A"**  
**SERABI MINING PLC**  
**AUDIT COMMITTEE MANDATE**

**General**

The board of directors (the "**Board**") of Serabi Mining plc. (the "**Company**") has delegated the responsibilities, authorities and duties described below to the audit committee (the "**Committee**"). For the purpose of this mandate the term "**Company**" shall include the Company and its subsidiaries.

The Committee shall be directly responsible for overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company. The Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any external auditor engaged by the Company for the purpose of preparing or issuing an audit report or related work (including resolution of disagreements between management of the Company and the external auditor regarding financial reporting). In so doing, the Committee will comply with all applicable Canadian securities laws, rules and guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules.

**Members**

1. The Committee will be comprised of a minimum of three directors. Each Committee member shall satisfy the independence, financial literacy and experience requirements of applicable Canadian securities laws, rules and guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules. In particular, each member shall be "independent" and "financially literate" within the meaning of National Instrument 52-110 *Audit Committees* ("**NI 52-110**") (except as otherwise set forth in the limited exemptions contained therein). Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the Board.
2. Members of the Committee shall be appointed annually by the Board at the first meeting of the Board after the annual general meeting of shareholders. Each member shall serve until such member's successor is appointed, unless that member resigns or is removed by the Board or otherwise ceases to be a director of the Company. The Board shall fill any vacancy if the membership of the Committee is less than three directors.
3. The Chair of the Committee will be designated by the Board, on the recommendation of the Corporate Governance and Nominating Committee, or, if it does not do so, the members of the Committee may elect a Chair by vote of a majority of the full Committee membership. The Chair of the Committee shall be responsible for overseeing the performance by the Committee of its duties, for assessing the effectiveness of the Committee and individual Committee members and for reporting periodically to the Board.

**Meetings**

4. The Committee will meet at least quarterly and at such times and at such locations as the Chair of the Committee shall determine, provided that meetings shall be scheduled so as to permit the timely review of the Company's quarterly and annual financial statements and related management discussion and analysis, if applicable. Notice of every meeting shall be given to the external auditor, who shall, at the expense of the Company, be entitled to attend and to be heard thereat. The external auditor or any member of the Committee may also request a meeting of the Committee. The Committee shall have an in-camera session without non-independent directors and management as a regular feature of each regularly scheduled meeting. The external auditor and management employees of the Company shall, when required by the Committee, attend any meeting of the Committee. Any director of the Company may request the Chair of the Committee to call a meeting of the Committee and may attend at such meeting or inform the Committee of a specific matter of concern to such director, and may participate in such meeting to the extent permitted by the Chair of the Committee.
5. Meetings of the Committee shall be validly constituted if a majority of the members of the Committee is present in person or by telephone conference. A resolution in writing signed by all the members of the Committee entitled to vote on that resolution at a meeting of the Committee is as valid as if it had been passed at a meeting of the Committee.

6. The Committee shall submit the minutes of all meetings to the Board, and when requested to, shall discuss the matters discussed at each Committee meeting with the Board.

#### **Committee Charter and Performance**

7. The Committee shall have a written charter that sets out its mandate and responsibilities and the Committee shall review and assess the adequacy of such charter and the effectiveness of the Committee at least annually or otherwise, as it deems appropriate, and propose recommended changes to the Corporate Governance and Nominating Committee who will do the same and recommend changes to the Board for its approval. Unless and until replaced or amended, this mandate constitutes that charter.

#### **Committee Authority and Responsibilities:**

##### **8. *General***

The overall duties of the Committee shall be to:

- (a) assist the Board in the discharge of its duties relating to the Company's accounting policies and practices, reporting practices and internal controls;
- (b) establish and maintain a direct line of communication with the Company's external auditor and assess their performance;
- (c) oversee the work of the external auditor engaged to prepare or issue an auditor's report or to prepare other audit, review or attest services for the Company, including resolution of disagreements between management and the external auditor regarding financial reporting;
- (d) ensure that management has designed, implemented and is maintaining an effective system of internal controls and disclosure controls and procedures;
- (e) monitor the credibility and objectivity of the Company's financial reports;
- (f) report regularly to the Board on the fulfillment of the Committee's duties, including any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the external auditor or the internal audit function;
- (g) assist, with the assistance of the Company's legal counsel, the Board in the discharge of its duties relating to the Company's compliance with legal and regulatory requirements; and
- (h) assist the Board in the discharge of its duties relating to risk assessment and risk management.

##### **9. *External Auditor***

The external auditor will report directly to the Committee and the Committee should have a clear understanding with the external auditor that such auditor must maintain an open and transparent relationship with the Committee and that ultimate accountability of the auditor is to the shareholders of the Company. The duties of the Committee as they relate to the external auditor shall be to:

- (a) review management's recommendations for the appointment of the external auditor, and in particular their qualifications, objectivity and independence, and recommend to the Board a firm of external auditors to be engaged and the compensation of such external auditor;
- (b) review the performance of the external auditor, including the fee, scope and timing of the audit, and make recommendations to the Board regarding the appointment or termination of the external auditor;
- (c) review, where there is to be a change of external auditor, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 – *Continuous Disclosure Obligations* or any successor legislation ("NI 51-102"), and the planned steps for an orderly transition;
- (d) review all reportable events, including disagreements, unresolved issues and consultations, as defined in NI 51-102, on a routine basis, whether or not there is to be a change of external auditor;

- (e) ensure the rotation of partners on the audit engagement team of the external auditor in accordance with applicable law, standards or rules;
- (f) review and pre-approve non-audit services to be provided to the Company by the external auditor, other than *de minimus* non-audit services referred to in Section 2.4 of NI 52-110. In connection therewith, the Chair of the Committee is authorized to pre-approve any non-audit services, provided that such pre-approval is presented to the Committee at its first scheduled meeting following such pre-approval;
- (g) review and approve the engagement letters of the external auditor, both for audit and permissible non-audit services, including the fees to be paid for such services;
- (h) review the nature of and fees for any non-audit services performed for the Company by the external auditor and consider whether the nature and extent of such services could detract from the external auditor's independence in carrying out the audit function; and
- (i) meet with the external auditor, as the Committee may deem appropriate, to consider any matter which the Committee or external auditor believes should be brought to the attention of the Board or shareholders of the Company.

10. ***Audits and Financial Reporting***

The duties of the Committee as they relate to audits and financial reporting shall be to:

- (a) review the audit plan with the external auditor and management;
- (b) review with the external auditor and management all critical accounting policies and practices of the Company (including any proposed changes in accounting policies), the presentation of the impact of significant risks and uncertainties, all material alternative accounting treatments that the external auditor has discussed with management, other material written communications between the external auditor and management (such as any management letter or schedule of unadjusted differences), and key estimates and judgments of management that may in any such case be material to financial reporting;
- (c) review the contents of the audit report;
- (d) question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
- (e) review the scope and quality of the audit work performed;
- (f) review the adequacy of the Company's financial and auditing personnel;
- (g) review the co-operation received by the external auditor from the Company's personnel during the audit, any problems encountered by the external auditor and any restrictions on the external auditor's work;
- (h) review the appointments of the Chief Financial Officer, persons performing any internal audit function and any key financial executives involved in the financial reporting process;
- (i) review with management and the external auditor the Company's interim unaudited financial statements and the annual audited financial statements in conjunction with the report of the external auditor thereon, and obtain an explanation from management of all significant variances between comparative reporting periods before recommending approval by the Board and the release thereof to the public; and
- (j) review the terms of reference for an internal auditor or internal audit function.

11. ***Internal Controls***

The duties of the Committee as they relate to internal control over financial reporting shall be to:

- (a) review the evaluation of internal controls by the persons performing the internal audit function and the external auditor, together with management's response to the recommendations, including subsequent follow-up of any identified weaknesses. Particular emphasis will be given to the

adequacy of internal controls to prevent or detect any payments, transactions or procedures that might be deemed illegal or otherwise improper; and

- (b) establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

12. ***Accounting and Disclosure Policies***

The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:

- (a) review the effect of regulatory and accounting initiatives and changes to accounting principles, which would have a significant impact on the Company's financial reporting as reported to the Committee by management and the external auditor;
- (b) review the appropriateness of the accounting policies used in the preparation of the Company's financial statements and consider recommendations for any material change to such policies;
- (c) review the status of material contingent liabilities as reported to the Committee by management;
- (d) review the status of corporate tax returns and potentially significant tax problems as reported to the Committee by management;
- (e) review any errors or omissions in the current or prior years' financial statements;
- (f) review and recommend approval by the Board before their release all public disclosure documents containing audited or unaudited financial results, including all press releases containing financial results, offering documents, annual reports, annual information forms and management's discussion and analysis containing such results; and
- (g) satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements other than the public disclosure referred to in clause (f), above, and periodically assess the adequacy of these procedures.

13. ***Other***

The other duties of the Committee shall include:

- (a) reviewing any inquiries, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
- (b) reviewing annual operating and capital budgets;
- (c) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
- (d) reviewing and approving the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company;
- (e) inquiring of management and the external auditor as to any activities that may be or may appear to be illegal or unethical; and
- (f) at the request of the Board, investigating and reporting on such other matters as it considers necessary or appropriate in the circumstances.

**Authority to engage independent counsel and outside advisors**

- 14. The Committee has the authority to engage independent counsel and other advisors it determines necessary to carry out its duties, to set and pay the compensation for any advisors employed by the Committee and to communicate directly with the internal and external auditors.
- 15. The Company shall provide appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment (a) of compensation to the external auditors employed by the issuer for the purposes of rendering or issuing an audit report and to any advisors engaged by the committee, and (b)

ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

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