Serabi Mining plc
Annual Report

2010

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Welcome to Serabi Mining plc

Serabi owns and operates the Palito Mine in the Tapajos region of Northern Brazil. It also has a portfolio of a further 110,000 hectares of exploration land holdings within the region.

To date there has been little systematic exploration in the region covering an area of approximately 100,000 km^2 in the southwest of Para state. However, historic production in the region from alluvial and small scale surface mining operations by local garimpeiros has officially been estimated at up to 10 million ounces whilst actual production is believed to be two to three times higher.

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

In 2011 the Group is undertaking a discovery drilling programme over several of these anomalies as it pursues a strategy to increase the resources at Palito and in the immediately surrounding area.

Chairman's Statement

Summary of Chairman's Statement

A significant level of hard rock resource still remains to be identified in the Tapajos region.

Serabi's exploration activity is focused on a location described as 'the front door to the Tapajos'.

We hope to generate a pipeline of opportunities which can, over time, add significantly to the resource base.

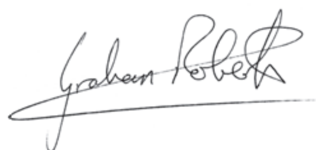
Serabi has undergone significant change over the past two years which has now culminated in the listing of the shares on the Toronto Stock Exchange and the appointment of additional non-executive Board members to help the Company in its next stage of development.

The Tapajos region of Brazil, where artisanal production is reported as having been up to 30 million ounces, must be considered to be a highly prospective gold region. To date only some 5 million ounces of hard rock resources have been identified, the majority of which lies along the geologically significant Tocantinzinho structural trend, implying that a significant level of hard rock resource still remains to be identified. The Palito mine and the tenements that Serabi's exploration activity is focussed on, lie at the south-eastern end of this structural trend close to the main infrastructure and population areas, a location that has been described as the "front door to the Tapajos".

Exploration always requires an element of fortune, but the odds can be moved in your favour by adopting a systematic and structured approach. Serabi has put such an approach in place and having already generated a number of drill targets has followed this up with further programmes that we hope will allow it to create a pipeline of opportunities within its tenement area from which it can, over time, add significantly to its existing resource base. We hope that the use of airborne geophysics, to screen large areas and generate focussed ground based exploration, will prove to be a significant tool to unlock some of the potential of this region but I am sure that it will not be the only technique that might be successful in locating deposits in this geologically exciting area.

I am excited to be involved with the Company at this stage of its development, and know that the new members of the Board feel the same. Bill Clough who founded the Company has stepped down from the Board and it was his pioneering spirit and vision that identified the potential of the Tapajos region in the first instance. Bill and his team put in place significant foundations on which Serabi can now build and which will add great value to the exploration success that we all hope Serabi is now set to achieve.

This is my last address to shareholders as Chairman of the Company as I have elected to step down in order to assist the Company in fulfilling its Canadian securities obligations, though I will remain on the Board in a non-executive capacity. I welcome Mr Sean Harvey, one of the new non-executive directors as the new Chairman of the Board. I have had a long acquaintance with Sean, and know that his excellent reputation in North America will allow the Company to maintain a high profile there and maximise the benefits that can be achieved from its new TSX listing.



Graham Roberts
Chairman

31 March 2011

Management discussion and analysis

Operational Review

Corporate Highlights for the Year

> Completion of a private placement of shares on 9 June 2010, with Eldorado Gold Corporation ("Eldorado") whereby Eldorado subscribed for 12,000,000 shares at a price equivalent to 30 pence per share, raising gross proceeds of UK£3.6 million and whereby Eldorado acquired an interest, at that time, of 26.8% in the share capital of the Company.

> Completion of a private placement of 10,070,000 Special Warrants on 2 December 2010, at a price of C$0.55 per Special Warrant raising gross proceeds of C$5,538,500.

> On 23 December 2010, the Company announced an updated NI 43-101 Technical Report on the JDO project.

> Approval of shareholders on 21 December 2010, to undertake a consolidation of the Ordinary Share, whereby shareholders received one new Ordinary Share of 5 pence each for every ten old Ordinary Shares of 0.5 pence.

> The appointment on 30 March 2011 of Mr Sean Harvey, Dr Doug Jones and Mr Mel Williams as directors of the Company.

> The completion on 30 March 2011 of an Initial Public Offering of the Ordinary Shares of the Company in Canada and a concurrent listing of the Ordinary Shares on the TSX

History

The Company currently holds, either granted or in application, approximately 110,000 hectares of Exploration Licenses all located within the Tapajos Gold Mining Province, within the states of Para and Amazonas, Northern Brazil. These licenses are divided into 3 project areas, namely the JDO, Modelo and Pizon projects. The Modelo Project lies in the state of Para, with some 40,000 Ha in 5 exploration permits, four granted and one in application. The Pizon Project represents 14,733 Ha, in two exploration licenses, one granted and one in application. The Company has not engaged in any exploration activity in either the Pizon or Modelo projects over the past 12 months, and has currently not budgeted for any exploration activity over the next 18 months. All activity budgeted at this time will focus on the JDO Project area.

Jardim do Ouro Project

The JDO Project was originally acquired by the Company in 2001. It covers a total area of 55,600 [1] 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 [1] hectares. The JDO Project is located in the Tapajós Mineral Province in the south east part of the Itaituba Municipality in the west of Pará State in central north Brazil. The Palito Mine and infrastructure itself lies some 4.5km south of the village of Jardim do Ouro and approximately 15km via road. Jardim do Ouro lies on the Transgarimpeira Road some 30km WSW of the town of Moraes de Almeida, located on the junction of the Transgarimpeira and the BR 163 (the Cuiabá - Santarém Federal Highway). Moraes de Almeida is approximately 300km south south-east by road of the municipal capital, and similarly named city, of Itaituba.

Within the JDO 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.

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.

Since that time, the Company has focused on mine-site exploration, primarily airborne and ground geophysics and geochemistry. Following a Change of Mine Plan report filed to the DNPM in December 2008, and a subsequent amendment to the PAE (Plano de Aproveitamento Economico), the Company maintained some minor surface oxide ore production up to June 2010, through which some 7,200 ounces gold has been produced up to June 2010.

[1] 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 hectares. The Company has lodged an appeal to reinstate approximately 600 hectares. The Company does not view this potential reduction as significant as 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.

In December 2010 the Company released a technical report prepared by its consultants, NCL Brasil Ltda, (the NI43-101 Technical Report for the Jardim do Ouro Project, Para State, Brazil). The report estimated, in accordance with Canadian Securities Administrators National Instrument 43-101 ("NI 43-101"), a compliant Measured and Indicated mineral resource of 224,272 ounces (gold equivalent) and Inferred mineral resources of 443,956 ounces (gold equivalent).

	Tonnage	Gold (g/t Au)	Copper (% Cu)	Contained Gold (Ounces)[1]	Contained Gold Equivalent (Ounces)[2]
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.

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 Curuá (Iriri) River.

In the period following the decision to place the Palito Mine on care and maintenance the board of directors undertook a strategic review of the operation and determined that the original expectation that the Palito Mine could support production levels in excess of 50,000 ounces per annum was not supported by the then current mine plans and reserve and resource estimates. The Company concluded that limited infrastructure in the region contributed to a relative high fixed cost associated with the project and determined that an operation capable of sustaining production levels of 70,000 to 75,000 ounces per annum was required as the basis for a viable and competitive operation.

The Company considers that with the information now available and having considered the various mining methodologies available, the deposit at the Palito Mine (referred to herein as the "Palito deposit") requires a selective mining operation to maximise its economic value and that under such a methodology a sustainable long term production rate is likely to be limited to 30,000 ounces per annum. The Company therefore determined that it would not in the short-term seek to re-open the Palito Mine but instead concentrate on building the reserve and resource base.

The Company is now pursuing a strategy of mine-site/district exploration and 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 the 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 Company's results of operations for the twelve month period ended 31 December 2010 were compromised solely of the activities related to the results of operations of the Company's 100% owned subsidiary Serabi Mineração S.A.

The Company's focus during 2010 has been to advance the exploration portfolio of the JDO Project, which hosts the Palito Mine (including its process plant, mine camp and other infrastructure) along with numerous high priority mine-site and near mine targets. Coupled with this, the Company continued surface oxide mining with modest gold production until mid-year, when surface mining operations were placed on hold in June 2010. The cornerstone of this mine-site exploration effort has been an airborne electromagnetic and magnetic survey, ("VTEM survey") undertaken in 2008, which covered a 6,000 hectare area enveloping the Palito deposit and immediate surrounding area.

Background to Exploration Strategy

Palito and near mine mineralised zones are characterised by quartz-sulphide and massive sulphide veins. The vast bulk of the ore mined from the underground Palito mine was hosted in quartz-sulphide veins, with higher grade bonanza shoots existing in small diameter, plunge continuous, massive sulphide pods or shoots.

The nature of the quartz and sulphide content of the ore zones lends itself to detection via electrical geophysical methods, due to the conductivity in the sulphides and the resistivity provided by the quartz. Historically ground electrical geophysical exploration methods such as electromagnetics ("EM") and induced polarisation ("IP") have yielded good results in the Palito area, reinforcing their importance as primary exploration tools for identifying these types of mineralisation.

In 2006, Serabi trialled ground EM surveying at Palito. The positive results led to Serabi commissioning a helicopter-borne VTEM geophysical survey over the Palito deposit and surrounding 6,000 hectare area. The benefit of the EM technique is that it can highlight the massive sulphide component of the Palito style of mineralization, and therefore immediately provides a focal point for exploration within the dense vegetation surrounding Palito.

The 2008 airborne VTEM survey identified 47 discrete anomalies and 19 anomalous complex conductive zones. These geophysical targets were then integrated with the other geological datasets including soil geochemistry, drilling data, lineament analysis and geology for the project. As a result 18 "target areas" were defined for further follow-up exploration. These 18 targets provided the focal point for discovering potential mineralised zones.

Management discussion and analysis

Operational Review Continued

Results of Operations

Exploration and technical programmes executed during 2010

Highlights

> January 2010 – The Company announced its plans to commence follow up ground geophysics on 13 high priority mine site targets. With the identification of 18 near mine and mine-site geophysical targets during 2009, and a successful capital raise December 2009, a 45 line km Induced Polarisation survey (IP) commenced early 2010, to test the first 13 targets.

> January 2010 to June 2010 - minor surface oxide ore mining 18,094 tonnes @ 1.75 g/t (1,000 ounces produced).

> May 2010 – The Company announced that the IP survey over 13 high priority targets had returned strong IP anomalies over nine of the targets. Further integration with geochemical, electromagnetic ("EM") and other data identified nine drill ready targets.

> October 2010 – The Company announced plans to commence a 7,500 metre discovery drill programme of the nine drill targets before year end.

> November 2010 – Serabi announced a further 8,000 hectares of airborne geophysical electro-magnetic surveys (VTEM) to be flown within its exploration tenements comprising the JDO Project tenement holdings.

> December 2010 – The Company filed an updated NI 43-101 compliant Technical Report. The resource estimate was completed by NCL Brasil Ltda (NCL) and reported a total Measured and Indicated resource of 224,272 gold equivalent ounces, with a further 443,956 Inferred gold equivalent ounces.

> Throughout the year Serabi management continued to pursue numerous exploration and development opportunities primarily in the Tapajos Region of Brazil which would add value to the company strategy. The Company also sought to divest or joint venture, non-core assets during the year.

Bearing in mind that the bulk of Palito ore was sourced from quartz-sulphide vein material and not massive sulphide, the VTEM survey represented the first step in the identification of additional resources whilst the application of IP should help delineate the quartz-sulphide veins. It is expected that the combination of both EM and IP and the subsequent 3D modeling will provide a direct focus for drilling activities and the subsequent expansion of resources at the JDO Project. Fifteen of the targets are within three kilometres of the mine and of these fifteen, seven are situated within the Company's existing mine licence. The remaining targets are all located within the Company's surrounding exploration licences.

In January 2010, following a successful financing in December 2009, the Company announced its 2010 exploration work programme. This included the commencement at the earliest possible opportunity of follow-up ground geophysics on the 18 mine-site targets defined in the 2008 VTEM survey. It also announced continued small scale surface oxide mining.

In April 2010, Serabi announced that a 45 line km ground IP survey had commenced. The area covered by this initial survey lay within a 3km radius of the Palito Mine and covered 13 of the 18 prioritised target anomalies identified during the 2008 airborne geophysical survey. The IP survey lines were spaced 200m apart, perpendicular to the dominant mineralised trends.

In May 2010, the Company announced results of the initial follow-up IP geophysical survey. After data interpretation and integration of the IP results with all other pre-existing exploration datasets, at least nine significant drill targets were defined. The anomalies exhibited high chargeability / low resistivity attributes, properties one would expect to find associated with sulphide bodies and which are characteristics of the gold bearing sulphide bodies found at Palito.

In October 2010, Serabi announced a preferred diamond drilling contractor had been secured and that a 7,500m discovery drill programme to test the nine drill ready targets would commence before year end. The Company had originally planned to commence this work in July 2010 and it was unfortunate that a fine and temporary suspension of operational activities was placed upon Serabi Mineração SA by the Federal Environmental Agency, Instituto Brasilero do Meio Ambiente (IBAMA) in June, thus restricting exploration activity. Both the fine and suspension were appealed against successfully.

In November 2010, the Company announced a further 8,000 hectares of VTEM to be flown over some of the Jardim do Ouro exploration tenements, with a total of 1,170 line kilometres to be flown.

In December 2010, Serabi announced the filing of an updated NI 43-101 compliant Technical Report for the Palito Gold Mine and surrounding area. The resource estimate was completed by NCL Brasil Ltda and reported a total Measured and Indicated resource of 224,272 gold equivalent ounces, with a further 443,956 Inferred gold equivalent ounces. The report was commissioned in anticipation of the Company's previously announced intention to make a listing application to a Canadian stock exchange.

Outlook

Serabi's short term strategy at the JDO Project (phase 1) to be followed over the period January 2011 to September 2011 will continue to focus on 'head-frame' exploration with the objective of discovering more Palito style deposits. In detail this will include:

- Completion of the 7,500m discovery drilling programme over 9 high priority targets within 3km of the plant,
- Follow-up ground geophysics on the remaining 5 VTEM geophysical anomalies with the objective of generating further drill targets,
- Conducting airborne geophysical VTEM surveys over further areas of the JDO Project exploration tenements (8,000 Ha completed in January 2011),
- Commencing a thorough mine-site deep geochemistry Trenching/Auger program, and
- The underground mine will remain on care & maintenance over this period.

This initial phase 1 of the exploration budget is estimated to be in the region of US$7.6 million and will aim to investigate the mine-site targets as well as the immediate surrounding tenements (within 20km of the operation). It is detailed as follows:

Activity	USD
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 JDO tenements	296,970
Geochemistry and surface exploration programmes – wider JDO 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
Indicated Resources	**7,630,363**

In the medium term (Q4 2011 and onwards) the Company's objectives will be to:

- Follow up mine-site discoveries with resource drilling,
- Replicate the 'Palito Discovery Model' within the 55,000 ha of contiguous concessions that envelope the Palito deposit and thus create a pipeline of further targets,
- Undertake further follow-up ground geophysics, geochemistry and drilling to expand the potential of the Company's JDO Project exploration tenements, and
- Seek JV partners/buyers with respect to the non-core assets

Mike Hodgson
Chief Executive

31 March 2011

Management discussion and analysis

Financial Review

Financial Year ended 31 December 2010
For the year ended 31 December 2010 the Company recorded a net loss of US$5,980,011 (US$0.1521 per share) compared to a net loss of US$9,990,502 (US$0.6155 per share) for the comparative period last year. The decrease in the loss in part reflects that no impairment provision was taken in the current year (2009: US$4,343,048), there were no write-offs in respect of past exploration activities (2009: US$495,138) and no requirement to increase the provision for rehabilitation on mine closure (2009: US$346,000). The combination of these effects contributed to a year on year reduction in expenses of US$5,184,146. However, there were increases in the gross loss from operations of US$944,997 and an increase in administration costs of US$414,975 and therefore the overall improvement in the net loss was US$4,010,491.

The increase in the gross loss from operations is primarily a reflection of production being subject to a suspension during June and not recommencing thereafter and therefore revenue was generated for only the first six months of the year. There was an initial loss recorded for the first six months of the year of US$345,387, and whilst there was no subsequent production, costs continued to be incurred and expensed in respect of maintenance and refurbishment activities during this second six month period. It has been increasingly difficult to identify further adequate surface resources to justify continuous oxide mining operations and ore processing in the future will only be undertaken on a campaign basis, running the plant when adequate ore stocks are available. Therefore, whilst the plant will continue to be maintained in a state of readiness, the workforce has been reconfigured to be a more versatile team that can be deployed for exploration, mining and processing as required.

The increase in administration costs reflects a tax credit received in Brazil in 2009, amounting to US$563,000. Excluding the effects of this credit, administration costs were reduced by US$148,000.

Fourth quarter
For the three month period ended 31 December 2010, the Company recorded a net loss of US$2,005,738 (US$0.0448 per share) compared to a net loss of US$2,552,618 (US$0.1119 per share for the comparative period of 2009. Whilst the gross losses recorded from operations were comparable (2010: US$453,614, 2009: US$467,073) in reality as there was no mining activity during the fourth quarter of 2010, it is not possible to make any direct comparison with the corresponding period of 2009. The costs incurred in the fourth quarter of 2010 are those attributed to ongoing general maintenance and upkeep expenditures related to the Palito Mine whilst plant and equipment is refurbished and placed in a state of readiness for any future recommencement of operations.

Administration costs increased compared with the preceding quarter as a result of an increase in Brazilian labour claim settlements in the quarter of US$373,000. With large numbers of staff made redundant at the end of 2008, the last quarter of 2010 was effectively the cut-off date for former staff to file claims under prevailing legislation.

In other respects the operating results for the period are in line with expectations and with prior periods of 2010 and the corresponding period in 2009. The results of each quarter are affected by the translation of the results from the activities of the Brazilian subsidiary and the exchange rates used for each reporting period. Overall the Brazilian Real has strengthened during the year which has a negative impact of costs reported in US dollars. At 30 June 2010 the rate was BrR$1.8015 to US$1, at 30 September 2010, BrR$1.6942 to US$1 and at 31 December 2010, BrR$1.6662 to US$1. At 31 December 2009 the rate was BrR$1.7412 to US$1.

Summary of quarterly results
As the Company only became a reporting issuer (as defined by Canadian securities regulations) in March 2011 and did not previously prepare quarterly financial statements it is not required to provide a summary by quarter for the last two financial years. The following summary information is derived from the existing available public financial information released by the Company.

	Six months ended 30 June 2010 $	Quarter ended 30 September 2010 $	Quarter ended 31 December 2010 $
Revenues	1,148,999	22,909	57,643
Operating expenses	(1,494,386)	(411,103)	(511,257)
Gross loss	(345,387)	(388,194)	(453,614)
Administration expenses	(842,391)	(561,015)	(863,506)
Option costs	(50,204)	(25,103)	(28,569)
Write-off past exploration expenditures	–	–	–
Increase in rehabilitation provision	–	–	–
Loss on asset disposals	(4,694)	(111,106)	(8,379)
Impairment	–	–	–
Depreciation of plant and equipment	(1,017,458)	(497,439)	(597,548)
Operating loss	(2,260,134)	(1,582,857)	(1,951,616)
Exchange	(272,573)	241,092	4,085
Finance costs	(55,476)	(44,325)	(58,207)
Loss before taxation	(2,588,183)	(1,386,090)	(2,005,738)
Loss per ordinary share (basic and diluted)	(7.66) cents	(3.10) cents	(4.48) cents

	Six months ended 30 June 2009 $	Quarter ended 30 September 2009 $	Quarter ended 31 December 2009 $
Revenues	3,601,349	1,191,571	719,884
Operating expenses	(3,061,975)	(1,506,070)	(1,186,957)
Gross loss	(539,374)	(314,499)	(467,073)
Administration expenses	(1,178,935)	(192,978)	(480,024)
Option costs	(40,161)	(20,013)	(86,864)
Write-off past exploration expenditures	–	(476,967)	(18,171)
Increase in rehabilitation provision	–	(346,000)	–
Loss on asset disposals	(209,661)	33,442	(5,018)
Impairment	(2,422,737)	(1,159,596)	(760,715)
Depreciation of plant and equipment	(1,126,106)	(499,788)	(531,132)
Operating loss	(4,438,226)	(2,976,399)	(2,348,997)
Exchange	93,755	73,060	(181,348)
Finance costs	(157,455)	(32,619)	(22,273)
Loss before taxation	(4,501,926)	(2,935,958)	(2,552,621)
Loss per ordinary share (basic and diluted)	(33.12) cents	(20.95) cents	(11.19) cents

Liquidity and Capital Resources

The Company had a working capital position of US$2,793,046 at 31 December 2010 compared to US$2,656,862 at 31 December 2009. The working capital position includes cash and cash equivalents of US$8,598,755 (2009: US$4,081,882). The Company does not have any asset backed commercial paper investments. The working capital position is adversely affected by the accounting treatment of the net proceeds of the Special Warrant issue that was completed by the Company on 2 December 2010. In accordance with International Accounting Standard 32 ("IAS 32") it is required that these net proceeds be reflected as a current liability of the Company as at the balance sheet date of US$5,059,995. Following the balance sheet date the liquidity conditions relating to these Special Warrants were satisfied and with effect from the balance sheet of the Company as at 31 March 2011, this value will form part of the Equity component of the Company's balance sheet. Excluding this value from the current liabilities, the working capital position at 31 December 2010 would have been US$7,853,041.

During the year ended 31 December 2010, the Company issued a total of 12,000,000 Ordinary Shares for net cash proceeds of US$5,389,061, following the subscription for shares by Eldorado Gold Corporation ("Eldorado") as a result of which Eldorado acquired at that time a 26.8% interest in the Company.

On 2 December 2010 the Company also completed a placement of Special Warrants raising gross cash proceeds of US$5,059,995. Each Special Warrant comprises a Unit which in turn consists of one Ordinary Share and one half of a Warrant whereby each whole Warrant entitles the holder to subscribe for one Ordinary Share at a price of C$0.75 at any time before 2 December 2012. The Special Warrants will convert automatically and without any further action on the part of the holder on the earlier of the Company meeting the liquidity conditions attaching to the Special Warrants or 2 April 2011 ("the Liquidity Deadline"). The liquidity conditions are (i) the issuance of a receipt by each of the securities commissions or comparable regulatory authorities in each of the provinces and territories of Canada in which a final prospectus of the Company will be filed to qualify the distribution of the Ordinary Shares and Warrants on exercise of the Special Warrants; and (ii) the Company obtaining a listing of the Ordinary Shares on the TSX or TSXV. The liquidity conditions were met on 30 March 2011 when the Company completed an IPO in Canada and the Ordinary shares commenced trading on the TSX.

The Company has during the year ended on 31 December 2010, paid US$2,481,665 on mineral property exploration, US$7,225 on asset purchases and used US$3,937,133 on operating activities.

On 31 December 2010, the Company's total assets amounted to US$54,923,193, which compares to the US$49,238,168 recorded in 31 December 2009. Total assets are mostly comprised of property, plant and equipment, which as at 31 December 2010 totalled US$33,951,141 (December 2009: US$35,327,788), and deferred exploration and development cost which as at December 31, 2010 totalled US$9,797,406 (December 2009: US$6,880,038), of which US$8,296,965 relates to capitalized exploration expenditures at, or in close proximity to, the Palito Mine. The Company's total assets also included cash holdings of US$8,598,755 (December 2009: US$4,081,882).

Receivables of US$96,143 as at 31 December 2010 have decreased by US$179,395 compared to the prior year's receivables balance of US$275,538. The receivables as of 31 December 2010 are primarily deposits paid by the Company. Prepayments as of 31 December 2010 were US$1,061,945 compared with US$1,413,158 as at 31 December 2009, a reduction of US$351,213. The prepayments primarily represent prepaid taxes in Brazil of US$950,913 of which the majority is federal and state sales taxes which the Group expects to recover either through offset against other federal tax liabilities or through recovery directly.

The Company's total liabilities at 31 December 2010 of US$10,571,375 (December 2009: US$6,033,451) included accounts payable to suppliers and other accrued liabilities of US$3,935,912 (December 2009: US$4,361,854) and in accordance with IAS32 a liability of $5,059,995 (2009: nil) in respect of the net proceeds of the Special Warrants as detailed earlier. The total liabilities include US$249,176 including accrued interest (December 2009: US$216,898) attributable to the £300,000 loan from a related party, which has a repayment date of 31 October 2014 subject to the right of the holder at any time, on one or more occasions, on or before the repayment date, to convert any of the outstanding amounts owed by the Company to Ordinary Shares at a price of 15 pence per Ordinary Share. It also includes the amount of US$1,383,571 (December 2009: US$1,374,200) in respect of provisions including US$1,055,000 (December 2009: US$1,055,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity.

Clive Line
Finance Director
31 March 2011

Directors and Senior Management

Mike Hodgson
Chief Executive
Mike has worked in the mining industry for over 20 years and has extensive international experience. Most recently he worked as chief operating officer and vice president technical services for Canadian-based Orvana Minerals Corporation. Prior to that, he provided consulting services to a number of mining companies in Europe and South America. Previous appointments include manager of technical services and operations for TVX Gold Inc., mining technical consultant at ACA Howe International Ltd and similar roles at Rio Tinto plc and Zambia Consolidated Copper Mines Ltd. He has, during his career, acquired extensive experience in narrow vein underground mining operations.

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

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

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

T Sean Harvey, (appointed 30 March 2011)
Non-executive
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 L.L.B from the University of Western Ontario and an M.B.A. from the University of Toronto. He is a member of the Law Society of Upper Canada.

Douglas Jones, (appointed 30 March 2011)
Non-executive
Doug is a geologist with 34 years' experience in international mineral exploration, having worked extensively in Australia, Africa, 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 Liontown 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
Graham has over 35 years of international experience in the mining industry and related financial markets. Prior to joining Serabi in 2003, Graham was managing director and group head of investment and corporate banking for BMO Nesbitt Burns (now BMO Capital Markets) in London, a wholly-owned investment banking subsidiary of the Bank of Montreal. Previously, Graham worked as director and head of mining research for W.I. Carr UK Ltd. Subsequently, from 1994 to 1996, he headed up the mining business at the UK merchant bank Hambros, where he was executive director of Hambros Equities UK Ltd providing a full range of cross-border capital markets and advisory services to international mining companies. Before entering the financial services sector, Graham worked for 13 years at Consolidated Gold Fields in the UK and Africa, in corporate finance, mining and exploration across a wide range of base metal and precious metal projects and mines.

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

Melvyn Williams, (appointed 30 March 2011)
Non-executive
Mel Williams is currently the Chief Financial Officer (CFO) and Senior Vice President of Finance and Corporate Development of Brigus Gold. 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).

Mr. Williams 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. and Nickel Mountain Resources AB.

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

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

Directors' Remuneration Report

For the year ended 31 December 2010

REMUNERATION COMMITTEE
Following the appointment of three new non-executive directors on 30 March 2011, the Remuneration Committee was re-constituted and now comprises Messrs Williams, Harvey and Jones and is chaired by Mr Williams. Prior to this and for the year ended 31 December 2010 it was comprised of Mr Roberts and Mr Clough and chaired by Mr Roberts. It is responsible for determining and agreeing with the Board the framework for the remuneration of the Chief Executive, all other Executive Directors, the Chairman of the Company (if an Executive Director), the Company Secretary and such other members of the Executive management as it feels appropriate to consider. Furthermore it is responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options.

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

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

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

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

(i) basic annual salary;

(ii) health cover;

(iii) pension contribution; and

(iv) bonus schemes comprising a combination of cash, deferred shares and share options.

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

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

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

Remuneration consists of a fixed fee which is set to reflect prescribed time commitments and the relative responsibilities of each Non-executive Director on the affairs of the Company, fees payable in respect of attendance at meetings and fees payable for service on any formal committees of the Board. Additional consultancy fees are paid if the input required exceeds the anticipated levels. The Non-executive Directors currently hold share options. Whilst the award of share options by the Company to Non-executive Directors is contrary to the recommendations of the Combined Code, the Board believes that given the nature and size of the Company, the small size of the Board and the need to conserve cash resources, it is appropriate that the remuneration of the Non-executive directors be aligned with the success and growth of the Company. On 30 March 2011 the Company completed a listing of its shares on the Toronto Stock Exchange, and it is normal practice for non-executive directors of smaller companies, such as Serabi, to receive share options as part of their remuneration. The Company in order to attract non-executive directors of an appropriate stature and experience considers that it is obliged to continue to permit non-executive directors to be involved its equity participation plans.

DIRECTORS AND THEIR INTERESTS

Ordinary shares and options

The Directors of the Company, who held office during the year and as of 31 December 2010, had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Shares held at 31 December 2010	Shares held at 31 December 2009[2]	**Share options held at 31 December 2010**	Share options held at 31 December 2009[2]	Option price[2]	Exercise period
Graham Roberts	**278,030**	2,780,301	**200,000**	2,000,000	15p	21 Dec 09 to 20 Dec 19
Bill Clough[1]	**2,027,896**	40,078,617	**100,000**	1,000,000	15p	21 Dec 09 to 20 Dec 19
Michael Hodgson	**392,320**	3,923,200	**500,000**	5,000,000	15p	21 Dec 09 to 20 Dec 19
Clive Line	**417,653**	4,176,533	**500,000**	5,000,000	15p	21 Dec 09 to 20 Dec 19

(1) Bill Clough is a Director and sole shareholder of WM Clough Pty Limited and the beneficial owner of Gigantic Resources Inc. During the period Mr Clough resigned as a director of McRae Investments Pty Limited and is therefore no longer considered to have any controlling interest over shares held by that entity.

(2) On 21 December 2010, the shareholders approved the consolidation of the ordinary shares in issue on the basis of one new ordinary share for every ten existing ordinary shares. Accordingly the number of shares held by each shareholder was reduced by a factor of ten and the number of options held and the option price adjusted to reflect the share consolidation.

During the year ended 31 December 2010 the Company's shares have traded between 8.8 pence and 48.0 pence. On 31 December 2010 the closing price was 39.96 pence.

On 23 March 2011, Mr Clough resigned from the Board.

On 30 March 2011 Mr TS Harvey, Mr M Williams and Dr D Jones were appointed to the Board. As of the date of their appointments these individuals had the following interests in the Ordinary Share and Warrants of the Company

	Ordinary Shares	Warrants[1]
TS Harvey	200,000	100,000
D Jones	100,000	50,000
M Williams	45,000	22,500

(1) The Warrants are exercisable at C$0.75 at any time up to 2 December 2012.

Remuneration

Director	Salary $	Pension $	IFRS 2 charge for options granted $	Other $	**Total $**	For the year to 31 December 2009 $
Michael Hodgson	143,035	4,684	31,355	3,467	**182,541**	279,897
Clive Line	132,151	–	31,355	2,774	**166,280**	213,127
Graham Roberts	38,868	–	12,542	4,982	**56,392**	60,306
Bill Clough	18,657	–	6,285	–	**24,942**	16,981
Total	**332,711**	**4,684**	**81,537**	**11,223**	**430,155**	570,311

Included in remuneration for the year to 31 December 2009 are pension costs of US$238,156

Directors' Report

For the year ended 31 December 2010

The Directors present their report together with the audited financial statements for the year ended 31 December 2010.

RESULTS AND DIVIDENDS

The Group loss for the year after taxation amounts to US$5,980,011 (2009: loss of US$9,990,502). The Directors do not recommend the payment of a dividend.

The results for the year are set out on page 20 in the Statement of Comprehensive Income.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

A detailed review of activities, future developments and the Company's projects is included in the Chairman's Statement, the Chief Executive's Operational Review and the Finance Review on pages 2 to 9.

SUBSTANTIAL SHAREHOLDINGS

As at 31 March 2011 the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

Name	Number of shares held	Percentage
Eldorado Gold Corporation	16,840,000	26.3%
Greenwood Investments Limited	10,000,000	15.6%
F&C Asset Management plc	3,588,957	5.6%
Fratelli Investments	2,730,000	4.3%
Novadan	2,105,000	3.3%
WM Clough[(1)]	2,027,896	3.2%
Elliston Properties / Mr A Ruhle	2,007,909	3.1%
McRae Investments	1,979,965	3.1%

(1) Bill Clough is a Director and the sole shareholder of WM Clough Pty Ltd and is also the beneficial owner of Gigantic Resources Inc. which holds 26,743 ordinary shares representing 0.04% of the ordinary shares in total.

SHARE CAPITAL

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

There were no issues of share options to Directors and employees during the period. Subsequent to the end of the period the following issues of share options to Directors and employees have been made:

Date of issue	Number issued	Price	Expiry
28 January 2011	1,455,000	41 pence	27 January 2021
28 January 2011	450,000	37 pence	27 January 2021

CREDITOR PAYMENT POLICY

It is the Group's policy to settle all amounts due to creditors in accordance with terms and conditions agreed between the Group and suppliers, provided that all trading terms and conditions have been complied with. As at 31 December 2010, the Group had 140 (2009: 224) days' purchases outstanding in creditors.

GOING CONCERN AND AVAILABILITY OF PROJECT FINANCE

In common with many companies in the exploration and development stages, the Company raises its finance for exploration and development programmes in discrete tranches. The Directors have prepared cash flow projections for the period to June 2012 which indicates that existing funds will be sufficient to fund the group and its commitments for the foreseeable future. The Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis.

However further funds will be required in order to successfully develop any successful exploration targets and bring the Palito mine back into operation. Whilst the Directors are confident that they are taking all the necessary steps to ensure that the funding will be available, there can be no certainty that this will be the case. Were the funding not to become available in an appropriate timescale the Directors would need to consider alternative strategies and an impairment review would be required in respect of the capitalised expenditure on the Palito project. No adjustments to asset carrying values that may be necessary should the company be unsuccessful have been recognised in the financial statements.

IMPAIRMENT

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with those standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

CORPORATE GOVERNANCE

The Directors believe that the Company complies with the principles set out in The Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council so far as they consider is appropriate, having regard to the size and nature of activities of the Group.

BOARD COMPOSITION

The Directors who served during the year are shown on page 13. On 30 March 2011, Messrs TS Harvey, M Williams and D Jones joined the Board as non-executive directors.

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

COMMITTEES

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

Audit Committee

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, considering and setting appropriate accounting policies and reviewing the Auditors' Report relating to accounts and internal control systems. Following the appointment of three new non-executive directors on 30 March 2011, the Audit Committee was re-constituted and now comprises Messrs Williams, Harvey and Jones and is chaired by Mr Williams. Prior to this and for the year ended 31 December 2010 it was comprised of Mr Roberts and Mr Clough and chaired by Mr Roberts. All of the members of the current audit committee are independent directors.

Directors' Report

For the year ended 31 December 2010

Executive Committee

The Board has appointed an Executive Committee to oversee and coordinate the day-to-day running of the Company. It is empowered to make decisions over a number of areas without reference to the full Board and specifically to deal with all matters relating to the daily operation of the Company.

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

Remuneration Committee

The Remuneration Committee is responsible for establishing the policies of Executive remuneration and determining the remuneration and benefits of the individual Executive Directors. Full disclosure of the policies can be found in the Remuneration Report on pages 12 to 13.

SHARE DEALING

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

INTERNAL CONTROLS

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

MANAGEMENT OF FINANCIAL RISKS

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

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

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

Commodity price risk

The Group is exposed to fluctuations in commodity prices and in particular the price of gold and copper. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts, where the Board feels that it would be in the best interests of the Group to do so.

Interest rate risk

The Group currently finances its operations through equity financing and a fixed-rate convertible loan stock instrument.

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

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

Liquidity risk

To date the Group has relied on shareholder funding and in prior years short-term trade finance and fixed rate finance leases to finance its activities. The Group has also drawn down on a convertible loan stock instrument (see note16) which is repayable in 2014, but otherwise does not have any other borrowing or credit facilities. The Group's objectives when managing its capital are to maintain financial flexibility to achieve its development plans, safeguard its ability to continue to operate as a going concern through management of its costs whilst optimising its access to capital markets by endeavouring to deliver increase in value of the Group for the benefit of shareholders. In establishing its capital requirements the Group will try to take account of the risks inherent in its plans and proposed activities and prevailing market conditions. During 2010 the Group raised new funds through the issue of new shares and the issue of Special Warrants which subject to certain condition are convertible into new shares. Continued development of the Group's projects will be dependent on the ability to attract additional funding, through joint ventures, asset disposals, new equity or debt. There is no guarantee that the Group will be able to secure adequate funding in the future or that the terms of such funding will be acceptable.

Credit risk

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables. The Group deposits surplus cash with financial institutions that hold good credit ratings. Whilst the Group currently generates only small and irregular revenues it does seek to receive full settlement by bank transfer on delivery of its product to the purchaser to minimise its exposure to credit risk on its receivables.

MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

Currency risk

Although the Parent Company is incorporated in the United Kingdom, its financial statements and those of the Group are denominated in US Dollars.

Share issues have historically been priced solely in Sterling but the issue of Special Warrants undertaken in December 2010 and the issue of new Ordinary Shares and Warrants on 30 March 2011 were priced in Canadian dollars. The Company expects that future issues of Ordinary Shares may be priced in Sterling or Canadian dollars. Expenditure is primarily in Brazilian Real and also in US Dollars, Sterling, Euros and Australian Dollars.

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

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

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

POST BALANCE SHEET EVENTS

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

On 30 March 2011, the Group completed a listing of its shares on the Toronto Stock Exchange ("TSX") and at the same time issued a total of nine million units raising gross proceeds of C$4,950,000. Each unit comprised one new Ordinary Share and one half of a share purchase warrant entitling the holder to acquire for each whole share purchase warrant, one new Ordinary Share at any time up to 2 December 2012 for an exercise price of C$0.75 ("a Warrant")

The listing of the shares on the TSX also resulted in the automatic exercise of the Special Warrants issued by the Company on 2 December 2010. Upon the exercise of the Special Warrants 10,070,000 new Ordinary Shares were issued and 5,035,000 Warrants. At the same time the current liability shown on the balance sheet as at 31 December of US$5,059,995, representing the net proceeds of the issue if the Special Warrants was eliminated and the balance transferred to form part of Equity.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

AUDITORS

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

Disclosure of audit information

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

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

By order of the Board

Clive Line
Company Secretary
31 March 2011

Independent Auditors' Report

To the members of Serabi Mining plc

We have audited the financial statements of Serabi Mining plc for the year ended 31 December 2010 which comprise the group statement of comprehensive income, the group and company balance sheets, statements of changes in equity and cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS
In our opinion:
- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

SEPARATE OPINION IN RELATION TO IFRSS
As explained in Note 1(a) to the group financial statements, the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

EMPHASIS OF MATTER – AVAILABILITY OF PROJECT FINANCE
In forming our conclusion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 a) to the financial statements concerning the availability of project finance. If the company is unable to secure such additional funding, this may have a consequential impact on the carrying value of the related assets and the investment and intercompany debtor in the company balance sheet. The outcome of any future fundraising cannot presently be determined, and no adjustments to asset carrying values that may be necessary should be the company be unsuccessful have been recognised in the financial statements.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Jason Homewood (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor
London, UK
31 March 2011

Independent Auditors' Report

To the Directors of Serabi Mining plc in respect of compatability with Canadian GAAS

In accordance with the requirement contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("Canadian GAAS") and International Standards on Auditing (UK and Ireland).

We conducted our audit for the year ended 31 December 2010 in accordance with International Standards of Auditing (UK and Ireland). There are no material differences in the form or content of our audit report as compared to an auditors' report prepared in accordance with Canadian GAAS and if this report were prepared in accordance with Canadian GAAS it would contain an unmodified report.

PKF (UK) LLP
London, UK
31 March 2011

Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	Group	
		For the year ended 31 December 2010 US$	For the year ended 31 December 2009 US$
CONTINUING OPERATIONS			
Revenue	2	**1,229,551**	5,512,804
Operating expenses		**(2,416,746)**	(5,755,002)
Gross loss		**(1,187,195)**	(242,198)
Administration expenses		**(2,266,912)**	(1,851,937)
Share-based payments		**(103,876)**	(147,038)
Write-off of past exploration costs		**–**	(495,138)
Increase in rehabilitation provision		**–**	(346,000)
Loss on asset disposals		**(124,179)**	(181,237)
Impairment	19	**–**	(4,343,048)
Depreciation of plant and equipment		**(2,112,445)**	(2,157,026)
Operating loss	3	**(5,794,607)**	(9,763,622)
Foreign exchange loss		**(27,396)**	(14,533)
Interest payable	4	**(187,912)**	(215,916)
Interest receivable	4	**29,904**	3,569
Loss before taxation		**(5,980,011)**	(9,990,502)
Income tax expense	5	**–**	–
Loss for the period from continuing operations[1] [2]		**(5,980,011)**	(9,990,502)
Other comprehensive income (net of tax)			
Exchange differences on translating foreign operations		**1,613,011**	10,072,895
Total comprehensive (loss)/income for the period[2]		**(4,367,000)**	82,393
Loss per ordinary share (basic and diluted)	7	**(15.21c)**	(61.55c)

(1) All revenue and expenses arise from continuing operations

(2) The Group has no non-controlling interests and all income/(losses) are attributable to the equity holders of the Parent Company

Balance Sheets

As at 31 December 2010

	Notes	Group		Company	
		2010 US$	2009 US$	**2010 US$**	2009 US$ (restated)
Non-current assets					
Goodwill	8	**–**	–	**–**	–
Development and deferred exploration costs	8	**9,797,406**	6,880,038	**947,793**	729,424
Property, plant and equipment	9	**33,951,140**	35,327,788	**1,295,675**	1,448,825
Investments in subsidiaries	10	**–**	–	**10,913,322**	10,913,322
Other receivables	12	**–**	–	**25,168,521**	19,956,521
Total non-current assets		**43,748,546**	42,207,826	**38,325,311**	33,048,092
Current assets					
Inventories	11	**1,417,804**	1,259,764	**–**	–
Trade and other receivables	12	**96,143**	275,538	**60,289**	137,932
Prepayments		**1,061,945**	1,413,158	**35,583**	45,787
Cash and cash equivalents	13	**8,598,755**	4,081,882	**8,032,125**	4,020,169
Total current assets		**11,174,647**	7,030,342	**8,127,997**	4,203,888
Current liabilities					
Trade and other payables	14	**3,147,258**	4,170,712	**554,501**	551,701
Accruals		**174,348**	122,269	**174,348**	122,268
Interest bearing liabilities	16	**–**	80,499	**–**	–
Special warrants	18	**5,059,995**	–	**5,059,995**	–
Total current liabilities		**8,381,601**	4,373,480	**5,788,844**	673,969
Net current assets		**2,793,046**	2,656,862	**2,339,153**	3,529,919
Total assets less current liabilities		**46,541,592**	44,864,688	**40,664,464**	36,578,011
Non-current liabilities					
Trade and other payables	14	**552,027**	68,873	**–**	–
Provisions	15	**1,388,571**	1,374,200	**–**	–
Interest bearing liabilities	16	**249,176**	216,898	**249,176**	216,898
Total non-current liabilities		**2,189,774**	1,659,971	**249,176**	216,898
Net assets		**44,351,818**	43,204,717	**40,415,288**	36,361,113
Equity					
Called up share capital	17	**27,752,834**	26,848,814	**27,752,834**	26,848,814
Share premium reserve		**40,754,032**	36,268,991	**40,754,032**	36,268,991
Option reserve		**1,648,484**	1,523,444	**1,648,484**	1,523,444
Other reserves		**260,882**	260,882	**260,882**	260,882
Translation reserve		**3,882,168**	2,269,157	**–**	–
Accumulated losses	20	**(29,946,582)**	(23,966,571)	**(30,000,944)**	(28,541,018)
Equity shareholders' funds attributable to owners of the parent		**44,351,818**	43,204,717	**40,415,288**	36,361,113

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2011 and signed on its behalf by:

Clive Line
Finance Director
31 March 2011

Company Number 5131528

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2010

Group	Share capital US$	Share premium US$	Share option reserve US$	Other reserves US$	Translation reserve US$	Accumulated losses US$	Total equity US$
Equity shareholders' funds at 31 December 2008	25,285,679	33,402,649	3,061,095	–	(7,803,738)	(15,681,143)	38,264,542
Foreign currency adjustments	–	–	–	–	10,072,895	–	10,072,895
Loss for year	–	–	–	–	–	(9,990,502)	(9,990,502)
Total comprehensive income for the year	–	–	–	–	10,072,895	(9,990,502)	82,393
Issue of new ordinary shares	1,563,135	3,129,079	–	–	–	–	4,692,214
Costs associated with issue of new ordinary shares	–	(262,737)	–	–	–	–	(262,737)
Equity portion of convertible loan stock	–	–	–	260,882	–	–	260,882
Cancellation of share options	–	–	(1,705,074)	–	–	1,705,074	–
Share option expense	–	–	167,423	–	–	–	167,423
Equity shareholders' funds at 31 December 2009	26,848,814	36,268,991	1,523,444	260,882	2,269,157	(23,966,571)	43,204,717
Foreign currency adjustments	–	–	–	–	1,613,011	–	1,613,011
Loss for year	–	–	–	–	–	(5,980,011)	(5,980,011)
Total comprehensive income for the year	–	–	–	–	1,613,011	(5,980,011)	(4,367,000)
Issue of new ordinary shares	904,020	4,520,100	–	–	–	–	5,424,120
Costs associated with issue of new ordinary shares	–	(35,059)	–	–	–	–	(35,059)
Share option expense	–	–	125,040	–	–	–	125,040
Equity shareholders' funds at 31 December 2010	**27,752,834**	**40,754,032**	**1,648,484**	**260,882**	**3,882,168**	**(29,946,582)**	**44,351,818**

Company	Share capital US$	Share premium US$	Share option reserve US$	Other reserves US$	Accumulated losses US$	Total equity US$
Equity shareholders' funds at 31 December 2008	25,285,679	33,402,649	3,061,095	–	(17,500,168)	44,249,255
Loss for year	–	–	–	–	(12,745,924)	(12,745,924)
Comprehensive income for year	–	–	–	–	(12,745,924)	(12,745,924)
Issue of new ordinary shares	1,563,135	3,129,079	–	–	–	4,692,214
Costs associated with issue of new ordinary shares	–	(262,737)	–	–	–	(262,737)
Equity portion of convertible loan stock	–	–	–	260,882	–	260,882
Cancellation of share options	–	–	(1,705,074)	–	1,705,074	–
Share option expense	–	–	167,423	–	–	167,423
Equity shareholders' funds at 31 December 2009	26,848,814	36,268,991	1,523,444	260,882	(28,541,018)	36,361,113
Loss for year	–	–	–	–	(1,459,926)	(1,459,926)
Comprehensive income for year	–	–	–	–	(1,459,926)	(1,459,926)
Issue of new ordinary shares	904,020	4,520,100	–	–	–	5,424,120
Costs associated with issue of new ordinary shares	–	(35,059)	–	–	–	(35,059)
Share option expense	–	–	125,040	–	–	125,040
Equity shareholders' funds at 31 December 2010	**27,752,834**	**40,754,032**	**1,648,484**	**260,882**	**(30,000,944)**	**40,415,288**

Cash Flow Statements

For the year ended 31 December 2010

	Group		Company	
	For the year ended 31 December 2010 US$	For the year ended 31 December 2009 US$	**For the year ended 31 December 2010 US$**	For the year ended 31 December 2009 US$ (restated)
Cash outflows from operating activities				
Operating loss	**(5,794,607)**	(9,763,622)	**(1,424,060)**	(12,745,924)
Depreciation – plant, equipment and mining properties	**2,112,445**	2,157,026	**160,375**	331,629
Impairment charges	**–**	4,343,048	**–**	10,678,532
Increase in rehabilitation provision	**–**	346,000	**–**	–
Loss on sale of assets	**124,179**	181,237	**–**	61,575
Option costs	**103,876**	167,423	**103,876**	167,423
Share based payment expense	**–**	334,987	**–**	334,987
Write-off of past exploration costs	**–**	495,138	**–**	61,835
Interest paid	**(149,439)**	(215,916)	**–**	(35,554)
Foreign exchange	**(175,671)**	(650,272)	**(75,223)**	68,616
Changes in working capital				
(Increase)/decrease in inventories	**(95,530)**	452	**–**	–
Decrease in receivables, prepayments and accrued income	**569,010**	1,179,755	**87,847**	507,558
(Decrease)/increase in payables, accruals and provisions	**(631,396)**	(96,684)	**54,880**	(93,419)
Net cash flow from operations	**(3,937,133)**	(1,521,428)	**(1,092,307)**	(662,742)
Investing activities				
Proceeds of sale of fixed assets	**501,209**	1,220,691	**–**	–
Purchase of property, plant and equipment	**(7,225)**	(74,578)	**(7,225)**	–
Exploration and development expenditure	**(2,481,665)**	(620,490)	**(197,204)**	–
Capital and loan investments in subsidiaries	**–**	–	**(5,212,000)**	(1,539,000)
Interest received	**29,904**	3,569	**29,904**	2,612
Net cash (outflow)/inflow on investing activities	**(1,957,777)**	529,192	**(5,386,525)**	(1,536,338)
Financing activities				
Issue of ordinary share capital	**5,424,120**	4,266,740	**5,424,120**	4,266,740
Issue of special warrants	**5,453,761**	–	**5,453,761**	–
Capital element of finance lease payments	**(79,303)**	(1,178,381)	**–**	–
Issue of convertible loan stock	**–**	477,780	**–**	477,780
Payment of share issue costs	**(35,059)**	(172,250)	**(35,059)**	(172,250)
Payment of special warrant issue costs	**(393,765)**	–	**(393,765)**	–
Net cash inflow from financing activities	**10,369,754**	3,393,889	**10,449,057**	4,572,270
Net increase in cash and cash equivalents	**4,474,844**	2,401,653	**3,970,225**	2,373,140
Cash and cash equivalents at beginning of period	**4,081,882**	1,538,956	**4,020,169**	1,516,250
Exchange difference on cash	**42,029**	141,273	**41,731**	130,779
Cash and cash equivalents at end of period	**8,598,755**	4,081,882	**8,032,125**	4,020,169

Notes to the Financial Statements

For the year ended 31 December 2010

1 Significant accounting policies

(a) Basis of preparation

Serabi Mining plc (the "Company") is a public limited company incorporated and domiciled in the United Kingdom, the shares of which are listed on AIM, part of the London Stock Exchange, and the Toronto Stock Exchange. The public registered office and principal place of business are disclosed in the corporate directory section of the Annual Report.

The principal activities of the Group are described in the Directors' Report on page 14.

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

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") as adopted for use within the European Union and with IFRS and their interpretations adopted by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has not adopted any standards or interpretations in advance of the required implementation dates. There has been no significant measurement impact on the consolidated financial statements from new standards or interpretations effective in 2010.

It is not anticipated that the adoption in the future of the new or revised standards or interpretations that have been issued by the International Accounting Standards Board will have a material impact on the Group's earnings or shareholders' funds.

Going concern and availability of project finance

In common with many companies in the exploration and development stages, the Company raises its finance for exploration and development programmes in discrete tranches. The directors have prepared cash flow projections for the period to June 2012 which indicate that existing funds will be sufficient to fund the group and its commitments for the foreseeable future. The directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis.

However, further funds will be required in order to successfully develop any successful exploration targets and bring the Palito mine back into operation. Whilst the directors are confident that they are taking all the necessary steps to ensure that the funding will be available, there can be no certainty that this will be the case. Were the funding not to become available in an appropriate timescale the directors would need to consider alternative strategies and an impairment review would be required in respect of the capitalised expenditure on the Palito project. No adjustments to asset carrying values that may be necessary should the company be unsuccessful have been recognised in the financial statements.

Impairment

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

1 Significant accounting policies (continued)

(b) Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Transactions eliminated on consolidation

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

(c) Foreign currencies

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

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

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

The US Dollar/Sterling exchange rate at 31 December 2010 was 1.5471 (2009: 1.5926). The US Dollar/Brazilian Real exchange rate at 31 December 2010 was 1.6662 (2009: 1.7412).

(d) Property, plant and equipment

(i) Owned assets

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

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

(ii) Leased assets

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

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

(iii) Subsequent costs

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

Notes to the Financial Statements

For the year ended 31 December 2010

1 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iv) Depreciation

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

Mining assets

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

Other assets

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

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

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

(e) Deferred exploration and evaluation costs

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred. Subsequent to the legal rights being obtained all costs related to the exploration of mineral properties are capitalised on a project-by-project basis and deferred until either the properties are demonstrated to be commercially feasible (see note 1(d) (i)) or until the properties are sold, allowed to lapse or abandoned, at which time any capitalised costs are written off to the profit or loss. Costs incurred include appropriate technical and administrative overheads but not general overheads. Deferred exploration costs are carried at cost less any impairment losses recognised.

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

(f) Trade and other receivables

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

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

Receivables in respect of sale of gold/copper concentrate are revalued using metal prices ruling at the balance sheet date (see Revenue policy - note (o)).

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

(g) Cash and cash equivalents

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

(h) Impairment

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

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

(i) unexpected geological occurrences that render the resource uneconomic;

(ii) title to the asset is compromised;

(iii) variations in metal prices that render the project uneconomic; and

(iv) variations in the currency of operation.

1 Significant accounting policies (continued)

(i) Share capital

The Company's ordinary shares and deferred shares are classified as equity.

Called up share capital is recorded at par value of 5 pence per ordinary share and 9.5 pence per deferred share.

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

(j) Borrowings

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

Interest on borrowings used specifically to fund the acquisition of non current assets is capitalised as part of the acquisition cost of the asset.

(k) Employee benefits

(i) Share-based payment transactions

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

(ii) Share options

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

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

(iii) Pension costs

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

(l) Provisions

Provisions are recognised when:

(i) the Group has a present legal or constructive obligation as a result of past events;

(ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and

(iii) the amount can be reliably estimated.

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

(m) Trade and other payables

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

(n) Inventories

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

1 Significant accounting policies (continued)

(o) Revenue

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

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

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

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

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

(p) Expenses

(i) Operating lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

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

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

(q) Taxation

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

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

(r) Compound Financial Instruments

Compound financial instruments comprise both liability and equity components. At issue date, the fair value of the liability component is estimated by discounting its future cash flows at an interest rate that would have been payable on a similar debt instrument without any equity conversion option. The liability component is accounted for as a financial liability. The difference between the net issue proceeds and the liability component is the equity component, and is accounted for as equity.

Any transaction costs associated with the issue of a compound financial instrument are allocated in proportion to the equity and liability components.

The interest expense on the liability component is calculated by applying the effective interest rate for the liability component of the instrument.
The difference between the interest expense and the interest payments made are included in the carrying amount of the liability.

(s) Segmental reporting

The Group has only one primary business unit namely the conduct of gold mining and exploration in Brazil. For management purposes, however the Group recognises separate cost centres within the business for internal reporting and an analysis of activities by these cost centre is provided within the notes to these financial statements. The operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, responsible for allocating recources and assessing performance of the operating segments, has been identified as the Board of Directors.

1 Significant accounting policies (continued)

(t) Goodwill

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

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

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

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

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

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

(u) Investments in subsidiaries

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

(v) Special Warrants

On 2 December 2010, the Company completed the placing of 10,070,000 Special Warrants. Each Special Warrant allows the holder to receive one Ordinary Share and one half of one share purchase warrant. Further details are set out in note 18.

At 31 December 2010 there existed more than one potential outcome although as of the date of these financial statements being approved the Special Warrants had been converted and the outcome established. In accordance with International Accounting Standard 32 – Financial Instruments Presentation ("IAS32"), the Special Warrants are considered a financial instrument and as there existed more than one potential outcome in respect of their settlement should be shown as a liability of the Company as opposed to Equity. Further as the settlement of the Special Warrants will occur within less than 12 months of the balance sheet date the deemed liability should be classified as a current liability.

On 30 March 2011, the automatic exercise of the Special Warrants took place and new Ordinary Shares and Warrants were issued.

(w) Critical accounting estimates and judgements

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

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

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

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

Impairment of goodwill and other assets

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

As described in note 1(d) (iv), the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Further disclosure is provided in note 19 regarding the key assumptions made in arriving at the value in use.

Provisions

The Group reviews estimates of provisions for potential liabilities at the end of each reporting period where applicable taking into account the circumstances of the potential liability, the availability and confidence of information used to calculate the potential liability and where applicable past history regarding the actual liability incurred in similar situations.

Notes to the Financial Statements

For the year ended 31 December 2010

2 Segmental analysis

The following information is given about the Group's reportable segments:

The Chief Operating Decision Maker is the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance of the business. Management has determined the operating segments based on the reports reviewed by the Board.

The Board considers the performance of the Group by the geographical location of expenditures, and the division of capital expenditure between exploration and operations.

Revenue

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

	2010		2009	
Major Customers (accounting for more than 10% of the Group's revenues)	**$**	**%**	$	%
Customer 1	**1,229,551**	**100.0**	5,158,612	93.6

An analysis of the results for the year by management segment is as follows:

	2010			2009		
	Brazil $	**Unallocated $**	**Total $**	Brazil $	Unallocated $	Total $
Revenue	**1,229,551**	**–**	**1,229,551**	5,313,213	199,591	5,512,804
Operating expenses	**2,346,557**	**70,819**	**2,416,746**	5,352,524	404,478	5,755,502
Operating loss	**1,117,006**	**70,189**	**1,187,195**	39,311	202,887	242,198
Administration expenses	**1,177,291**	**1,089,621**	**2,266,912**	790,954	1,060,983	1,851,937
Share based payments	**–**	**103,876**	**103,876**	–	147,038	147,038
Write off of past exploration costs	**–**	**–**	**–**	433,303	61,835	495,138
Increase in rehabilitation provision	**–**	**–**	**–**	346,000	–	346,000
Impairment	**–**	**–**	**–**	4,114,832	228,216	4,343,048
Depreciation and loss/(gain) on asset disposals	**2,219,921**	**16,703**	**2,236,624**	1,945,060	393,203	2,338,263
Operating loss	**4,514,218**	**1,280,389**	**5,794,607**	7,669,460	2,094,162	9,763,622
Foreign exchange loss	**100**	**27,296**	**27,396**	(160,034)	174,567	14,533
Interest expense/(income)	**149,439**	**8,569**	**158,008**	180,405	31,942	212,347
Loss before taxation	**4,663,757**	**1,316,254**	**5,980,011**	7,689,831	2,300,671	9,990,502

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

	Total non-current assets	
	31 December 2010 $	31 December 2009 $
Brazil – operations	**33,920,550**	35,287,719
Brazil – exploration	**9,797,406**	6,880,038
Other	**30,590**	40,069
	43,748,546	42,207,826

An analysis of total assets by location is as follows:

	Total assets	
	31 December 2010 $	31 December 2009 $
Brazil	**46,814,023**	44,989,667
Other	**8,163,132**	4,248,501
	54,977,155	49,238,168

2 Segmental analysis (continued)

During the year, the following amounts incurred by area were capitalised as development and deferred exploration costs:

	Group	
	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Brazil	**2,284,460**	620,490
Other	**218,369**	20,385
	2,502,829	640,875

During the year, the following amounts were capitalised as property, plant and equipment:

	Group	
	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Brazil (non-leased assets)	**–**	283,578
Brazil (leased assets)	**–**	–
Other	**7,225**	–
	7,225	283,578

3 Operating loss

a. Group operating loss for the year is stated after charging the following:

	Group	
	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Staff Costs	**3,003,362**	3,214,278
Depreciation (plant and equipment)	**2,112,445**	2,157,026
Impairment of property plant and equipment	**–**	2,590,532
Impairment of goodwill	**–**	1,752,516
Cost of inventories recognized as an expense	**930,513**	1,244,714
Operating lease charges	**111,017**	342,470

b. Auditors' Remuneration

	Group	
	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Fees payable to the group's auditor for the audit of the group's annual financial statements	**49,992**	67,855
Fees payable to the group's auditor and its associates for other services:		
audit of the Group's subsidiaries pursuant to legislation	**22,066**	29,011
tax services	**1,874**	7,208
all other services	**17,493**	–

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For the year ended 31 December 2010

4 Interest payable and receivable

	Group	
	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Interest payable on short-term trade finance	**–**	(35,511)
Interest payable on lease obligations	**(5,637)**	(61,053)
Other interest	**(182,275)**	(119,352)
Interest payable	**(187,912)**	(215,916)
Interest receivable on short-term deposits	**29,904**	3,569
Net interest	**(158,008)**	(212,347)

5 Taxation

	Group	
	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Current tax		
UK tax	**–**	–
Foreign tax	**–**	–
Deferred tax	**–**	–
Total	**–**	–

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained as follows:

	Group	
	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Loss on ordinary activities before tax	**(5,980,011)**	(9,990,502)
Tax thereon at UK corporate tax rate of 28% (2009: 28%)	**(1,674,403)**	(2,797,340)
Factors affecting the tax charge:		
expenses not deductible for tax purposes	**74,707**	1,543,871
income not taxable	**6,366**	–
higher rate tax overseas	**(260,290)**	(116,515)
unrecognised tax losses carried forward	**1,853,620**	1,369,984
Tax charge	**–**	–

The Group has total tax losses of US$35.3 million (2009: US$29.6 million) giving rise to a potential deferred tax asset of US$11.5 million (2009: US$9.4 million). This asset has not been recognised in the financial statements because of uncertainty as to the time period over which the asset may be recovered.

6 Employee information

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

	For the year ended 31 December 2010 Number	For the year ended 31 December 2009 Number
Management and administration	**10**	16
Exploration	**9**	3
Mine development and operations	**45**	62
Total	**64**	81

	$	$
Staff costs		
Wages and salaries	**1,666,520**	2,102,146
Cost of incentive scheme shares and Director shares vested	**125,040**	167,423
Social security costs	**434,745**	434,431
Termination costs	**752,374**	270,268
Pension contributions	**4,684**	240,110
Total	**3,003,362**	3,214,378

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

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

Key management and directors' remuneration

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

	For the year ended 31 December 2010 $	For the year ended 31 December 2009 $
Salary and short-term employee benefits	**343,934**	206,090
Post employment benefits	**4,684**	4,277
Share-based payments	**81,537**	359,944
Total	**430,155**	570,311

The remuneration of the highest paid Director during the year was US$182,541 (2009: US$279,897). The Company made cash contributions to his money purchase pension scheme of US$4,684 (2009: US$8,788). The remuneration also includes the valuation of options granted in accordance with IFRS 2 of US$31,355 (2009: US$62,880).

During the year ended 31 December 2010 one of the Directors (2009: four) was entitled to accrue retirement benefits under money purchase schemes. As of 21 December 2009 each of the Directors waived their rights to receive future contributions to their money purchase retirement benefit schemes unless they agreed to forego basic salary in lieu.

Notes to the Financial Statements

For the year ended 31 December 2010

7 Loss per share

The calculation of the basic loss per share of 15.21 cents (2009 loss per share: 61.55 cents) is based on the loss attributable to ordinary shareholders of US$5,980,011 (2009: loss of US$9,990,502) and on the weighted average number of ordinary shares of 39,316,525 (2009: 16,230,937) in issue during the period. No diluted earnings per share is presented as the effect of the exercise of share options would be to decrease the loss per share.

Details of share options that could potentially dilute earnings per share in future periods are set out in note 17.

8 Intangible assets

Goodwill

	Group 31 December 2010 $	Group 31 December 2009 $
Cost		
Balance at 31 December 2009 and 31 December 2010	**1,752,516**	1,752,516
Amortisation		
Opening Balance	**(1,752,516)**	–
Impairment Charge (note 18)	**–**	(1,752,516)
Closing Balance	**(1,752,516)**	(1,752,516)
Net book value at end of period	**–**	–

Development and deferred exploration costs

	Group		Company	
	31 December 2010 $	31 December 2009 $	31 December 2010 $	31 December 2009 $
Cost				
Opening balance	**6,880,038**	5,351,921	**729,424**	949,527
Exploration and development expenditure	**2,502,829**	640,875	**218,369**	20,385
Write-off of past exploration costs	**–**	(495,138)	**–**	(61,835)
Exchange	**414,539**	1,570,728	**–**	–
Transfer to tangible assets (plant and equipment)	**–**	(188,348)	**–**	(178,653)
Total as at end of period	**9,797,406**	6,880,038	**947,793**	729,424

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

9 Tangible assets

Property, plant and equipment

2010	Group Land and buildings – at cost $	Group Mining property – at cost $	Group Plant and equipment – at cost $	Group Total $	Company Plant and equipment – at cost $	Company Mining property – at cost $	Company Total $
Cost							
Balance at 31 December 2009	3,908,600	31,333,417	13,324,874	48,566,891	605,142	2,167,502	2,772,644
Additions	–	–	7,225	7,225	7,225	–	7,225
Exchange	175,936	1,215,620	499,404	1,890,960	–	–	–
Disposals	–	–	(1,196,380)	(1,196,380)	–	–	–
At 31 December 2010	**4,084,536**	**32,549,037**	**12,635,123**	**49,268,696**	**612,367**	**2,167,502**	**2,779,869**
Depreciation							
Balance at 31 December 2009	(2,632,403)	(4,237,381)	(6,369,319)	(13,239,103)	(399,344)	(924,475)	(1,323,819)
Charge for period	(556,292)	–	(1,556,153)	(2,112,445)	(160,375)	–	(160,375)
Exchange	(148,422)	(86,344)	(302,234)	(537,000)	–	–	–
Eliminated on sale of asset	–	–	570,992	570,992	–	–	–
At 31 December 2010	**(3,337,117)**	**(4,323,725)**	**(7,656,714)**	**(15,317,556)**	**(559,719)**	**(924,475)**	**(1,484,194)**
Net book value at 31 December 2010	**747,419**	**28,225,312**	**4,978,409**	**33,951,140**	**52,649**	**1,243,027**	**1,295,675**
Net book value at 31 December 2009	1,276,197	27,096,036	6,955,555	35,327,788	205,798	1,243,027	1,448,825

Included in Plant and equipment, are assets acquired under finance leases with net book value of US$ nil (2009: US$237,282). Further details regarding the impairment review undertaken by the Directors, are set out in note 19.

Property, plant and equipment

2009	Group Land and buildings – at cost $	Group Mining property – at cost $	Group Plant and equipment – at cost $	Group Total $	Company Plant and equipment – at cost $	Company Mining property – at cost $	Company Total $
Cost							
Balance at 31 December 2008	2,052,278	24,077,127	12,165,687	38,295,092	892,161	2,167,502	3,059,663
Additions	–	209,000	74,578	283,578	–	–	–
Transfer from development and deferred exploration costs	–	–	188,348	188,348	178,653	–	178,653
Exchange	1,856,322	7,047,290	2,660,937	11,564,549	–	–	–
Disposals	–	–	(1,764,676)	(1,764,676)	(465,672)	–	(465,672)
At 31 December 2009	3,908,600	31,333,417	13,324,874	48,566,891	605,142	2,167,502	2,772,644
Depreciation							
Balance at 31 December 2008	(1,227,098)	(1,699,137)	(3,748,493)	(6,674,728)	(450,134)	(524,178)	(974,312)
Charge for period	(494,401)	–	(1,662,625)	(2,157,026)	(331,629)	–	(331,629)
Impairment charge	(86,130)	(2,037,683)	(466,719)	(2,590,532)	(21,679)	(400,297)	(421,976)
Exchange	(824,774)	(500,561)	(1,055,558)	(2,380,893)	–	–	–
Eliminated on sale of asset	–	–	564,076	564,076	404,098	–	404,098
At 31 December 2009	(2,632,403)	(4,237,381)	(6,369,319)	(13,239,103)	(399,344)	(924,475)	(1,323,819)
Net book value at 31 December 2009	1,276,197	27,096,036	6,955,555	35,327,788	205,798	1,243,027	1,448,825
Net book value at 31 December 2008	825,180	22,377,990	8,417,194	31,620,364	442,027	1,643,324	2,085,351

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For the year ended 31 December 2010

10 Investments held as fixed assets

The Group consists of the following subsidiary undertakings:

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

* indirectly held.

	Company	
	31 December 2010 $	31 December 2009 $
Cost at start and end of period	**17,339,256**	17,339,256
Impairment provision		
Balance at start of period	**6,425,934**	2,911,462
Charge in period (note 19)	**–**	3,514,472
Balance at end of period	**6,425,934**	6,425,934
Net book value at end of period	**10,913,322**	10,913,322

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

11 Inventories

	Group		Company	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Consumables	**1,417,804**	1,259,764	**–**	–

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

12 Trade and other receivables

	Group		Company	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Current				
Trade receivables	**32,760**	136,142	**–**	–
Other receivables	**63,383**	139,396	**60,289**	137,932
Trade and other receivables	**96,143**	275,538	**60,289**	137,932
Non-current				
Amounts owed by subsidiaries	**–**	–	**36,919,231**	31,707,231
Impairment provision (note 19)	**–**	–	**(11,750,710)**	(11,750,710)
Other receivables	**–**	–	**25,168,521**	19,956,521

13 Cash and cash equivalents

	Group		Company	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Cash and cash equivalents	**8,598,755**	4,081,882	**8,032,125**	4,020,169

14 Trade and other payables

	Group		Company	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Current				
Trade payables	**1,804,445**	2,774,628	**122,252**	121,199
Other payables	**334,961**	392,741	**1,315**	–
Employee benefits	**534,360**	315,243	**–**	–
Other taxes and social security	**473,492**	688,100	**11,398**	10,966
Amounts due to subsidiaries	**–**	–	**419,536**	419,536
Trade and other payables	**3,147,258**	4,170,712	**554,501**	551,701
Non-current				
(Between one and five years)				
Trade payables	**64,336**	–	**–**	–
Other payables	**187,244**	68,873	**–**	–
Employee benefits	**65,907**	–	**–**	–
Other taxes and social security	**234,540**	–	**–**	–
	552,027	68,873	**–**	–

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For the year ended 31 December 2010

15 Non-current provisions

Contingency provision

	Group		Company	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Opening balance	**319,200**	235,905	**–**	–
Exchange	**14,571**	83,295	**–**	–
Closing balance	**333,571**	319,200	**–**	–

Environmental rehabilitation provision

	Group		Company	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Opening balance	**1,055,000**	500,000	**–**	–
Provided for in year	**–**	555,000	**–**	–
Closing balance	**1,055,000**	1,055,000	**–**	–
Total non-current provisions	**1,388,571**	1,374,200	**–**	–

The contingency provision covers claims that may be brought by former employees of Serabi Mineração SA against that company. Brazilian labour law entitles a former employee to lodge within two years of leaving the company claims for alleged unpaid remuneration and compensation in the event of dismissal. The Company whilst contesting each claim has made provision in respect of all known claims. This additional provision is based on a best estimate of potential future claims that might arise.

The environmental rehabilitation provision has been established to cover any asset decommissioning and rehabilitation obligations. Such obligations include the dismantling of infrastructure, removal of residual materials and remediation of disturbed areas. The provision does not allow for any additional obligations expected from future developments. The timing and scope of the rehabilitation is uncertain and is dependent on mine life and quantities extracted from the mine.

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

16 Interest bearing liabilities

Leasing arrangements

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

Finance lease liabilities

	Group Minimum lease payments	
	31 December 2010 $	31 December 2009 $
No later than one year	**–**	84,761
Later than one year and not later than five years	**–**	–
	–	84,761
Future finance charges	**–**	(4,262)
Present value of minimum lease payments	**–**	80,499

16 Interest bearing liabilities (continued)

Convertible loan stock

A convertible unsecured loan stock instrument was entered into on 9 November 2009 pursuant to which Greenwood Investments Ltd ("Greenwood") made available to the Company a facility of £300,000 on the following terms.

- the loan could be drawn down by the Company at any time on or before 31 December 2010;
- interest will accrue at the rate of 1 percent per annum and is compounded;
- the loan is repayable on 31 October 2014 subject to the right of Greenwood at any time, on one or more occasions, on or before the repayment date to convert any of the outstanding amounts owed by the company to Ordinary Shares at a price of 1.5 pence per share;
- if Greenwood is unable to convert as a result of being prevented by applicable rules and legislation or in the event that conversion is unduly onerous on Greenwood (which includes an obligation under Rule 9 of the City Code to make a mandatory offer) the repayment date will be extended;
- the Company has no ability to pre-pay any amount drawn down without the prior written consent of Greenwood; and
- the loan may be treated by Greenwood as repayable in the event of the happening of certain events of default.

The full amount of the convertible loan stock was drawn down on 14 December 2009.

The fair value of the liability component of this convertible loan stock amounted to £136,191 (US$216,898) on initial recognition, using cash flows discounted at a rate of 15.0 per cent. based on an anticipated borrowing rate for the Company for a similar debt facility without the equity conversion option. The equity element amounting to £163,809 (US$260,882) is recorded in Other Reserves as part of Equity.

	Group	
	31 December 2010 $	31 December 2009 $
Interest bearing liabilities – current		
Finance leases	–	80,499
	–	80,499
Interest bearing liabilities – non-current		
Convertible Loan Stock	**249,176**	216,898
	249,176	216,898

	Company	
	31 December 2010 $	31 December 2009 $
Interest bearing liabilities – non-current		
Convertible Loan Stock	**249,176**	216,898

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17 Share capital

	2010		2009	
	Number	**£**	Number	£
Authorised				
Ordinary shares of 5 pence each (2009: 0.5 pence each)	**333,735,776**	**16,686,789**	3,337,357,765	16,686,789
Deferred shares of 9.5 pence each	**140,139,065**	**13,313,211**	140,139,065	13,313,211
		30,000,000		30,000,000

On 21 December 2010, the shareholders approved the consolidation of the existing issued and unissued ordinary shares of the Company on the basis of one new ordinary share of 5 pence par value for every ten old ordinary shares of 0.5 pence par value. Following the approval of this resolution the number of shares in issue was reduced from 447,740,595 to 44,774,059.

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 amongst the holders of ordinary shares.

	2010		2009	
	Number	**$**	Number	$
Allotted, called up and fully paid				
Ordinary shares of 05 pence each (2009: 10 pence each)	**44,774,059**	**3,731,439**	327,740,595	2,827,419
Deferred shares of 9.5 pence each	**140,139,065**	**24,021,395**	140,139,065	24,021,395
		27,752,834		26,848,814

Movements in issued share capital

	31 December 2010 Number	31 December 2010 $	31 December 2009 Number	31 December 2009 $
Ordinary shares				
Opening balance	327,740,595	2,827,419	140,139,065	25,285,679
Sub-division of shares	–	–	–	(24,021,395)
Issue of shares for cash	120,000,000	904,020	187,601,530	1,563,135
Consolidation of shares	(402,966,536)	–	–	–
Closing balance	44,774,059	3,731,439	327,740,595	2,827,419

	31 December 2010 Number	31 December 2010 $	31 December 2009 Number	31 December 2009 $
Deferred shares				
Opening balance	140,139,065	24,021,395	–	–
Sub-division of shares	–	–	140,139,065	24,021,395
Closing balance	140,139,065	24,021,395	140,139,065	24,021,395

The following share issues of Ordinary Shares have occurred during the year:

16 June 2010 Placing of 12,000,000 shares at a price of 30 pence each[1]

(1) the number of shares and the price have been adjusted to reflect the share consolidation noted above that was approved on 21 December 2010.

17 Share capital (continued)

Options to subscribe for ordinary shares

Pre-IPO share option plan

Year ended 31 December 2010

Option period	Exercise price	Grant Date	Options in issue at start of period	Effect of share consolidation	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
30 Nov 05 – 01 Apr 16	£1.50	25 Apr 05	2,783,635	(2,505,275)	278,360	n/a	5.25
01 Apr 06 – 01 Apr 16	£3.00	25 Apr 05	2,749,304	(2,472,379)	274,925	n/a	5.25
As at 31 December 2010			**5,532,939**	**–**	**553,285**		
Weighted average exercise price			22.4p	–	£2.24		

Year ended 31 December 2009

(exercise prices are in respect of ordinary shares with a nominal value of 0.5 pence prior to the share consolidation approved on 21 December 2010)

Option period	Exercise price	Grant Date	Options in issue at start of period	Options cancelled / lapsed during period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
30 Nov 05 – 01 Apr 16	£0.15	25 Apr 05	5,758,949	2,975,314	2,783,635	n/a	6.25
01 Apr 06 – 01 Apr 16	£0.30	25 Apr 05	4,923,572	2,174,268	2,749,304	n/a	6.25
As at 31 December 2009			10,682,521	5,149,582	5,532,939		
Weighted average exercise price			21.9p	21.3p	22.4p		

Serabi Mining plc Long-term Incentive Plan 2005

The Company terminated this plan on 28 January 2011. During the year ended 31 December 2010, no options were issued under this plan.

Year ended 31 December 2010

Option period	Exercise price	Grant date	Options in issue at start of period	Effect of share consolidation	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
28 Mar 07 – 27 Mar 17	£3.84	28 Mar 07	75,000	(67,500)	7,500	n/a	6.24
15 Nov 07 – 14 Nov 17	£2.64	15 Nov 07	250,000	(225,000)	25,000	n/a	6.88
As at 31 December 2010			**325,000**	**1,650,000**	**32,500**		
Weighted average exercise price			29.2p	31.6p	£2.92p		

Year ended 31 December 2009

(exercise prices are in respect of ordinary shares with a nominal value of 0.5 pence prior to the share consolidation approved on 21 December 2010)

Option period	Exercise price	Grant date	Options in issue at start of period	Options cancelled / lapsed during period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
18 Jan 07 – 17 Jan 17	£0.3225	18 Jan 07	1,000,000	1,000,000	–	n/a	
28 Mar 07 – 27 Mar 17	£0.3840	28 Mar 07	75,000	–	75,000	n/a	7.24
15 Nov 07 – 14 Nov 17	£0.3685	15 Nov 07	400,000	400,000	–	n/a	
15 Nov 07 – 14 Nov 17	£0.2640	15 Nov 07	250,000	–	250,000	n/a	7.88
11 Jun 08 – 10 Jun 18	£0.2065	11 Jun 08	250,000	250,000	–	n/a	
As at 31 December 2009			1,975,000	1,650,000	325,000		
Weighted average exercise price			31.2p	31.6p	29.2p		

Notes to the Financial Statements

For the year ended 31 December 2010

17 Share capital (continued)

2009 Option Awards

On 21 December 2009 the Company granted the following options to Directors and employees under individual option agreements.

Date of grant	Number of options granted	Exercise price	Exercise period	Fair value
21 Dec 09	1,900,000	15p	21 Dec 09 to 20 Dec 19	8p

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

Risk free rate	1.00%
Volatility (based on share performance)	50.00%
Expected life of option (average)	four years

During the year a charge of US$125,040 (2009: US$47,610) has been recorded in these financial statements in respect of these options.

2011 Option Plan

On 28 January 2011, the Company approved the 2011 Option Scheme and allotted the following options under this option plan

Date of grant	Number of options granted	Exercise price	Exercise period
28 Jan 11	1,455,000	41p	28 Jan 11 to 27 Jan 21
28 Jan 11	450,000	37p	28 Jan 11 to 27 Jan 21

18 Special Warrants

On 2 December 2010, the Company issued 10,070,000 Special Warrants which were subscribed for at a price of 55 cents (Canadian) per Special Warrant. The release of the subscription funds in respect of the Special Warrants was contingent upon the approval of the shareholders to approve a consolidation of the issued shares on the basis of one new Ordinary Share for every ten existing Ordinary Shares. As noted in note 17 above, this resolution was approved on 21 December 2010.

Each Special Warrant, which was priced at C$0.55, will be automatically exercised (for no further consideration and without any further action by the holders of Special Warrants) into one Ordinary Share and one-half of a Warrant, subject to adjustment in certain events. The Ordinary Shares to be issued on exercise of the Special Warrants will rank pari passu with the existing Ordinary Shares.

The automatic exercise of the Special Warrants will occur upon the earlier of:

(i) five days after satisfaction of the Liquidity Conditions; and

(ii) 5.00 p.m. Toronto time on the date that is 120 days following the closing date of the Offering (the "Liquidity Deadline") being 1 April 2011.

The Liquidity Conditions are as follows:

(i) the issuance of a receipt by each of the securities commissions or comparable regulatory authorities in each of the provinces and territories of Canada in which a final prospectus of the Company will be filed to qualify the distribution of the Ordinary Shares and Warrants on exercise of the Special Warrants; and

(ii) the Company obtaining a listing of the Ordinary Shares on the TSX or TSXV.

Each Warrant will be exercisable into one Ordinary Share for a period of two years ending 2 December 2012 at an exercise price of $0.75 for each Ordinary Share, subject to adjustment in certain circumstances.

In the event that the Liquidity Conditions are not met prior to the Liquidity Deadline, holders of the Special Warrants will be entitled to receive 1.1 New Ordinary Shares and 0.55 of one Warrant.

Whilst the Special Warrants have now been converted into Ordinary Shares and Warrants and from the conversion date are equity and form part of Equity Shareholders' Funds , as at the date of the Balance Sheet being 31 December 2010, there existed uncertainty as to the number of shares that could be issued on exercise of the Special Warrants as detailed above. Notwithstanding that the actual number of shares has been established as of the date of the approval of these financial statements, in accordance with International Accounting Standard 32 ("IAS32"), it is required that as a result of the uncertainty which existed at 31 December 2010, the proceeds less the costs associated with the issue of the Special Warrants should be shown as a liability of the Company as at that date. As the expected date of the automatic exercise is within 12 months of the balance sheet date this liability must be classified as a current liability.

19 Impairment

As detailed in the accounting policies the Directors are required to undertake a review for impairment at least annually and for other assets where events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In such a situation the asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less cost to sell and value in use).

At the end of 2008, the Group placed the underground mining operations on to care and maintenance following difficulties in achieving the required operational performance from the mine which would have necessitated the injection of further capital which at that time was not available to the Group. The Group is currently embarking on a programme of identifying additional underground gold deposits in close proximity to the Palito mine, with a view to enhancing the reserve and resource base of this mineral district and ultimately to be in a position to re-open the Palito underground mine and also to start operations at two or more satellite mines nearby.

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

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

The Directors note that the carrying value of the assets relating to the Palito Mine have reduced compared with the value at 31 December 2009. This is as a result of variation in exchange rates, depreciation charges made during the period and asset disposals. In making their assessment of the value in use attributable to the Palito Mine the Directors have made certain revisions to the underlying assumptions compared with those uses in making the calculation as of 31 December 2009. In particular they have considered it appropriate to review the date of projected restart of operations, the costs of operations and future price of gold. The resulting Net Present Value still supports the carrying value of US$34.0 million and therefore the Directors have not made any adjustment to the impairment provision currently carried in the books of the group.

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

Group

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

	Carrying value before impairment $	Impairment provsion $	Carrying value after impairment $
Goodwill	1,752,516	1,752,516	–
Mining Property	30,262,994	2,037,682	28,225,312
Land and Buildings	833,551	86,132	747,419
Plant and Equipment	5,414,538	466,718	4,947,820
	38,263,599	4,343,048	33,920,551

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

Notes to the Financial Statements

For the year ended 31 December 2010

19 Impairment (continued)

In deriving the estimates of the value in use in respect of the Palito mine the Directors' have calculated a Net Present Value of the projected cash flows to be derived by the Group and by the Company from the exploitation of mineral reserves of 187,538 gold equivalent ounces as estimated at the end of March 2008.

The Net Present Value calculation used the following key assumptions:

Commencement of operations	1 January 2014
Long Term Gold Price	US$1,100
Exchange Rate Br R$ to US$	1.6662
Discount factor	15%
Cost estimates	Based on historic cost and usage data
Mine Plan	A period of development of some 12 months with development ore initially stockpiled for a five month period during which time no processing or gold production occurs. Processing commencing thereafter and after the initial 12 month period stoping activities are recommenced and thereafter a steady state and ratio of production from stoping and development activity can be maintained
Average monthly plant throughput rate	15,000 tonnes per month
Average annual gold production (2015 onwards)	41,500 gold equivalent ounces
Production Period	5 years

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

The gold price used is based on forecasts from analysts, whilst in accordance with IAS 36 the BrR$:US$ exchange rate used is that prevailing at 31 December 2010. The rate on 30 March 2010 was BrR$1.629 : US$1.00.

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

Group

	Improvement $	Decline $
Change in project start up by one year	5,197,137	4,519,249
Change in gold price by $100	6,562,537	6,562,536
Variation of BrR$:US$ exchange rate by 10%	2,973,317	3,694,205
Variation in discount factor by 1%	2,102,076	1,965,504
Variation in cost estimates by 10%	4,680,880	4,680,880

20 Capital management

The Group has historically sourced capital through share issues on the London Stock Exchange and the Board had managed the capital structure of the Group and aligned this with the risk profiles of its underlying assets. The Group raised finance in June 2010 through the issue of new shares and in December 2010 through the issue of Special Warrants which convert into new shares and is using these funds to advance exploration activity around the Palito mine. It is expected that the Company will require additional financing to continue to advance exploration and ultimately to commence production activity. It will, where possible and appropriate, endeavour to access capital markets other that the equity markets in order to introduce this additional finance into the Group and will continue to seek to minimize capital requirement and expenditure on other projects in the near term. On 30 March 2011, the Group obtained a listing of its shares on the Toronto Stock Exchange which management considers will enhance the ability of the Group to raise finance in the future.

21 Company statement of comprehensive income

A separate statement of comprehensive income for Serabi Mining plc has not been prepared as permitted by the Section 408 of the Companies Act 2006. The loss of the Company during 2010 was US$1,459,926 (2009: loss of US$12,745,924).

22 Commitments and contingencies

Capital commitments

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

Management estimates that the cost over the next twelve months of fulfilling the current contracted commitments on all the properties in which the Group has an interest is US$254,313 (US$359,455).

Operating lease commitments

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

	Group		Company	
	31 December 2010 $	31 December 2009 $	**31 December 2010 $**	31 December 2009 $
Commitments falling due:				
within one year	**112,887**	60,519	**58,790**	60,519
between one year and five years	**90,933**	121,038	**66,138**	121,038
Total	**203,820**	181,557	**124,928**	181,557

Contingencies

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

23 Related party transactions

During the period the Company has made loans to subsidiary entities totalling US$5,212,000 (2009: US$$1,539,000). The Company has loans receivable from subsidiaries totalling US$36,919,231 (2009: US$31,707,231) before any provision for the impairment of these loans (see note 12).

Notes to the Financial Statements

For the year ended 31 December 2010

24 Financial instruments

The Group's and the Company's financial assets at 31 December 2010 which comprise trade and other receivables and cash, and in the case of the Company include amounts due from subsidiaries, are classified as loans and receivables. All of the Group's and Company's financial liabilities which comprise trade and other payables, accruals and interest bearing liabilities, are classified as liabilities measured at amortised cost.

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

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

Commodity price risk

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

At the end of the financial year and at the end of the financial year ended 31 December 2009, neither the Group nor the Company had any unsold or part-paid production and accordingly the results for the year and the equity position of the Group and of the Company are not affected by any change in commodity prices subsequent to the end of the year.

Interest rate risk

The Group and Company currently finances its operations through equity financing and has a convertible loan of £300,000 which bears interest at the rate of 1% per annum compounded and has a repayment date of October 2014.

Group

				Fixed interest maturity		
2010	Weighted average effective interest rate %	Non-interest bearing $	Floating $	One year or less $	Over one to five years $	Total $
Financial assets						
Cash	0.63	–	8,598,755	–	–	8,598,755
Receivables	–	96,143	–	–	–	96,143
Total		**96,143**	**8,598,755**	**–**	**–**	**8,694,898**
Financial liabilities						
Payables and accruals	–	3,873,633	–	–	–	3,873,633
Special Warrants	–	5,059,995	–	–	–	5,059,995
Interest bearing liabilities	14.41	–	–	–	249,176	249,176
Total		**8,933,628**	**–**	**–**	**249,176**	**9,182,804**

				Fixed interest maturity		
2009	Weighted average effective interest rate %	Non-interest bearing $	Floating $	One year or less $	Over one to five years $	Total $
Financial assets						
Cash	0.16	–	4,081,882	–	–	4,081,882
Receivables	–	275,538	–	–	–	275,538
Total		275,538	4,081,882	–	–	4,357,420
Financial liabilities						
Payables and accruals	–	4,361,854	–	–	–	4,361,854
Interest bearing liabilities	5.95	–	–	80,499	216,898	297,397
Total		4,361,854	–	80,499	216,898	4,659,251

24 Financial instruments (continued)

Interest rate risk (continued)

Company

2010	Weighted average effective interest rate %	Non-interest bearing $	Floating $	Fixed interest maturity: One year or less $	Fixed interest maturity: Over one to five years $	Total $
Financial assets						
Cash	0.63	–	8,032,125	–	–	8,032,125
Receivables	–	25,228,810	–	–	–	25,228,810
Total		**25,228,810**	**8,032,125**	**–**	**–**	**33,260,935**
Financial liabilities						
Payables and accruals	–	728,849	–	–	–	728,849
Special Warrants	–	5,059,995	–	–	–	5,059,995
Interest bearing liabilities	17.74	–	–	–	249,176	249,176
Total		**5,788,844**	**–**	**–**	**249,176**	**6,038,020**

2009	Weighted average effective interest rate %	Non-interest bearing $	Floating $	Fixed interest maturity: One year or less $	Fixed interest maturity: Over one to five years $	Total $
Financial assets						
Cash	0.16	–	4,020,169	–	–	4,020,169
Receivables	–	20,094,453	–	–	–	20,094,453
Total		20,094,453	4,020,169	–	–	24,114,622
Financial liabilities						
Payables and accruals	–	673,969	–	–	–	673,969
Interest bearing liabilities	–	–	–	–	216,898	216,898
Total		673,969	–	–	216,898	890,867

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

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

Liquidity risk

To date the Group has relied on shareholder funding and in prior years short-term trade finance and fixed rate finance leases to finance its activities. The Group has also drawn down on a convertible loan stock instrument (see note16) which is repayable in 2014, but otherwise does not have any other borrowing or credit facilities. The Group's objectives when managing its capital are to maintain financial flexibility to achieve its development plans, safeguard its ability to continue to operate as a going concern through management of its costs whilst optimising its access to capital markets by endeavouring to deliver increase in value of the Group for the benefit of shareholders. In establishing its capital requirements the Group will try to take account of the risks inherent in its plans and proposed activities and prevailing market conditions. During 2010 the Group raised new funds through the issue of new shares and the issue of Special Warrants which subject to certain condition are convertible into new shares. Continued development of the Group's projects will be dependent on the ability to attract additional funding, through joint ventures, asset disposals, new equity or debt. There is no guarantee that the Group will be able to secure adequate funding in the future or that the terms of such funding will be acceptable.

The following table sets out the maturity profile of the financial liabilities 31 December 2010.

	2010		2009	
	Group $	**Company $**	Group $	Company $
Due in less than one month	**597,887**	**271,115**	3,878,822	142,437
Due between one month and three months	**5,410,627**	**5,059,995**	134,194	–
Due between three months and one year	**2,373,087**	**457,734**	360,464	531,532
	8,381,601	**5,788,844**	4,373,480	673,969

Notes to the Financial Statements

For the year ended 31 December 2010

24 Financial instruments (continued)

Currency risk

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

Share issues have historically been priced solely in Sterling but the issue of Special Warrants undertaken in December 2010 and the issue of new Ordinary Shares and Warrants on 30 March 2011 were priced in Canadian dollars. The Company expects that future issues of Ordinary Shares may be priced in Sterling or Canadian dollars. Expenditure is primarily in Brazilian Real and also in US Dollars, Sterling, Euros and Australian Dollars. .

The table below shows the effect on the Group's operating loss (before interest and other income) and equity of a 10% movement of the Brazilian Real against the US Dollar:

	2010		2009	
	P&L (Loss on ordinary activities before interest and other income) $	**Equity $**	P&L (Loss on ordinary activities before interest and other income) $	Equity $
10% strengthening of the Brazilian Real against the US Dollar	**(599,375)**	**4,478,263**	(374,324)	4,222,160
10% weakening of the Brazilian Real against the US Dollar	**283,563**	**(3,664,033)**	306,265	(3,454,494)

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

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

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

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

The Group considers book value to equal fair value.

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

	Group	
	31 December 2010 $	31 December 2009 $
US Dollar	**1,708,548**	10,648
Canadian Dollar	**5,238,373**	–
Sterling	**1,634,450**	4,008,751
Australian Dollar	**3,059**	3,073
Brazilian Real	**14,326**	59,410
Total	**8,598,755**	4,081,882

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

Credit risk

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US$8,694,898 (2009: US$4,357,420). It is the Group's policy to only deposit surplus cash with financial institutions that hold good credit ratings and to provide credit in respect of receivables only with parties that themselves have good credit history or otherwise to hold some form of lien pending settlement.

The Company's exposure to credit risk amounted to US$33,260,935 (2009: US$24,114,622). Of this amount US$25,168,521 (net of impairment charge) (2009: US$ 19,956,521) is due from subsidiary companies.

25 Post balance sheet events

On 30 March 2011, the Group completed a listing of its shares on the Toronto Stock Exchange ("TSX") and at the same time issued a total of nine million units raising gross proceeds of C$4,950,000. Each unit comprised one new Ordinary Share and one half of a share purchase warrant entitling the holder to acquire for each whole share purchase warrant, one new Ordinary Share at any time up to 2 December 2012 for an exercise price of C$0.75 ("a Warrant").

The listing of the shares on the TSX also resulted in the automatic exercise of the Special Warrants issued by the Company on 2 December 2010. Upon the exercise of the Special Warrants 10,070,000 new Ordinary Shares were issued and 5,035,000 Warrants. At the same time the current liability shown on the balance sheet as at 31 December of US$5,059,995, representing the net proceeds of the issue if the Special Warrants was eliminated and the balance transferred to form part of Equity.

Glossary

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

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