



**Serabi Gold plc**  
Annual Report 2011



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## Welcome to Serabi Gold plc

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Serabi Gold plc is a gold exploration company involved in the evaluation and development of gold deposits in Brazil.

The company's primary interest is the 100% owned Palito Gold Mine located in the Tapajos region of northern Brazil and a surrounding 53,000 hectares of highly prospective exploration tenements that the company controls. In addition it holds or has under application a further 95,000 hectares of exploration tenements within the Tapajos region.

To date there has been little systematic exploration in the region which covers an area of approximately 100,000 km<sup>2</sup> 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.

At the Palito Gold Mine the Group has established a Measured and Indicated Resource of 224,272 ounces and an Inferred Resource of 443,956 ounces. During 2011 the Group undertook a discovery drilling programme resulting in two new discoveries located within 3 kilometres of the Palito Gold Mine and through its exploration activity over the past three years has identified a number of other geological anomalies in close proximity to Palito.

The Group already has a valid mining licence for the Palito Mine and a process plant, mains power and other essential production infrastructure is already in place. A Preliminary Economic Assessment into the viability of re-commencing underground mining operations at Palito has been commissioned and is expected to be completed during the first half of 2012.



## Chairman's Statement

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**This 2012 Annual Report marks my first Chairman's statement following my appointment to the Board approximately one year ago. At that time the company was in the midst of a major transition as it was embarking on a renewed emphasis on exploration of its assets in Brazil and was just completing its listing on the Toronto Stock Exchange. As part of that process two other independent directors were appointed to the Board and more recently we also welcomed Christopher Kingsman as a representative of one of our largest shareholders.**

Reflecting on the past year and looking to the future, my optimism for Serabi, the Palito mine and our excellent land package in Brazil, remains strong. This optimism is founded on the significant known high grade gold resources, the excellent potential to add to those ounces, our existing infrastructure and mining licences and Brazil itself which is one of the better mining jurisdictions in the world. The past year has seen tremendous uncertainty as the world economy continues to struggle to emerge from the last global recession. Gold, however, continues to provide investors with a back drop of protection in these uncertain times having risen in U.S. dollar terms for 10 straight years. Given the fiscal and monetary conditions which exist in Europe and the United States, I believe gold will continue to remain strong for many years to come.

The extensive exploration programme completed by the company during the year had as its main focus the discovery of potential satellite gold deposits in close proximity to the Palito mine and the existing plant and infrastructure. Two new gold discoveries at Piaui and Currutela were an excellent return for the company's pursuit of a systematic and disciplined approach to exploration. Allied with the strong potential for Palito and Currutela to form a single mineralised belt extending over three kilometres, the company has now established a strong foundation for the resource growth that it set out to achieve two years ago. At the same time other exploration activity conducted by the company over the last 12 months within the Jardim do Ouro project area, has further improved our understanding and highlighted other areas of interest for the future, creating an expectation that further resources can be identified and proven up in the future.

It is this exploration success combined with the back drop of strong gold prices and an uncertain capital market, that has lead the company to once again look to put the Palito mine back into production. In this time of extreme uncertainty, investors, particularly gold investors, are looking to near term production and cash flow rather than longer term value creation from exploration. The company has appointed NCL Ingenieria y Construccion SA ("NCL") of Santiago, Chile to undertake an independent Preliminary Economic Assessment into the viability to re-establishing mining operations at Palito (the "PEA"). NCL have prepared the company's previous technical reports and have also prepared 43-101 reports for other companies active on the Tapajos region. NCL's personnel visited Palito during March 2012 to undertake their field evaluation and gather the required data for their study which we hope will be completed at the end of May 2012.

The successful share placement completed in January of this year provided the funding to undertake this PEA and was well supported by our two major shareholders, Eldorado Gold Corporation and Greenwood Investments Limited and demonstrated that there is strong support for the Board's strategy. The placing also saw Fratelli Investments Limited, an investment group with strong South American connections, take a significant equity position in the company.

With the current gold prices and the decision to focus on selective mining rather than the bulk mining methods that were deployed at Palito in the past we are confident that NCL's report will be positive and subject to securing the required finance on a timely basis we would be looking to have the mine back in commercial production during 2013. We continue to believe that the Tapajos region in Northern Brazil has the potential to host many more producing gold assets and it is the company's desire to be an active participant in any regional consolidation that will allow one or more companies to achieve the synergies and economies of scale to create substantial shareholder value for all.

I would like to thank all our employees and directors for their hard work last year. In particular I would like to thank Mike Hodgson and Clive Line for their exceptional efforts over the last twelve months on many fronts as a result of which the company is now poised to become a gold producer once again. I truly believe the best is yet to come at Serabi and want you to know your continued support is more important than ever.

**T Sean Harvey**  
Chairman

29 March 2012

## Management Discussion and Analysis

### Operational Review

#### Corporate Highlights for the Year

- > On 30 March 2011 the Company completed an Initial Public Offering ("IPO") and the listing of its Ordinary Shares and Warrants on the TSX and also completed the issue of 9,000,000 units raising gross proceeds of C\$4,950,000.
- > On 1 July 2011 Fox-Davies Capital Ltd was appointed in the UK as Broker to the Company.
- > January 2012, the Company announced the placement of 27,300,000 Units at a price of 10.0 pence per Unit, plus a further 4,549,998 Warrants. The proceeds, of £2.73 million (before expenses), will be used for general working capital and to fund the expenses associated with a Preliminary Economic Assessment of the viability of recommencing underground operations at Palito (the "PEA"). The study will focus initially on the existing resources before embarking on the next stage of evaluation and exploration activity.

#### History

The Company currently holds, either granted or under application approximately 148,400 hectares of Exploration Licences all located within the Tapajós Gold Mining Province, within the states of Para and Amazonas, Northern Brazil. These licences are divided into four project areas, namely the Jardim do Ouro, Sucuba, Modelo and Pizon projects. The Company does not have any assets or mineral properties in commercial production, however, the JDO Project does incorporate the Palito Mine which has been in production under Serabi's management in the past, and currently is under care and maintenance. In January 2012, following an exploration programme that identified two new discoveries, the Company announced that it was undertaking a preliminary economic assessment into the viability of re-establishing underground mining operations at the Palito Mine ("the PEA"). The PEA will focus initially on the existing resources but will include evaluation of the recent mine site discoveries. It will consider a selective mining methodology, focused on maximising grade and initially limited to production levels around 20,000 ounces per annum. The Sucuba Project, located in the state of Para, comprises a single exploration licence, currently in application, of 10,815 hectares. The Modelo Project lies in the state of Para, with some 40,000 hectares in five exploration permits, four granted and one in application. The Pizon Project, located in the state of Amazonas, represents 44,703 hectares, in five exploration licenses, one granted and four in application. The Company has not engaged in any exploration activity in the Sucuba, 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 originally acquired by the Company in 2001, covers a total area of 52,945 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 51,795 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 Palito 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 gold recovery during the period was 90%, with copper recovery around 93% providing total production over this period of 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 global 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.

Following a Change of Mine Plan report filed to the Departamento Nacional de Produção Mineral ("DNPM") in December 2008, and a subsequent amendment to the Company's PAE (Plano de Aproveitamento Economico), the Company maintained some minor surface oxide ore production, through which some 7,200 ounces of gold was produced up to June 2010.

In December 2010 the Company released a technical report prepared by its consultants, NCL Brasil Ltda, (the NI 43-101 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) <sup>(1)</sup>	Contained Gold Equivalent (Ounces) <sup>(2)</sup>
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

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

<sup>(2)</sup> 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 (Iri) River.

In the period following the decision to place the Palito Mine on care and maintenance the Directors undertook a strategic review of the project. They determined that the original expectation that the Palito mine could support production levels in excess of 50,000 ounces per annum were not achievable, and concluded that the required improvements in project economics given the prevailing gold prices at that time and the relatively high fixed cost associated with Palito being the sole commercial mining operation in the region, could only be addressed by pursuing a strategy of mine site and district exploration which could lead to resource growth. If successful such resource growth could ultimately deliver a mineral reserve capable of sustaining production levels in excess of 70,000 to 75,000 ounces per annum.

Since that time, the Company has focused on mine-site exploration, primarily airborne and ground geophysics and geochemistry, followed by a recently completed 12,000m discovery and follow-up diamond drilling into advanced targets. The exploration objective has been to identify two or more Palito style and size deposits in close proximity to the Palito Mine and processing infrastructure. The Company defined nine drill targets within three kilometres of the Palito Mine, each of which it considered, based on its exploration results to date, had the potential to yield a Palito style and size deposit. This exploration effort was divided into two phases, a Phase 1 discovery programme, where each of the nine drill targets were drill tested, followed by and subject to the levels of available funding, a Phase 2 follow-up drill programme programme, where positive successful Phase 1 drill targets would be subject to further drilling.

The Phase 1 exploration programme began in Q4 2010, with a budget of approximately US\$8 million. The key points in the programme were:

#### Phase 1

- > 'Head-frame' exploration with the objective to discover more Palito style deposits
- > To drill 8,100 metres over nine high priority targets within three kilometres of the plant
- > A further airborne geophysical electromagnetic (VTEM) survey - 14,000 hectares now covered
- > Follow-up ground geophysics in the form of 55 line kilometres of Induced Polarisation (IP) on the remaining geophysical anomalies within the 14,000 hectare tenement that has been flown

The Phase 1 programme is considered by management to have been very successful. Gold mineralisation was identified within seven of the nine geophysical anomalies confirming the viability of the Company's exploration approach of using airborne and ground based geophysics alongside more traditional gold exploration techniques to screen areas prior to drill testing. Of the seven mineralised areas management considers that two of these, Piaui and Currutela, are potentially of sufficient size and gold grades to be commercial discoveries and therefore warrant further evaluation. In addition, the Company has determined that there is a very high likelihood that the "corridor" between the Palito Mine and the Currutela discovery has structural and mineralised continuity along its 2 kilometre length. The Company undertook an exploratory drill hole some 900 metres to the north-west of Currutela following the potential strike extension between Palito and Currutela. This single drill hole in this Espeto prospect area intersected gold mineralisation and the bulk mineralised zone returned 17.06 metres @ 1.17g/t Au from 84.25 metres down-hole depth, including 0.88 metres @ 5.25 g/t Au and 0.61 metres @ 10.90 g/t Au. This hole was intended to test the predicted continuity of the Palito host structure along a south-east trending strike towards the Currutela prospect. Again multiple zones of hydrothermally altered granite similar to Palito and Currutela were encountered. Espeto lies to the south east of the Palito mine and some 750 metres from the south eastern limit of Palito's current 224,000 ounce Measured and Indicated (gold equivalent) and 444,000 Inferred (gold equivalent) resource.

#### Phase 2

Following completion of Phase 1, two discoveries of note had been made, at Piaui and Currutela. A follow up Phase 2 drilling programme was then executed during Q4 2011, concentrating on shallower holes to test near surface potential on the Piaui prospect and a potential southern extension of the current Palito resource limit. For simplicity the zone between the Palito deposit and Currutela is referred to as Palito South. The Phase 2 programme comprised 43 holes totalling 4,392m and was completed by year end. All drill locations focused on infill and step out drilling of the discoveries made to date, with a total of 2,760 metres being drilled at Piaui and 1,632 metres at Palito South.

At Palito South there had been limited drilling undertaken seeking to extend the southerly limit of the existing Palito resource during 2008 and the 2011 programme continued to infill the area towards Espeto. High-grade intersections were recovered from a number of the holes including 0.72m @ 8.91g/t Au, 0.90m @ 21.6 g/t Au, 1.40m @ 43.2 g/t Au, 0.81m @ 8.79g/t Au and 0.93m @ 34.75 g/t Au. At Piaui, the drilling continued to intersect broad zones of intense chlorite/silica/sulphide alteration over a cumulative strike length of 700 metres and the results indicate a significant mineralised system which remains open at depth.

The exploration programme was completed early December, with all drilling contractors and exploration personnel retrenched.



## Management Discussion and Analysis

### Operational Review Continued

#### Results of Operations

#### Exploration and technical programmes executed during 2011

##### Highlights

- > Q3 2011, the Company announced that drilling results and further geophysics confirmed the potential structural and mineralized continuity between Palito gold deposit and Currutela target to the south east, a potential strike length of over 3km.
- > During September 2011 the Company announced results from the IP survey at the Piaui prospect which indicated the possibility that the initial 300 metre strike length could extend up to 1,400 metres in length. This new 1,100 metre extension lies to the south-east of the original 300 metre long discovery made in March 2011.
- > Q4 2011, the Company announced completion of its Phase 1 discovery drill programme with 36 exploration drill holes totaling 8,200 metres, targeting nine anomalies. The drilling encountered gold mineralisation in seven of the nine anomalies and the Company confirmed two new discoveries, Piaui and Currutela which provided the potential for additional commercial resources in the exploration areas near the Palito Mine.
- > Q4 2011, the Company commenced a Phase 2 shallow drill programme on the Piaui prospect and, following the drilling success and discovery at Currutela and the high potential for structural continuity between Palito Gold deposit and Currutela, the strike length between the two, now referred to as 'Palito South,' would also be tested with a shallow drill programme.
- > November 2011, the Company announced the results of its 'Eastern Block' induced polarization (IP) ground geophysical survey in the Jardim do Ouro project. Results indicate a number of IP chargeability anomalies coincident with airborne electromagnetic (VTEM) geophysical anomalies obtained in the 2008 and 2011 surveys.
- > November 2011, the Company announced preliminary results from its Phase 2 follow up drill programmes at Piaui and Palito South. The 43 drill-hole programme, totaled 4,392m. Of the 43 holes, 20 were drilled into Palito South and highly encouraging preliminary analytical results from shallow extension drilling were recorded, with Bonanza grade gold and high grade copper results returned. The Company also reported preliminary positive results from the remaining 23 holes, all shallow infill and step out holes, into the Piaui prospect. The drilling, undertaken over two areas of 600 metres and 350 metres strike within the overall 1,400 metre potential strike length of the prospect, continued to intersect broad zones of intense chlorite/silica/sulfide alteration zones in excess of 40 metres.
- > January 2012, the Company reported external and final assay results for the 43 hole Phase 2 follow up Phase 2 drill programme at the Palito South and Piaui prospects. The external assay results for the same intersections highlighted in the November 2011 announcements, showed an average improvement of 8% and 14% respectively, which is consistent with historical findings that demonstrate the Palito internal assaying produces conservative gold grades.

The Company's results of operations for the twelve month period ended 31 December 2010 were comprised solely of the activities related to the results of operations of the Company's 100% owned subsidiary Serabi Mineracao S.A.

The Company completed its Phase 1 discovery drill programme during Q4 2011, with 36 holes drilled totalling 8,214m. The purpose of the programme was to test 9 mine site targets, all within 3km of the Palito infrastructure, with the objective of discovering additional gold deposits which in turn could expand the JDO Project geological resources to 1.5 million ounces. During the third quarter of 2011, with the early success of the Piaui and Currutela/Espeto discoveries, the decision was taken to launch a follow-up Phase 2 programme concentrating on shallower holes to test near-surface potential. The Phase 2 drill programme comprising of 43 holes was completed in November 2011. 23 of the 43 holes were drilled into the Piaui prospect, with the balance drilled into the area which lies between Currutela and Palito now referred to as Palito South. Palito South has now been confirmed as being hosted in the same structural zone as both the Palito deposit and Currutela, which results in a prospective strike length of some two kilometres.

The Phase 1 drilling was planned over the 9 mine-site targets namely; Piaui, Pan Handle, and Currutela (3 targets), Lazaro, Pele, Tatu and Copper Hill, the locations of which are shown in **Figure 1** that also shows the overlying alluvial garimpo channels (in paler colour).

The Phase 1 programme generated two discoveries, Piaui, and Currutela, which management consider to be of sufficient size and grade to have the potential to be commercial discoveries and therefore warrant further evaluation. In the case of Currutela management have also concluded that this forms part of a continuous structural and mineralised zone running south east from the existing resources limit of the Palito mine and forms part of a larger 'Palito South' zone which has a potential strike length of some two kilometres. Whilst gold mineralisation was encountered at Tatu and Pele the potential size of these anomalies and the grade recovered does not in the opinion of management justify additional follow-up drilling.

A Phase 2 drill programme comprising 4,392 metres was also completed at Piaui and Palito South, with 43 holes drilled, targeting shallow near surface potential.

The mine-site targets and the drill-hole locations along with the Induced Polarisation (IP) geophysical survey results undertaken throughout 2011 can be seen in **Figure 2** which also demonstrates their close proximity to the existing Palito infrastructure. All of the mine-site targets were within exploration leases held by the Company, and all nine either lie within or are in very close proximity to the mining lease.

In January 2011, the Company completed an additional 8,000 hectare airborne electromagnetic VTEM survey immediately to the east and west of the original 2008 mine site survey area. As a result the total airborne geophysical coverage within the 53,000 hectare JDO tenement is now 14,000 hectares. The results were released in May 2011, and are shown in **Figure 3** alongside the contoured (aero magnetics) 2008 VTEM survey area.

The additional 8,000 Ha of airborne geophysics identified three areas in particular of geophysical anomalism. One of the main areas, Jamanxim, along with the area between Currutela and Palito/Piaui formed the basis of the ground geophysics programme undertaken in Q3 2011.

The Company was advised in February 2011 that its appeal to the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis ("IBAMA") against the original penalty of Brazilian Reals 3,597,300 (~US\$2.2 million) assessed by IBAMA in June 2010 was successful and the fine cancelled with immediate effect.



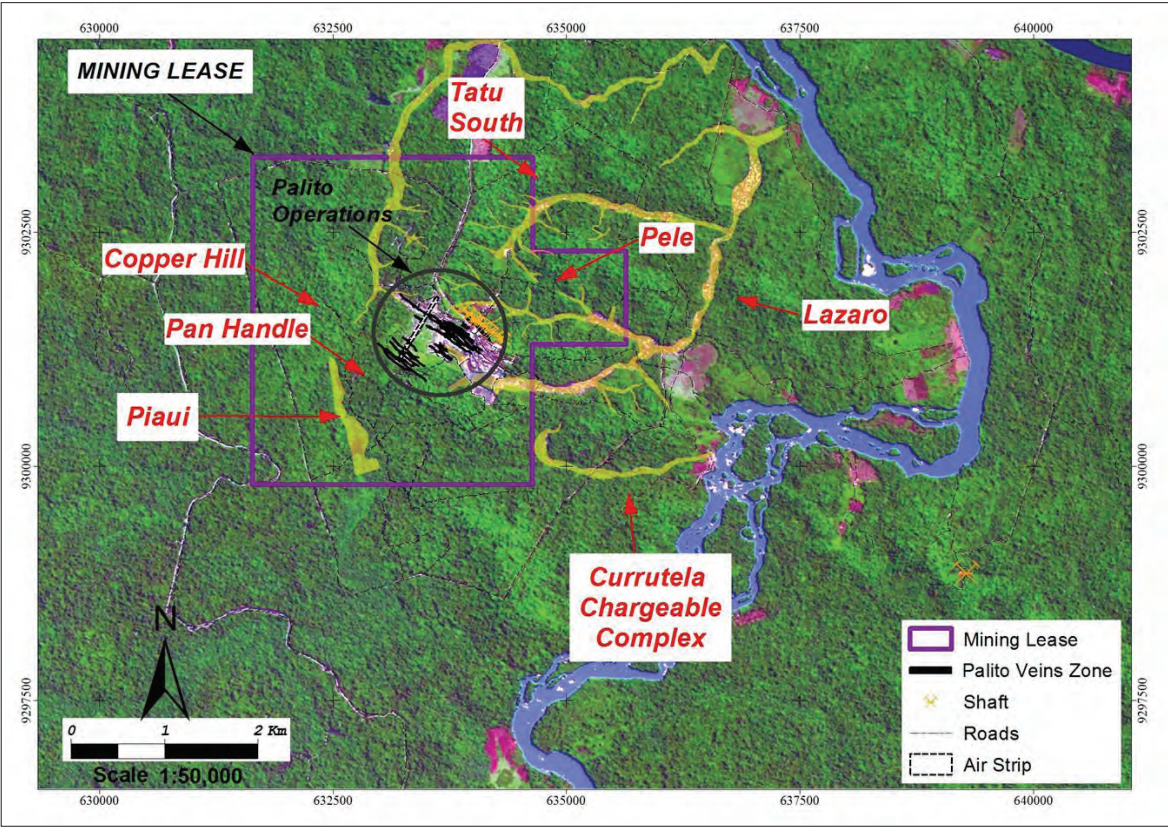


Figure 1 – Plan showing drill targets, past areas of alluvial mining activity and the mining lease.

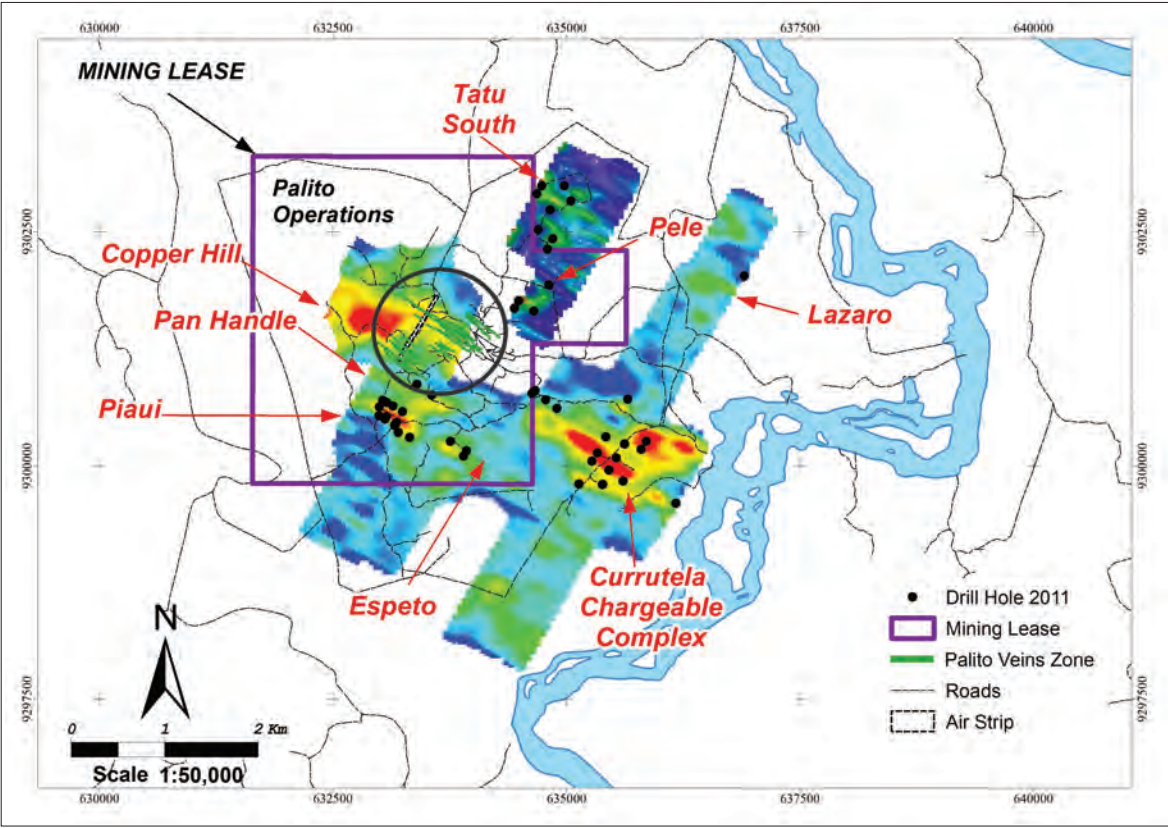


Figure 2 – IP survey results with drill-hole locations shown.

## Management Discussion and Analysis

### Operational Review Continued

In the same month the Company announced positive geochemical results from trenching over the Piaui drill target. The Piaui target at that time was a 500m strike length anomaly. This initial trenching tested the Piaui prospect, perpendicular to strike via a 240 metre long trench to a depth of five metres. Results included mineralised zones of three metres averaging 16.16g/t and one metre averaging 33.6 g/t. The Piaui target has subsequently been drilled at depth and significant gold intersections recorded and in April 2011 the Company released details of the assays for the first five drill-holes into the Piaui target. The drilling tested a 200m strike length of the 500m long target, and intersections demonstrated a broader width mineralization compared to mineral resources identified to date at Jardim do Ouro, and Palito in particular.

In May 2011 the Company announced the results of the 8,000 hectare VTEM survey undertaken in January 2011. Ranking the priorities using the same parameters used to assess the 2008 survey results, indicated no Priority 1 anomalies but 47 Priority 2 and Priority 3 anomalies were defined including some clustered results indicative of the presence of some very prospective structural corridors. Some of the areas of interest identified were the subject of a follow-up ground geophysics programme which was undertaken between August 2011 and October 2011.

Initial results of the first three drill holes into the Currutela target were announced in June 2011, which highlighted the presence of multiple zones of high grade gold bearing mineralization. The mineralisation appeared to be hosted in alteration zones of very similar nature to those that host the Palito gold resource some two kilometres to the north-west. Results for the Pan Handle target were also released.

Assay results from a further five holes drilled at the Currutela target were announced in July 2011, reporting that drilling had continued to intersect gold mineralisation in hydrothermal alteration zones. These results further supported the view, that the Currutela mineralisation was not confined to one or two structures, but multiple zones of high grade gold mineralisation.

The Company also undertook a complete reprocessing of all the available aeromagnetic data and announced the findings of this work in July 2011. As a result the Company determined that the potential existed for a structural continuity between the Currutela prospect and the existing Palito gold resource extending over some two kilometres. This potential was further enhanced by the intersection (as detailed in the Company's news release dated 15 July 2011) of multiple zones of hydrothermally altered granite in a drill hole located in the Espeto area approximately midway between Palito and Currutela. The drill hole recorded multiple zones of hydrothermally altered granite, similar to previously reported Palito and Currutela intercepts, at down-hole depths between 84 metres and 102 metres, grading 17.06 metres @ 1.17g/t Au. The result was indicative of both structural and mineralized continuity between the Palito resource and the Currutela target with the potential for a mineralised zone extending over three kilometres in total. The Currutela prospect itself has returned a number of drill results including 2.14 metres @ 12.92g/t Au, 0.76 metres @ 5.30g/t Au, 1.20 metres @ 6.39g/t Au and 1.03 metres @ 5.10g/t Au (as detailed in the Company's news releases of 13 June 2011 & 11 July 2011).

Results to date demonstrate that a continuous chargeable zone exists between Currutela and Espeto, some 900m apart. More significantly, the structural modelling supported by drill intercepts, airborne magnetic surveying and this recent induced polarization data also strongly indicate the main ore zone of the Palito gold deposit itself, the 'Palito Main Zone' (PMZ), is also hosted on the same structural mineralised zone, which has a strike length of over 3.5 km when measured from the most westerly end of the Palito mineralisation to Currutela in the east.

During the third quarter the Company announced plans to undertake further drilling on this target area between Currutela and Espeto following the earlier drilling success, but intended to first obtain additional ground geophysical data using IP over the area in order to complement its existing geological database with a view to enhancing target definition. The IP would be part of a larger survey of some 55 line kilometres, which also included testing the south-east extension of the Piaui Prospect, the south-east extension of the Currutela Prospect, as well as some of the remaining untested 2008 VTEM anomalies. It would also include the first of three new anomalies identified in the 2011 airborne survey, namely the Jamanim target. This work commenced August 2011, and was completed during October 2011. The IP surveyed areas are shown in **Figure 4**.

By the end of the third quarter of 2011, some initial results from the 2011 IP survey had been received. These results were from the first part of the survey undertaken closest to the mine site area, namely the potential strike length extension of the Piaui prospect, and the potential of the area between Currutela, Espeto and the Palito Gold Mine deposit itself, now referred to as 'Palito South'.

During September 2011 the Company announced that results from the IP survey at Piaui indicated the possibility that the Piaui discovery, initially limited to a 300 metre strike length, could extend up to 1,400 metres in length. The new 1,100 metre extension lies to the south-east of the original 300 metre long discovery made in March 2011. This initial discovery which included intersections of 1.9 metres @ 22.86g/t Au, 2.5 metres @ 6.22g/t Au, 9.1 metres @ 2.24g/t Au, 10.7 metres @ 1.17g/t Au and 4.5 metres @ 2.75g/t Au was further supported by a coincidental 300ppb Au soil anomaly and a high priority electromagnetic anomaly from the 2008 airborne geophysical survey.

During the fourth quarter the Company commenced the Phase 2 drill programme into two of the new discovery areas, namely Piaui and Palito South. From this 43 hole programme, the Company announced encouraging preliminary analytical results from shallow extension drilling into the south-eastern strike extension of Palito, (Palito South) with bonanza grade gold and high grade copper results returned. Eight shallow infill and step out drill holes totaling 937metres targeting interpreted high grade ore shoots on the strike extension of the Palito Main Zone returned high grade intersections. Intersections included 0.72m @ 9.3g/t Au, 0.90m @ 20.6 g/t Au, 1.40m @ 48.1 g/t Au, 0.81m @ 6.89g/t Au and 0.93m @ 34.75 g/t Au. These results were categorized as preliminary assays as the Palito laboratory was used. Duplicate samples for all drill holes were also submitted to the Company's primary laboratory at ALS in Vancouver. The results of this final analysis were released January 2012 (see below).



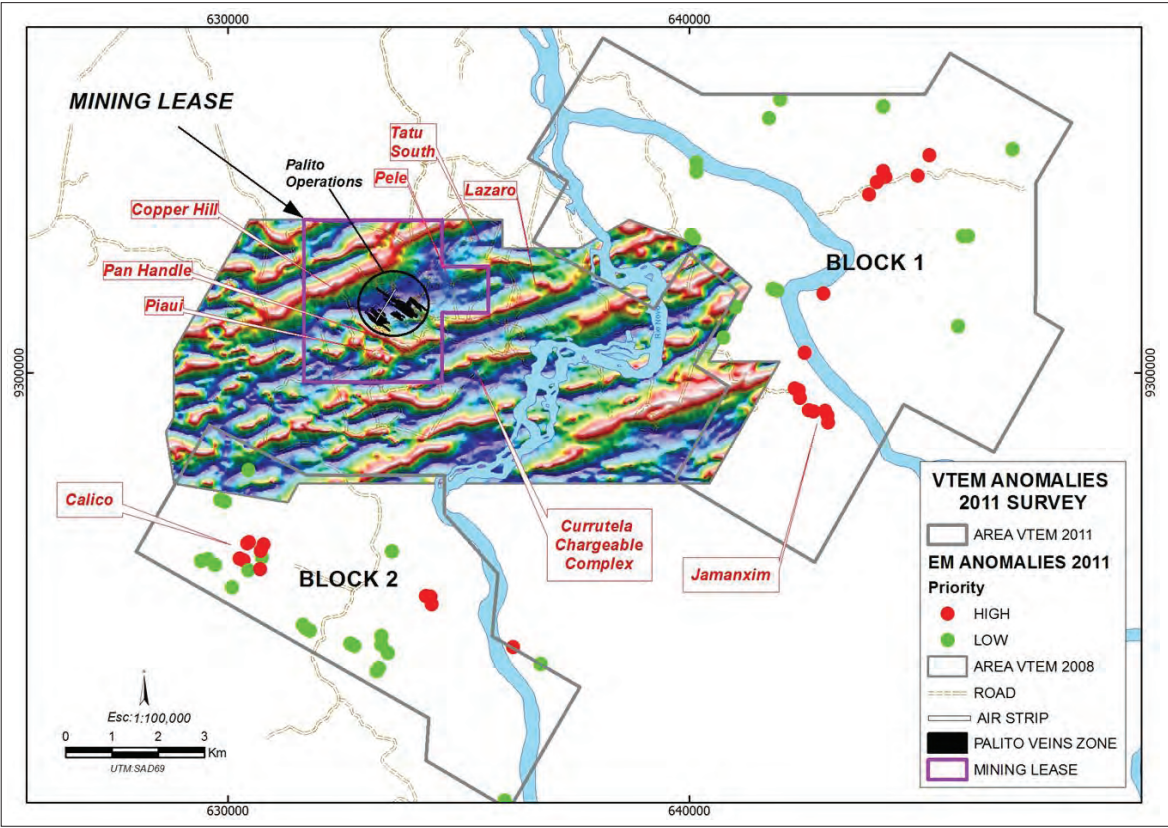


Figure 3 – Areas covered by airborne VTEM surveys showing contoured aero magnetic data.

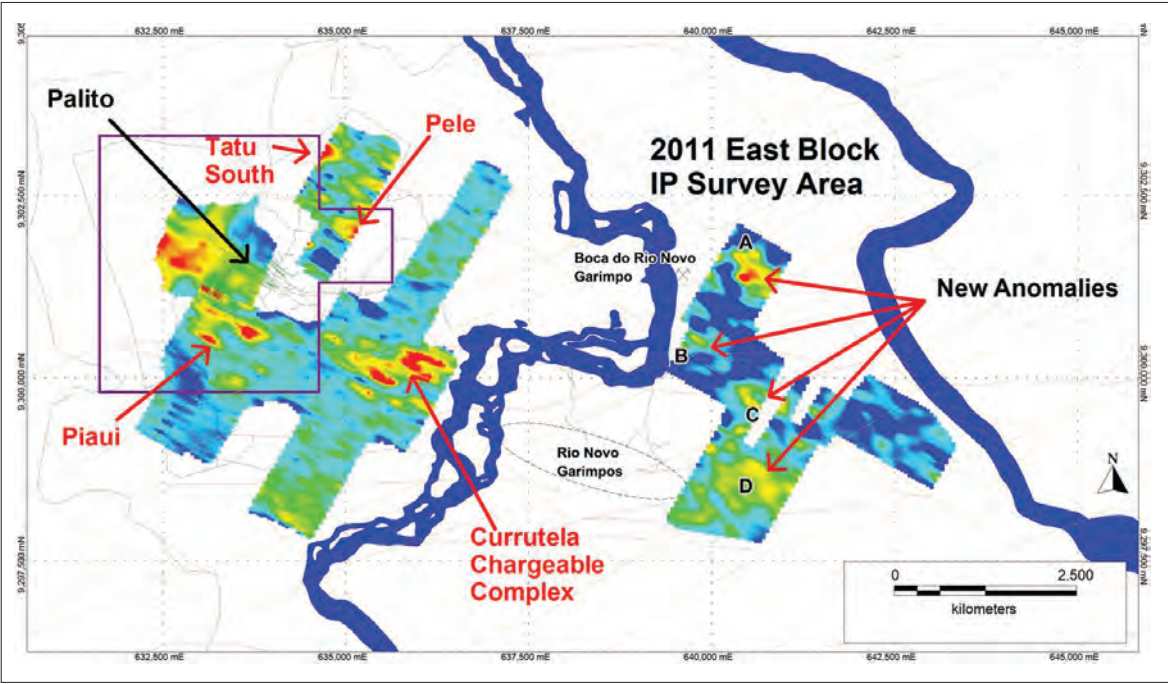


Figure 4 – Plan view showing 2010 and 2011 ground IP surveys results, and mining lease area.

## Management Discussion and Analysis

### Operational Review Continued

The Company reported during November 2011 preliminary positive results from the 2,600 metre shallow Phase 2 diamond drilling programme comprising 23 drill holes into the Piaui prospect. The drilling, undertaken over two areas of 600 metres and 350 metres strike within the overall 1,400 metre potential strike length of the prospect, continued to intersect broad zones of intense chlorite/silica/sulphide alteration zones in excess of 40 metres. Intersections included 0.72m @ 3.63 g/t Au, 5.21m @ 3.25 g/t, 3.40m @ 5.88g/t Au, 0.94m @ 16.69g/t Au, 4.80m @ 2.01g/t Au, 0.90m @ 8.59g/t Au, 2.0m @ 7.00 g/t Au and 1.1m @ 10.22 g/t Au. Delays in receiving results from the Company's primary laboratory, ALS in Vancouver, meant that these reported results were those produced by the Company's own on-site laboratory facility. Duplicate samples were nonetheless still sent to ALS and final results from ALS were reported in January 2012 (see below).

In January 2012, the Company reported external and final assay results for the 1,632 metres of the Phase 2 drill programme at the Palito South prospect mentioned above. The external assay results for the same intersections highlighted in November were 0.72m @ 8.91g/t Au, 0.90m @ 21.6 g/t Au, 1.40m @ 43.2 g/t Au, 0.81m @ 8.79g/t Au and 0.93m @ 34.75 g/t Au, an average improvement of 8%. The Company also reported external and final assay results for the 2,600 metres Phase 2 drill programme into the Piaui prospect mentioned above. The external assay results for the same intersections highlighted in November recorded 0.72m @ 4.17 g/t Au, 5.21m @ 3.73 g/t, 3.40m @ 6.49g/t Au, 0.94m @ 17.90g/t Au, 4.80m @ 2.72g/t Au, 0.90m @ 9.48g/t Au, 2.0m @ 9.91 g/t Au and 1.1m @ 12.25 g/t Au. These external results showed substantial grade improvement over the internal Palito laboratory results of approximately 14%.

Throughout the period Serabi's management continued to evaluate other exploration and development opportunities primarily in the Tapajos Region of Brazil which might add value to the company strategy. The Company continues also to seek to divest or joint venture non-core assets.

Exploration expenditures on the JDO Project for the 12 month period ending 31 December 2011 totalled US\$8.7 million with US\$5.8 million spent on direct exploration costs including US\$2.7 million on diamond drilling, US\$0.5 million on geophysics, US\$0.6 million on land rentals and DNPM payments, US\$1.0 million on exploration labour costs and approximately US\$0.4 million on exploration consumables, assays, and travel expenses. US\$2.9 million has been spent on other site G&A costs, including the non-direct exploration staff costs, care and maintenance activities and regional support expenditures.

#### 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 conducted a trial of ground EM surveying at Palito. The positive results led to Serabi commissioning during 2008 the helicopter-borne Magnetic and Electro-magnetic (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.

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 potential 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.

The Company has since undertaken a further 8,000 hectares of similar airborne geophysics, which means the Company has now covered 14,000 hectares of its 53,000 hectare tenement at Jardim do Ouro.

#### Outlook

With the completion of its 8,214m Phase 1 exploration programme together with its follow up 4,392 metre Phase 2 drill programme, the Company has now suspended exploration activity for the immediate future. The Phase 2 drilling was in the form of shallow, infill holes into the Piaui, and Palito South targets both of which lie less than one kilometre from the Palito process plant. The objective of the 2011 programme has been to make mine-site gold discoveries which in turn can increase the mineral resource to a sufficient level to support a meaningful and sustainable level of production. The board has been pleased with the exploration success the Company has achieved during this period, and as a result, we remain greatly encouraged that the discoveries made will be advanced and will place us well on our road to resource growth.

In addition to this positive note, it can be said that since 2008, and most notably over the past 12 months, a number of changes have occurred for the better in the region. Most significantly, accessibility has improved considerably. The main BR163 trunk road, which runs from Cuiaba in the south to Santerem in the north, and passes 30km from the Palito site, is in the process of being paved. The hydro-electric power supply that is distributed along that road has continued to develop, along with a general influx of population into the towns along the road. However, most significantly, the gold price has virtually doubled in value since the mine was placed on care and maintenance back in 2008 at which time the gold price averaged around US\$870. The Company has pursued its stated objective of organic resource growth over the last 18 months and the Board has been pleased with the exploration success the Company has achieved during this period, namely two discoveries from the

initial nine mine site targets in very close proximity to the Palito deposit and process plant. Management consider that these discoveries place the Company well on its path to meeting its longer term resource growth objective. The continued strong gold price, along with the fact the Company has maintained its current production licences and process plant at Palito, has led to the decision by the Board to commission a preliminary economic assessment of the viability of recommencing underground operations at Palito (the "PEA"). The study will focus initially on the existing resources, but will include evaluation of recent mine site discoveries, but excludes immediate exploration activity. The PEA will consider a selective mining methodology, focused on maximising grade and initially limited to production levels around 20,000 ounces per annum. With the improved gold prices and a return to selective high grade mining rather than deploying bulk mining methods, initial internal assessments demonstrate potentially attractive returns. Furthermore, the Palito plant can accommodate considerably more capacity than the initial throughputs being considered, and the general development of the region and elevated gold prices have in turn generated additional nearby high grade gold feed opportunities potentially available for processing at Palito. The Company is therefore considering additional opportunities which can enhance throughputs at Palito. The strong indications of near term resource growth only further support the decision.

**Activity over the next quarter**

- > To appoint a contractor to undertake the PEA, and commence the study during Q1 2012. The study will consume much of the company's resources over the coming months.
- > The Palito underground mine will remain on care and maintenance, with running costs in Brazil and corporately having been reduced wherever practical.
- > Seek JV partners/buyers with respect to the non-core assets.

**Mike Hodgson**

Chief Executive

29 March 2012

## Management Discussion and Analysis

### Financial Review

#### Financial Year ended 31 December 2011

For the twelve month period ended 31 December 2011 the Company showed a 1% reduction in its net loss and recorded a net loss of US\$5,935,823 (10.01 US cents per share) compared to a net loss of US\$5,980,011 (15.21 US cents per share) for the comparative period last year.

For the twelve months to 31 December 2011 there has been an increase in administration costs of US\$619,795 in comparison with the 2010 financial year which has been offset by the recovery of US\$540,000 of prior period costs following settlement of a claim against one of the Company's suppliers. As already noted mining operations which had been taking place for the first six months of 2010 were suspended at the end of June 2010 since which time all mining operations have remained suspended. A gross loss of US\$1,187,195 was incurred in the twelve months ended 31 December 2010 relating to costs associated with the maintenance of the Palito Mine site and equipment which compares to a gross loss for the current twelve month period ended 31 December 2011 of US\$567,705. These costs that have been expensed during the year relate primarily to operating costs of the crushing plant as the company has been crushing old waste rock stockpiles for use in rehabilitation and remediation of the mine site. In addition the company has generated some US\$450,000 of income from the sale of some of this material for use in road construction projects in the near vicinity. All other areas of the plant have remained on care and maintenance and other site costs are directly related to the exploration activity that was being undertaken at Palito during the period and accounted for as exploration expenditure.

At the corporate level administration costs have increased primarily as a result of higher staffing charges which account for US\$285,000 of the increase. This increase reflects the higher remuneration for executive management compared with 2010, including a bonus relating to performance in 2010, of which two thirds was settled by the issue of shares paid in the first quarter and the remuneration of the new non-executive directors who were appointed at the end of March 2011.

The company also incurred additional costs in the areas of professional fees, investor relations and travel in 2011 compared to 2010. These reflect a combination of factors but notably the initial public offering of the Company's shares on the TSX, increased investor marketing and attendance at investor shows, the increased exploration activity of the Company during the calendar year and the creation of the new website. These expenditures account for a further US\$208,000 of the year on year costs increases.

A provision of US\$142,438 has been recorded against the recoverability of certain state taxes representing 20% of the total amount due. The company has also recorded a provision of US\$129,264 in respect of past indirect tax liabilities which whilst not assessed could become payable.

In Brazil administration costs for the twelve months to 31 December 2011 overall have remained in line with those of the 2010 financial year notwithstanding the increase in exploration activity levels that has occurred during the year.

The Company also incurred as unrealised exchange loss of US\$5.0 million during the twelve month period ended 31 December 2011 compared with an unrealised exchange gain of US\$1.6 million in the corresponding period for 2010. These unrealised losses or gains arise from the need to translate the accounts of the Company's Brazilian subsidiary, which are maintained in Brazilian Reais, into US Dollars using prevailing period exchange rates. As a result of the relative weakness of the Brazilian Real as at 31 December 2011 at which time the exchange rate against the US Dollar was 1.8758 compared with the period end rate at 31 December 2010 of 1.6662, this has resulted in notional exchange losses being incurred particularly in respect of the Fixed and Deferred Assets held by that subsidiary. Since 31 December 2011 the Brazilian Real has fluctuated against the US dollar and having been a low as 1.70 the exchange rate is currently around 1.80 to the US Dollar.

#### Three month period ended 31 December 2011

For the three month period ended 31 December 2011 the Company recorded a net loss of US\$1,890,862 (2.96 US cents per share) compared to a net loss of US\$2,005,738 (4.48 US cents per share) for the comparative period last year. The decreased loss of US\$114,876 results primarily from reduced operating expenses at the Palito Mine which were down to US\$103,429 for the quarter end 31 December 2011 compared with US\$511,257 for the corresponding period in 2010. Overall administration costs were also reduced by US\$89,994 from US\$863,506 in the quarter ended 31 December 2010 to US\$773,512 in the quarter ended 31 December 2011.

The company has incurred an increased level of finance related costs which have increased to US\$432,312 for the quarter ended 31 December 2011, compared with US\$58,207 in the corresponding quarter of 2010. Of this increase however US\$334,637 represents the finance related element of an increase in the provision for rehabilitation upon eventual abandonment of the Palito site. Of this charge US\$367,203 relates to changes in inflation and timing assumptions whilst a change in the discount factor used has reduced the overall charge by US\$32,566. Whilst no changes have been made to the underlying costs estimates which are prepared in Brazilian Reais, the provision has been increased by US\$100,000 resulting from a combination of the discount factors and exchange rates used to compute the required financial provision in accordance with International Accounting Standard 37. The movement in the provision resulting from exchange rate movements has been accounted for as a movement in the Translation Reserve. The operating loss (before interest and foreign exchange) was US\$1,554,525 for the 3 month period ended 31 December 2011 compared with a loss of US\$1,951,616 for the corresponding period in 2010.

Mining operations which had been taking place for the first six months of 2010 were suspended at the end of June 2010 since which time all mining operations have remained suspended. A gross loss of US\$453,614 was incurred in the three months ended 31 December 2010 relating to costs associated with the maintenance of the Palito Mine site and equipment which compares to a gross loss for the current three month period ended 31 December 2011 of US\$103,429. The costs for the fourth quarter of 2011 have primarily related to the operating costs of the crushing plant. All other areas of the plant have remained on care and maintenance and other site costs are directly related to the exploration activity that was being undertaken at Palito during the period and accounted for as exploration expenditure.

Administration costs for the quarter ended 31 December 2011 decreased from US\$863,506 in 2010 to US\$773,512 for the corresponding quarter in 2011, a reduction of US\$89,994. There has been a significantly reduced level of provision required for settlement of employment claims, down from \$374,000 in the quarter to 31 December 2010 to only US\$11,000 in the corresponding quarter for 2011 which has in part been offset by a provision of US\$142,438 that the Company has recorded in respect of indirect taxes recoverable from the State of Para. At a corporate level administration costs for the three months ending 31 December 2011 increased by about US\$100,000 compared with the same quarter in 2010. Consistent with prior quarters the company has experienced a higher level of staff costs since its TSX listing but costs of the last quarter also reflected expenditures associated with the new corporate name, building of the new website and an increased level of investor relations activity including presentations at investor conferences in North America which in turn also contributed to an overall increase in travel costs compared with the same quarter in 2010.

A foreign exchange gain for the quarter of US\$95,975 was recorded reflecting in part a reversal of the exchange loss experienced in the preceding quarter ended 30 September 2011.

The Company incurred an unrealised exchange loss of US\$0.26 million during the three month period ended 31 December 2011 compared with an unrealised exchange gain of US\$0.65 million in the corresponding period for 2010. These unrealised losses or gains arise from the need to translate the accounts of the Company's Brazilian subsidiary, which are maintained in Brazilian Reais, into US Dollars using prevailing period exchange rates. As of 31 December 2011 the exchange rate was 1.8758 between the Brazilian Real and the US Dollar. Subsequent to the end of the year the Brazilian Real has fluctuated and has been as low as 1.70 though as at 28 March 2012 the rate is around BrR\$1.80 = US\$1. It should therefore be expected that for the quarter ended 31 March 2012, an unrealised exchange gain will arise which would have the effect of increasing the Net Assets as reflected in the Balance Sheet of the Company as at that date.

### Summary of quarterly results

	Quarter ended 31 December 2011 US\$	Quarter ended 30 September 2011 US\$	Quarter ended 30 June 2011 US\$	Quarter ended 31 March 2011 US\$
Revenues	(99)	2,843	1,063	–
Operating expenses	(103,429)	(152,001)	(132,260)	(183,822)
Gross loss	(103,528)	(149,158)	(131,197)	(183,822)
Administration expenses	(773,512)	(745,990)	(701,818)	(665,387)
Settlement of supplier claim	–	–	–	540,441
Provision for indirect taxes	(129,264)	–	–	–
Option costs	(77,151)	(92,399)	(63,740)	(30,571)
Gain / (Loss) on asset disposals	38,803	(5,204)	11,178	(13,515)
Depreciation of plant and equipment and provisions	(509,873)	(580,845)	(593,796)	(567,336)
Operating loss	(1,554,525)	(1,573,596)	(1,479,373)	(920,190)
Exchange	95,975	(168,309)	(44,988)	187,297
Finance costs	(432,312)	2,221	(38,274)	(9,749)
Loss before taxation	(1,890,862)	(1,739,684)	(1,562,635)	(742,642)
Loss per ordinary share (basic and diluted)	(2.96) cents	(2.72) cents	(2.44) cents	(1.65) cents
Development and deferred exploration costs	16,648,884	15,122,184	14,785,541	11,679,390
Property, plant and equipment	28,266,092	29,132,327	34,843,749	34,088,905
Total current assets	3,309,822	6,376,759	10,897,744	13,933,052
Total assets	48,224,798	50,631,270	60,527,034	59,701,347
Total liabilities	4,940,318	5,302,581	6,076,157	5,603,473
Shareholder's equity	43,284,480	45,328,689	54,450,877	54,097,874



## Management Discussion and Analysis

### Financial Review Continued

#### Summary of quarterly results

	Quarter ended 31 December 2010 US\$	Quarter ended 30 September 2010 US\$	Quarter ended 30 June 2010 US\$	Quarter ended 31 March 2010 US\$
Revenues	57,643	22,909	308,360	840,639
Operating expenses	(511,257)	(411,103)	(732,613)	(761,773)
Gross profit/(loss)	(453,614)	(388,194)	(424,253)	78,866
Administration expenses	(863,506)	(561,015)	(444,757)	(397,634)
Option costs	–	–	(25,102)	(25,102)
Write-off of past exploration expenditures	(28,569)	–	–	–
Gain / (loss) on asset disposals	(8,379)	(25,103)	49,874	(54,568)
Impairment	–	(111,106)	–	–
Depreciation of plant and equipment and provisions	(597,548)	(497,439)	(507,509)	(509,949)
Operating loss	(1,951,616)	(1,582,857)	(1,351,747)	(908,387)
Exchange	4,085	241,092	(271,393)	(1,180)
Finance costs	(58,207)	(44,325)	(11,444)	(44,032)
Loss before taxation	(2,005,738)	(1,386,090)	(1,634,584)	(953,599)
Loss per ordinary share (basic and diluted)	(4.48) cents	(3.10) cents	(4.70) cents	(2.91) cents
Development and deferred exploration costs	9,797,406	8,558,842	7,475,863	7,058,548
Property, plant and equipment	33,951,140	34,280,250	33,024,475	33,917,842
Total current assets	11,174,647	8,412,810	10,198,256	6,290,130
Total assets	54,923,193	51,251,902	50,698,594	47,266,520
Total liabilities	10,571,375	5,586,203	5,870,534	5,821,027
Shareholder's equity	44,351,818	45,665,699	44,828,060	41,445,493

#### Liquidity and Capital Resources

The Company had a working capital position of US\$625,602 at 31 December 2011 compared to US\$2,793,046 at 31 December 2010. The working capital position at 31 December 2011 includes cash and cash equivalents of US\$1,406,458 (31 December 2010: US\$8,598,755). The Company does not have any asset backed commercial paper investments. There has been a decrease in cash balances, reflecting that the Company receives cash only in discrete tranches through the issue of new shares and utilises this cash over a period of time to fund its exploration and development activities. Excluding the reduction in cash of US\$7,192,297 there would otherwise appear to have been an improvement in the working capital position compared with 31 December 2010. This has arisen principally through the exercise during the quarter ended 31 March 2011 of the Special Warrants issued by the Company on 2 December 2010. The value attributed to these Special Warrants had been shown at 31 December 2010 as a current liability and excluding this liability, the working capital position at 31 December 2010 would have been US\$7,853,041. As the Company has no source of revenue and is dependent on the issue of additional securities to raise additional cash when it is required, the Company's cash position at any time will be dependent upon the timing of raising new finance and timing and levels of its exploration and development activity.

During the twelve month period ended 31 December 2011, the Company issued 9,124,470 Ordinary Shares and 4,500,000 Warrants for net cash proceeds of US\$4,462,844, of which 9,000,000 Ordinary Shares and 4,500,000 Warrants were issued pursuant to the IPO on the Toronto Stock Exchange completed on 30 March 2011.

The placement comprised the issue of 9,000,000 units where each unit 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.

At the same time a further 10,070,000 Ordinary Shares and 5,035,000 Warrants were issued upon the automatic exercise of the Special Warrants issued by the Company on 2 December 2010. Each of the Special Warrants comprised a unit which in turn was comprised 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 Company has during the twelve month period ended 31 December 2011, incurred costs of US\$8,663,471 on mineral property exploration, US\$119,974 on asset purchases and used cash of US\$3,212,765 on its operating activities.

On 31 December 2011, the Company's total assets amounted to US\$48,224,798 which compares to a value of US\$54,923,193 recorded as at 31 December 2010. Total assets are mostly comprised of property, plant and equipment, which as at 31 December 2011 totalled US\$28,226,000 (December 2010: US\$33,951,000), and deferred exploration and development cost which as at 31 December 2011 totalled US\$16,649,000 (December 2010: US\$9,797,000), of which US\$15,293,000 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\$1,406,000 (December 2010: US\$8,599,000).

Receivables of US\$87,000 as at 31 December 2011 have decreased by US\$9,000 compared to the receivables balance of US\$96,000 as at 31 December 2010. The receivables as of 31 December 2011 are primarily deposits paid by the Company. Prepayments as of 31 December 2011 were US\$702,000 compared with US\$1,062,000 as at 31 December 2010, a decrease of US\$360,000. The prepayments primarily represent prepaid taxes in Brazil of US\$616,000, 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 amount due is stated net of a provision of US\$127,000 against the future recoverability of indirect state taxes.

The Company's total liabilities at 31 December 2011 of US\$4,940,000 (December 2010: US\$10,571,000) included accounts payable to suppliers and other accrued liabilities of US\$3,193,000 (December 2010: US\$3,874,000). The total liabilities include US\$274,000 (December 2010: US\$249,000) 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\$1,451,000 (December 2010: US\$1,389,000) in respect of provisions including US\$1,155,000 (December 2010: US\$1,055,000) for the cost of rehabilitation of the current Palito Mine site at the conclusion of operational activity.

On 24 January 2012 the Company completed a placing of 27.3 million Units whereby each Unit comprised one Ordinary Share of 5 pence par value and one sixth of a share purchase warrant. The proceeds raised from this placing of Units were UK£2.73 million before expenses. These funds are to be utilised for working capital and to enable the Company to complete a Preliminary Economic Assessment on the re-opening of the Palito Mine. Subject to adequate funding being raised management believes that work on the re-commencement of mining operations at the Palito Mine could commence during the 2012 calendar year. Management believes that the Company, subject to the raising of this additional funding during 2012, will have adequate working capital to undertake all of its currently planned exploration and development programmes for the remainder of 2012 in relation to the Company's existing mineral properties and to cover administrative expenses for the same fiscal year.

**Clive Line**

Finance Director

29 March 2012

## Directors and Senior Management

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### **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 Chairman**

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

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



**Melvyn Williams, (appointed 30 March 2011)**

**Non-executive**

Mel Williams was until June 2011 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 Western Troy Capital Resources.



**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.



**Christopher Kingsman, (appointed 15 December 2011)**

**Non-executive**

Christopher Kingsman has worked in investment management since graduating from Cambridge University in 1998. He began his career at Fidelity Investments in London and worked during 1998 and 2005 for both fundamentally and macro focused investment firms. Since 2005 he has managed a private family office, including significant stakes and directorships in private companies, as well as managing a non-profit company. His current directorships are in the areas of investment management, business research (aranca.com), real estate and the charitable sector.

Christopher has an MA Cantab, having read Social & Political Studies at St. John's College, Cambridge. He also holds the IIMR investment management certificate.

**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

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For the year ended 31 December 2011

### REMUNERATION COMMITTEE

Following the appointment of three new non-executive directors on 30 March 2011, the Remuneration Committee was re-constituted and comprises Messrs Williams, Harvey and Jones and is chaired by Mr Williams. For the period from 1 January 2011 to 30 March 2011 it had been comprised of Mr Roberts and Mr Clough and chaired by Mr Roberts. The Remuneration Committee 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 UK Corporate Governance Code ("The 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 in 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 2011, had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Shares held at 31 December 2011	Shares held at 31 December 2010	Warrants held at 31 December 2011 <sup>(1)</sup>	Warrants held at 31 December 2010	Share options held at 31 December 2011	Share options held at 31 December 2010	Option price	Exercise period
Michael Hodgson	<b>392,320</b>	392,320	–	–	<b>500,000</b> <b>600,000</b> <b>250,000</b>	500,000 – –	UK£0.15 UK£0.41 C\$0.60	21 Dec 09 to 20 Dec 19 28 Jan 11 to 27 Jan 21 31 May 11 to 20 May 14
Clive Line	<b>417,653</b>	417,653	–	–	<b>500,000</b> <b>600,000</b> <b>250,000</b>	500,000 – –	UK£0.15 UK£0.41 C\$0.60	21 Dec 09 to 20 Dec 19 28 Jan 11 to 27 Jan 21 31 May 11 to 20 May 14
T Sean Harvey <sup>(3)</sup>	<b>200,000</b>	–	<b>100,000</b>	–	<b>200,000</b>	–	C\$0.60	31 May 11 to 20 May 14
Melvyn Williams <sup>(3)</sup>	<b>45,000</b>	–	<b>22,500</b>	–	<b>200,000</b>	–	C\$0.60	31 May 11 to 20 May 14
Dr Doug Jones <sup>(3)</sup>	<b>50,000</b>	–	<b>25,000</b>	–	<b>200,000</b>	–	C\$0.60	31 May 11 to 20 May 14
Christopher Kingsman <sup>(2)(6)</sup>	<b>11,590,000</b>	10,000,000	<b>500,000</b>	–	–	–	–	–
William Clough <sup>(4)</sup>	–	2,027,896	–	–	–	100,000	UK£0.15	21 Dec 09 to 20 Dec 19
Graham Roberts <sup>(5)</sup>	–	278,030	–	–	–	200,000	UK£0.15	21 Dec 09 to 20 Dec 19

(1) The Warrants were issued on 30 March 2011, and are exercisable at C\$0.75 at any time up to 2 December 2012.

(2) Mr Kingsman is the beneficial owner of Greenwood Investments Limited ("Greenwood"), the entire share capital of which is beneficially owned by Christopher Kingsman. As of 31 December 2011 Greenwood was interested in 11,590,000 Serabi Ordinary Shares representing at that time 18.08 per cent. of the issued share capital of Serabi, together with 500,000 Warrants. In addition, in October 2009 Greenwood entered into a convertible loan agreement with the Company ("Convertible") under which Greenwood made available a facility of £300,000 to the Company. On 16 December 2009, the Company had drawn down the full amount of the Convertible. The full amount of the Convertible is convertible at the election of Greenwood into new Serabi Ordinary Shares at an exercise price of 15p per Serabi Ordinary Share at any time on or before 31 October 2014. A maximum of 2,100,123 new Serabi Ordinary Shares may be issued on conversion of the Convertible and settlement of the accumulated interest over the life of the Convertible Loan of £15,018. The Convertible is unsecured and pays a coupon of one per cent. per annum and, unless otherwise converted, will be repaid on 31 October 2014. On 26 January 2012, Greenwood disposed of all of its interests in the shares, warrants and convertible loan agreement to Anker Holding AG, a company beneficially owned by Mr Kingsman's spouse.

(3) Mr TS Harvey, Mr M Williams and Dr D Jones were appointed to the Board on 30 March 2011.

(4) Mr WM Clough resigned from the Board on 23 March 2011

(5) Mr GS Roberts resigned from the Board on 27 June 2011

(6) Mr CD Kingsman was appointed to the Board on 15 December 2011

During the year ended 31 December 2011 the Company's shares have traded between 41.0 pence and 7.75 pence.

### Remuneration

Director	Salary \$	Pension settled in cash \$	Pension settled by issue of shares \$	IFRS 2 charge for options granted \$	Other \$	2011 Total \$	For the year to 31 December 2010 Total \$
Michael Hodgson	211,484	4,818	31,921	71,944	5,108	<b>325,275</b>	182,541
Clive Line	208,277	–	31,921	71,944	4,086	<b>316,228</b>	166,280
T Sean Harvey	32,409	–	–	12,334	–	<b>44,743</b>	–
Melvyn Williams	28,205	–	–	12,334	–	<b>40,539</b>	–
Dr Doug Jones	24,292	–	–	12,334	–	<b>36,626</b>	–
Graham Roberts	30,007	–	–	31,105	5,970	<b>67,082</b>	56,392
Bill Clough	4,757	–	–	13,754	–	<b>18,511</b>	24,942
Christopher Kingsman	–	–	–	–	–	–	–
<b>Total</b>	<b>539,431</b>	<b>4,818</b>	<b>63,842</b>	<b>225,749</b>	<b>15,164</b>	<b>849,004</b>	<b>430,155</b>

Included in remuneration for the year to 31 December 2010 are pension costs of US\$4,684.

## Directors' Report

For the year ended 31 December 2011

The Directors present their report together with the audited financial statements for the year ended 31 December 2011.

### RESULTS AND DIVIDENDS

The Group loss for the year after taxation amounts to US\$5,935,823 (2010: loss of US\$5,980,011). The Directors do not recommend the payment of a dividend.

The results for the year are set out on page 26 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.

On 14 October 2011 the name of the Company was changed from Serabi Mining plc to Serabi Gold plc.

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 15.

### SUBSTANTIAL SHAREHOLDINGS

As at 28 March 2012 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	21,340,000	23.38%
Anker Holding AG	18,851,000	20.71%
Fratelli Investments	17,616,000	19.30%
F&C Asset Management plc	3,438,957	3.77%

### SHARE CAPITAL

Movements in share capital during the period are disclosed in note 17 to the financial statements. On 24 January 2012, the Company completed the placing of 27.3 million Units resulting in the issue of 27.3 million new Ordinary Shares and 4,549,998 share purchase warrants. Further details are set out below in the section Post Balance Sheet Events and in Note 25 to these Financial Statements.

During the period the following issues of share options under the Serabi Mining 2011 Share Option Plan were made to Directors, employees and contractors.

Date of issue	Number issued	Price	Expiry
28 January 2011	1,455,000	UK£0.41	27 January 2021
28 January 2011	450,000	UK£0.37	27 January 2021
31 May 2011	1,630,000	C\$0.60	30 May 2014

### 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 2011, the Group had 65 (2010: 140) 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 Company is planning to complete during the first half of 2012, the preparation of a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. If, as anticipated, the outcome of the PEA is positive the company will then seek to raise further finance from investors in order to provide sufficient funds to recommence mining operations and provide sufficient working capital for the Group's operations.

Subject to raising this finance and gaining the necessary approval from shareholders in general meeting, the Directors consider that the Company will thereafter have sufficient funds to finance 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.

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 future funding not to become available in an appropriate timescale, which might be the case if the outcome of the PEA was not in line with expectations, the Directors would need to consider alternative strategies and an impairment review would be required in respect of the carrying value of the assets relating to the Palito Mine and other deferred exploration costs. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's and the Company's ability to continue as a going concern. No adjustments to asset carrying values that may be necessary should the Company be unsuccessful in raising the required finance 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, not achieving the projected 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 ("IFRS") 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 accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- 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, to disclose with reasonable accuracy at any time the financial position of the company and to 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 UK Corporate Governance Code published in May 2010 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 19.

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 UK Corporate Governance 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 Auditor's 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 it was comprised of Mr Roberts and Mr Clough and chaired by Mr Roberts. All of the members of the current audit committee are considered to be independent.

## Directors' Report

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For the year ended 31 December 2011

### 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 18 to 19.

### 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 note 16) 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 increases 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 2011 and subsequent to the year end, the Group raised new funds through the issue of 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

On 24 January 2012, the Company completed an unbrokered placing of 27.3 million Units at a price of UK£0.10 per Unit. The placing was oversubscribed and mostly taken up by existing investors including Eldorado Gold Corporation who have a contractual right to participate in any share offering for a cash consideration. The placing raised UK£2.73 million before expenses and the funds will be used for working capital and to undertake a preliminary economic assessment into the re-commencement of underground mining operations at the Palito Mine. Each Unit comprised one Ordinary Share of 5 pence par value ("Ordinary Share") and one sixth of a share purchase warrant whereby each whole share purchase warrant shall entitle the holder to acquire one new Ordinary Share at a subscription price of UK£0.15 at any time up to and including 23 January 2014.

Other than as set out above, 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.

### 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.

### AUDITOR

PKF (UK) LLP have expressed their willingness to continue in office. A resolution to re-appoint them as auditor 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 auditor is 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 auditor is aware of that information.

By order of the Board

### Clive Line

Company Secretary  
29 March 2012

## Independent Auditor's Report

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To the members of Serabi Gold plc

We have audited the financial statements of Serabi Gold plc for the year ended 31 December 2011 which comprise the group statement of comprehensive income, the group and parent company balance sheets, the group and parent company statements of changes in shareholders' equity, the group and parent company 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 AUDITOR

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 and express an opinion on 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 2011 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 ISSUED BY THE IASB

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 – GOING CONCERN AND AVAILABILITY OF PROJECT FINANCE

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1(a) to the financial statements concerning the group and the company's ability to continue as a going concern. The group has identified a requirement to raise additional funds in order to either undertake development of the Palito Mine or to provide additional working capital for its operations, which will require securing new funds from existing or potential investors. These conditions, along with the other matters explained in note 1(a) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company was unable to continue as a going concern.

**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  
29 March 2012

## Statement of Comprehensive Income

For the year ended 31 December 2011

		Group	
	Notes	For the year ended 31 December 2011 US\$	For the year ended 31 December 2010 US\$
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>	2	<b>3,807</b>	1,229,551
Operating expenses		<b>(571,512)</b>	(2,416,746)
<b>Gross loss</b>		<b>(567,705)</b>	(1,187,195)
Administration expenses		<b>(2,886,707)</b>	(2,266,912)
Provision for indirect taxes		<b>(129,264)</b>	–
Share-based payments		<b>(263,861)</b>	(103,876)
Settlement of supplier claim		<b>540,441</b>	–
Gain/(Loss) on asset disposals		<b>31,262</b>	(124,179)
Depreciation of plant and equipment		<b>(2,251,850)</b>	(2,112,445)
<b>Operating loss</b>	3	<b>(5,527,684)</b>	(5,794,607)
Foreign exchange gain/(loss)		<b>69,975</b>	(27,396)
Finance expense	4	<b>(537,197)</b>	(187,912)
Finance income	4	<b>59,083</b>	29,904
<b>Loss before taxation</b>		<b>(5,935,823)</b>	(5,980,011)
Income tax expense	5	<b>–</b>	–
<b>Loss for the period from continuing operations<sup>(1)(2)</sup></b>		<b>(5,935,823)</b>	(5,980,011)
<b>Other comprehensive income (net of tax)</b>			
Exchange differences on translating foreign operations		<b>(4,957,335)</b>	1,613,011
<b>Total comprehensive loss for the period<sup>(2)</sup></b>		<b>(10,893,158)</b>	(4,367,000)
<b>Loss per ordinary share (basic and diluted)</b>	7	<b>(10.01c)</b>	(15.21c)

(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 2011

	Notes	Group		Company	
		2011 US\$	2010 US\$	2011 US\$	2010 US\$
<b>Non-current assets</b>					
Development and deferred exploration costs	8	16,648,884	9,797,406	1,749,055	947,793
Property, plant and equipment	9	28,266,092	33,951,140	1,187,907	1,295,675
Investments in subsidiaries	10	–	–	10,913,322	10,913,322
Other receivables	12	–	–	34,591,402	25,168,521
<b>Total non-current assets</b>		<b>44,914,976</b>	43,748,546	<b>48,441,686</b>	38,325,311
<b>Current assets</b>					
Inventories	11	1,114,255	1,417,804	–	–
Trade and other receivables	12	87,440	96,143	60,000	60,289
Prepayments		701,669	1,061,945	53,979	35,583
Cash and cash equivalents	13	1,406,458	8,598,755	1,070,297	8,032,125
<b>Total current assets</b>		<b>3,309,822</b>	11,174,647	<b>1,184,276</b>	8,127,997
<b>Current liabilities</b>					
Trade and other payables	14	2,538,055	3,147,258	822,601	554,501
Accruals		146,165	174,348	146,164	174,348
Special warrants	18	–	5,059,995	–	5,059,995
<b>Total current liabilities</b>		<b>2,684,220</b>	8,381,601	<b>968,765</b>	5,788,844
<b>Net current assets</b>		<b>625,602</b>	2,793,046	<b>215,511</b>	2,339,153
<b>Total assets less current liabilities</b>		<b>45,540,578</b>	46,541,592	<b>48,657,197</b>	40,664,464
<b>Non-current liabilities</b>					
Trade and other payables	14	508,680	552,027	–	–
Provisions	15	1,451,296	1,388,571	–	–
Interest bearing liabilities	16	296,122	249,176	296,122	249,176
<b>Total non-current liabilities</b>		<b>2,256,098</b>	2,189,774	<b>296,122</b>	249,176
<b>Net assets</b>		<b>43,284,480</b>	44,351,818	<b>48,361,075</b>	40,415,288
<b>Equity</b>					
Share capital	17	29,291,551	27,752,834	29,291,551	27,752,834
Share premium reserve		48,292,057	40,754,032	48,292,057	40,754,032
Option reserve		1,956,349	1,648,484	1,956,349	1,648,484
Other reserves		702,095	260,882	702,095	260,882
Translation reserve		(1,075,167)	3,882,168	–	–
Accumulated losses	20	(35,882,405)	(29,946,582)	(31,880,977)	(30,000,944)
<b>Equity shareholders' funds attributable to owners of the parent</b>		<b>43,284,480</b>	44,351,818	<b>48,361,075</b>	40,415,288

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2012 and signed on its behalf by:

### Clive Line

Finance Director  
29 March 2012

Company Number 5131528



## Statements of Changes in Shareholders' Equity

For the year ended 31 December 2011

Group	Share capital US\$	Share premium US\$	Share option reserve US\$	Other reserves US\$	Translation reserve US\$	Accumulated losses US\$	Total equity US\$
<b>Equity shareholders' funds at 31 December 2009</b>	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
<b>Equity shareholders' funds at 31 December 2010</b>	27,752,834	40,754,032	1,648,484	260,882	3,882,168	(29,946,582)	44,351,818
Foreign currency adjustments	–	–	–	–	(4,957,335)	–	(4,957,335)
Loss for year	–	–	–	–	–	(5,935,823)	(5,935,823)
Total comprehensive income for the year	–	–	–	–	(4,957,335)	(5,935,823)	(10,893,158)
Issue of new ordinary shares for cash	731,412	4,229,767	–	208,229	–	–	5,169,408
Issue of new ordinary shares on exercise of special warrants	807,305	4,004,807	–	232,984	–	–	5,045,096
Costs associated with issue of new ordinary shares for cash	–	(696,549)	–	–	–	–	(696,549)
Share option expense	–	–	307,865	–	–	–	307,865
<b>Equity shareholders' funds at 31 December 2011</b>	<b>29,291,551</b>	<b>48,292,057</b>	<b>1,956,349</b>	<b>702,095</b>	<b>(1,075,167)</b>	<b>(35,882,405)</b>	<b>43,284,480</b>

Company	Share capital US\$	Share premium US\$	Share option reserve US\$	Other reserves US\$	Accumulated losses US\$	Total equity US\$
<b>Equity shareholders' funds at 31 December 2009</b>	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
<b>Equity shareholders' funds at 31 December 2010</b>	27,752,834	40,754,032	1,648,484	260,882	(30,000,944)	40,415,288
Loss for year	–	–	–	–	(1,880,033)	(1,880,033)
Comprehensive income for year	–	–	–	–	(1,880,033)	(1,880,033)
Issue of new ordinary shares	731,412	4,229,767	–	208,229	–	5,169,408
Issue of new ordinary shares on exercise of special warrants	807,305	4,004,807	–	232,984	–	5,045,096
Costs associated with issue of new ordinary shares	–	(696,549)	–	–	–	(696,549)
Share option expense	–	–	307,865	–	–	307,865
<b>Equity shareholders' funds at 31 December 2011</b>	<b>29,291,551</b>	<b>48,292,057</b>	<b>1,956,349</b>	<b>702,095</b>	<b>(31,880,977)</b>	<b>48,361,075</b>

## Cash Flow Statements

For the year ended 31 December 2011

	Group		Company	
	For the year ended 31 December 2011 US\$	For the year ended 31 December 2010 US\$	For the year ended 31 December 2011 US\$	For the year ended 31 December 2010 US\$
<b>Cash outflows from operating activities</b>				
Operating loss	(5,527,684)	(5,794,607)	(1,970,985)	(1,424,060)
Depreciation – plant, equipment and mining properties	2,251,850	2,112,445	112,486	160,375
(Gain)/loss on sale of assets	(31,262)	124,179	–	–
Option costs	263,861	103,876	263,861	103,876
Interest paid	(156,838)	(149,439)	(45,721)	–
Foreign exchange	(174,367)	(175,671)	34,058	(75,222)
<b>Changes in working capital</b>				
Decrease/(increase) in inventories	162,979	(95,530)	–	–
Decrease/(increase) in receivables, prepayments and accrued income	267,985	569,010	(18,105)	87,847
(Decrease)/increase in payables, accruals and provisions	(269,289)	(631,396)	239,915	54,880
<b>Net cash flow from operations</b>	<b>(3,212,765)</b>	<b>(3,937,133)</b>	<b>(1,384,491)</b>	<b>(1,092,306)</b>
<b>Investing activities</b>				
Proceeds of sale of fixed assets	212,887	501,209	–	–
Purchase of property, plant and equipment	(119,974)	(7,225)	(4,718)	(7,225)
Exploration and development expenditure	(8,663,471)	(2,481,665)	(757,257)	(197,205)
Capital and loan investments in subsidiaries	–	–	(9,422,881)	(5,212,000)
Interest received	59,083	29,904	59,083	29,904
<b>Net cash outflow on investing activities</b>	<b>(8,511,475)</b>	<b>(1,957,777)</b>	<b>(10,125,773)</b>	<b>(5,386,526)</b>
<b>Financing activities</b>				
Issue of ordinary share capital	4,961,180	5,424,120	4,961,180	5,424,120
Issue of special warrants	208,229	5,453,761	208,229	5,453,761
Capital element of finance lease payments	–	(79,303)	–	–
Payment of share issue costs	(696,549)	(35,059)	(696,549)	(35,059)
Payment of special warrant issue costs	(14,900)	(393,765)	(14,900)	(393,765)
<b>Net cash inflow from financing activities</b>	<b>4,457,960</b>	<b>10,369,754</b>	<b>4,457,960</b>	<b>10,449,057</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(7,266,280)</b>	<b>4,474,844</b>	<b>(7,052,304)</b>	<b>3,970,225</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>8,598,755</b>	<b>4,081,882</b>	<b>8,032,125</b>	<b>4,020,169</b>
<b>Exchange difference on cash</b>	<b>73,983</b>	<b>42,029</b>	<b>90,476</b>	<b>41,731</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,406,458</b>	<b>8,598,755</b>	<b>1,070,297</b>	<b>8,032,125</b>

## Notes to the Financial Statements

For the year ended 31 December 2011

### 1 Significant accounting policies

#### (a) Basis of preparation

Serabi Gold 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 20.

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

The financial statements have been prepared in accordance with International Financial Reporting Standards ("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 issued 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 2011.

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 Company is planning to complete during the first half of 2012, the preparation of a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. If, as anticipated, the outcome of the PEA is positive the company will then seek to raise further finance from investors in order to provide sufficient funds to recommence mining operations and provide sufficient working capital for the Group's operations.

Subject to raising this finance and gaining the necessary approval from shareholders in general meeting, the Directors consider that the Company will thereafter have sufficient funds to finance 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.

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 future funding not to become available in an appropriate timescale, which might be the case if the outcome of the PEA was not in line with expectations, the Directors would need to consider alternative strategies and an impairment review would be required in respect of the carrying value of the assets relating to the Palito Mine and other deferred exploration costs. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's and the Company's ability to continue as a going concern. No adjustments to asset carrying values that may be necessary should the Company be unsuccessful in raising the required finance 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, not achieving the projected 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 in other comprehensive income.

The US Dollar/Sterling exchange rate at 31 December 2011 was 1.5547 (2010: 1.5471). The Brazilian Real/US Dollar exchange rate at 31 December 2011 was 1.8758 (2010: 1.6662).

### (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 2011

### 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 re-valued 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 2011

### 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 centres 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 resources and assessing performance of the operating segments, has been identified as the Board of Directors.

## 1 Significant accounting policies (continued)

### (t) Investments in subsidiaries

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

### (u) 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.

### (v) 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 2011

### 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.

Major Customers (accounting for more than 10% of the Group's revenues)	2011		2010	
	\$	%	\$	%
Customer 1	3,807	100.0	1,229,551	100.0

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

	2011			2010		
	Brazil \$	Unallocated \$	Total \$	Brazil \$	Unallocated \$	Total \$
Revenue	3,807	–	3,807	1,229,551	–	1,229,551
Operating expenses	571,381	131	571,512	2,346,557	70,189	2,416,746
Operating loss	567,574	131	567,705	1,117,006	70,189	1,187,195
Administration expenses	881,024	1,594,506	2,475,530	1,177,291	1,089,621	2,266,912
Share based payments	–	263,861	263,861	–	103,876	103,876
Depreciation and loss/(gain) on asset disposals	2,108,102	112,486	2,220,588	2,219,921	16,703	2,236,624
Operating loss	3,556,700	1,970,984	5,527,684	4,514,218	1,280,389	5,794,607
Foreign exchange loss/ (gain)	7,616	(77,591)	(69,975)	100	27,296	27,396
Finance expense/(income)	491,475	(13,361)	478,114	149,439	8,569	158,008
Loss before taxation	4,055,791	1,880,032	5,935,823	4,663,757	1,316,254	5,980,011

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

	Total non-current assets	
	31 December 2011 \$	31 December 2010 \$
Brazil – operations	28,247,698	33,920,550
Brazil – exploration	16,648,884	9,797,406
Other	18,394	30,590
	44,914,976	43,748,546

An analysis of total assets by location is as follows:

	Total assets	
	31 December 2011 \$	31 December 2010 \$
Brazil	47,017,584	46,760,061
Other	1,207,214	8,163,132
	48,224,798	54,923,193

## 2 Segmental analysis (continued)

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

	Group	
	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Brazil	8,707,476	2,502,829

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

	Group	
	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Brazil (non-leased assets)	115,255	–
Brazil (leased assets)	–	–
Other	4,719	7,225
	119,974	7,225

## 3 Operating loss

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

	Group	
	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Staff costs	4,418,920	3,003,362
Depreciation (plant and equipment)	2,251,850	2,112,445
Cost of inventories recognised as an expense	1,079,443	930,513
Operating lease charges	115,374	111,017

b. Auditor's remuneration

	Group	
	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Fees payable to the group's auditor for the audit of the group's annual financial statements	49,525	49,992
Fees payable to the group's auditor and its associates for other services:		
audit of the Group's subsidiaries pursuant to legislation	23,353	22,066
tax services	12,566	1,874
all other services	52,438	17,493

## Notes to the Financial Statements

For the year ended 31 December 2011

### 4 Finance expense and income

	Group	
	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Interest payable on lease obligations	–	(5,637)
Finance element of increase in rehabilitation provision	(334,637)	–
Finance charge re convertible loan stock	(45,722)	(38,473)
Other finance related expenses	(156,838)	(143,802)
<b>Interest payable</b>	<b>(537,197)</b>	<b>(187,912)</b>
Finance income on short-term deposits	59,083	29,904
<b>Net interest</b>	<b>(478,114)</b>	<b>(158,008)</b>

### 5 Taxation

	Group	
	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Current tax		
UK tax	–	–
Foreign tax	–	–
Deferred tax	–	–
<b>Total</b>	<b>–</b>	<b>–</b>

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained as follows:

	Group	
	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Loss on ordinary activities before tax	(5,935,823)	(5,980,011)
Tax thereon at UK corporate tax rate of 26.5% (2010: 28%)	(1,572,993)	(1,674,403)
Factors affecting the tax charge:		
expenses not deductible for tax purposes	164,568	1,543,871
income not taxable	–	–
higher rate tax overseas	(277,444)	(116,515)
unrecognised tax losses carried forward	1,685,869	1,369,984
<b>Tax charge</b>	<b>–</b>	<b>–</b>

The Group has total tax losses of US\$38.5 million (2010: US\$35.3 million) giving rise to a potential deferred tax asset of US\$11.9 million (2010: US\$11.5 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 2011 Number	For the year ended 31 December 2010 Number
Management and administration	11	10
Exploration	35	9
Mine development and operations	39	45
<b>Total</b>	<b>85</b>	<b>64</b>
	\$	\$
Staff costs		
Wages and salaries	2,655,389	1,666,520
Cost of incentive scheme shares and Director shares vested	307,866	125,040
Social security costs	748,623	454,744
Termination costs	702,224	752,374
Pension contributions	4,818	4,684
<b>Total</b>	<b>4,418,920</b>	<b>3,003,362</b>

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.

### Directors' remuneration

The compensation of the Directors' is:

	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Salary and other benefits	554,595	343,934
Post employment benefits	4,818	4,684
Share-based payments	289,591	81,537
<b>Total</b>	<b>849,004</b>	<b>430,155</b>

The remuneration of the highest paid Director during the year was US\$325,275 (2010: US\$182,541). The Company made cash contributions to his money purchase pension scheme of US\$4,818 (2010: US\$4,684) and contribution by way of shares of US\$31,921 (2010: US\$nil). The remuneration also includes the valuation of options granted in accordance with IFRS 2 of US\$71,944 (2010: US\$31,355).

During the year ended 31 December 2011, one of the Directors (2010: one) 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 2011

### 7 Loss per share

The calculation of the basic loss per share of 10.01 cents (2010 loss per share: 15.21 cents) is based on the loss attributable to ordinary shareholders of US\$5,935,823 (2010: loss of US\$5,980,011) and on the weighted average number of ordinary shares of 59,309,035 (2010: 39,316,525) 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

#### Development and deferred exploration costs

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
<b>Cost</b>				
Opening balance	9,797,406	6,880,038	947,793	729,424
Exploration and development expenditure	8,663,471	2,481,665	757,257	197,205
Share option charges	44,005	21,164	44,005	21,164
Exchange	(1,855,998)	414,539	–	–
<b>Total as at end of period</b>	<b>16,648,884</b>	<b>9,797,406</b>	<b>1,749,055</b>	<b>947,793</b>

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

### 9 Tangible assets

#### Property, plant and equipment

	Group				Company		
	Land and buildings – at cost \$	Mining property – at cost \$	Plant and equipment – at cost \$	Total \$	Plant and equipment – at cost \$	Mining property – at cost \$	Total \$
<b>2011</b>							
<b>Cost</b>							
Balance at 31 December 2010	4,084,536	32,549,037	12,635,123	49,268,696	612,367	2,167,502	2,779,869
Additions	–	–	119,974	119,974	4,718	–	4,718
Exchange	(456,402)	(3,153,478)	(1,305,355)	(4,915,236)	–	–	–
Disposals	–	–	(452,736)	(452,736)	–	–	–
<b>At 31 December 2011</b>	<b>3,628,135</b>	<b>29,395,559</b>	<b>10,997,006</b>	<b>44,020,699</b>	<b>617,086</b>	<b>2,167,502</b>	<b>2,784,587</b>
<b>Depreciation</b>							
Balance at 31 December 2010	(3,337,117)	(4,323,725)	(7,656,714)	(15,317,556)	(559,719)	(924,475)	(1,484,194)
Charge for period	(605,898)	–	(1,645,952)	(2,251,850)	(112,486)	–	(112,486)
Reclassification of impairment provision	–	–	–	–	97,585	(97,585)	–
Exchange	429,640	223,988	890,060	1,543,688	–	–	–
Eliminated on sale of asset	–	–	271,111	271,111	–	–	–
<b>At 31 December 2011</b>	<b>(3,513,375)</b>	<b>(4,099,737)</b>	<b>(8,141,495)</b>	<b>(15,754,607)</b>	<b>574,620</b>	<b>1,022,060</b>	<b>(1,596,680)</b>
<b>Net book value at 31 December 2011</b>	<b>114,760</b>	<b>25,295,821</b>	<b>2,855,511</b>	<b>28,266,092</b>	<b>42,466</b>	<b>1,145,442</b>	<b>1,187,907</b>
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

Further details regarding the impairment review undertaken by the Directors, are set out in note 19.

**9 Tangible assets (continued)****Property, plant and equipment (continued)**

	Group				Company		
	Land and buildings – at cost \$	Mining property – at cost \$	Plant and equipment – at cost \$	Total \$	Plant and equipment – at cost \$	Mining property – at cost \$	Total \$
2010							
<b>Cost</b>							
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)	–	–	–
<b>At 31 December 2010</b>	<b>4,084,536</b>	<b>32,549,037</b>	<b>12,635,123</b>	<b>49,268,696</b>	<b>612,367</b>	<b>2,167,502</b>	<b>2,779,869</b>
<b>Depreciation</b>							
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	–	–	–
<b>At 31 December 2010</b>	<b>(3,337,117)</b>	<b>(4,323,725)</b>	<b>(7,656,714)</b>	<b>(15,317,556)</b>	<b>(559,719)</b>	<b>(924,475)</b>	<b>(1,484,194)</b>
<b>Net book value at 31 December 2010</b>	<b>747,419</b>	<b>28,225,312</b>	<b>4,978,409</b>	<b>33,951,140</b>	<b>52,649</b>	<b>1,243,027</b>	<b>1,295,675</b>
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

**10 Investments held as fixed assets**

The Group consists of the following subsidiary undertakings:

Name	Incorporated	Activity	% holding
Serabi Mineração SA	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 2011 \$	31 December 2010 \$
Cost at start and end of period	<b>17,339,256</b>	17,339,256
<b>Impairment provision</b>		
Balance at start and end of period	<b>6,425,934</b>	6,425,934
Net book value at end of period	<b>10,913,322</b>	10,913,322

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

## Notes to the Financial Statements

For the year ended 31 December 2011

### 11 Inventories

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
Consumables	1,114,255	1,417,804	–	–

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

### 12 Trade and other receivables

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
<b>Current</b>				
Trade receivables	20,972	32,760	–	–
Other receivables	66,468	63,383	60,000	60,289
Trade and other receivables	87,440	96,143	60,000	60,289
<b>Non-current</b>				
Amounts owed by subsidiaries	–	–	46,342,112	36,919,231
Impairment provision	–	–	(11,750,710)	(11,750,710)
Other receivables	–	–	34,591,402	25,168,521

### 13 Cash and cash equivalents

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
Cash and cash equivalents	1,406,458	8,598,755	1,070,297	8,032,125

### 14 Trade and other payables

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
<b>Current</b>				
Trade payables	1,204,877	1,804,445	386,445	122,252
Other payables	444,465	334,961	1,315	1,315
Employee benefits	173,825	534,360	–	–
Other taxes and social security	714,888	473,492	15,305	11,398
Amounts due to subsidiaries	–	–	419,536	419,536
Trade and other payables	2,538,055	3,147,258	822,601	554,501
<b>Non-current</b>				
(Between one and five years)				
Trade payables	–	64,336	–	–
Other payables	146,812	187,244	–	–
Employee benefits	127,161	65,907	–	–
Other taxes and social security	234,707	234,540	–	–
	508,680	552,027	–	–

## 15 Non-current provisions

### Contingency provision

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
Opening balance	333,571	319,200	–	–
Exchange	(37,275)	14,371	–	–
Closing balance	296,296	333,571	–	–

### Environmental rehabilitation provision

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
Opening balance	1,055,000	1,055,000	–	–
Provided for in year				
as a result of finance variations	334,637	–	–	–
as a result of exchange variations	(234,637)	–	–	–
	100,000	–	–	–
Closing balance	1,155,000	1,055,000	–	–
<b>Total non-current provisions</b>	<b>1,451,296</b>	<b>1,388,571</b>	<b>–</b>	<b>–</b>

The contingency provision covers claims that may be brought by former employees of Serabi Mineracao 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.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 16 Interest bearing liabilities

#### 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 15 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.

On 26 January 2012, Greenwood assigned its interest in the convertible loan stock to Anker Holding AG.

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 and Company	
	<b>31 December 2011 \$</b>	31 December 2010 \$
<b>Interest bearing liabilities – non-current</b>		
Convertible loan stock	<b>296,122</b>	249,176
	<b>296,122</b>	249,176

## 17 Share capital

	2011		2010	
	Number	£	Number	£
<b>Authorised</b>				
Ordinary shares of 5 pence each	333,735,776	16,686,789	333,735,776	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

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.

	2011		2010	
	Number	\$	Number	\$
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 5 pence each	63,968,529	5,270,156	44,774,059	3,731,439
Deferred shares of 9.5 pence each	140,139,065	24,021,395	140,139,065	24,021,395
		29,291,551		27,752,834

### Movements in issued share capital

	31 December 2011 Number	31 December 2011 \$	31 December 2010 Number	31 December 2010 \$
<b>Ordinary shares</b>				
<b>Opening balance</b>	44,774,059	3,731,439	32,740,595	2,827,419
Issue of shares for cash	19,194,470	1,538,717	120,000,000	904,020
Consolidation of shares	–	–	(402,966,536)	–
<b>Closing balance</b>	63,968,529	5,270,156	44,774,059	3,731,439

	31 December 2011 Number	31 December 2011 \$	31 December 2010 Number	31 December 2010 \$
<b>Deferred shares</b>				
Opening balance and closing balance	140,139,065	24,021,395	140,139,065	24,021,395

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

30 March 2011	Placing of 9,000,000 Ordinary Shares and 4,500,000 Ordinary Share Purchase Warrants at a price of C\$0.55 cents each <sup>(1)</sup>
30 March 2011	Conversion of 10,070,000 Special Warrants into 10,070,000 Ordinary Shares and 5,035,000 Ordinary Share Purchase Warrants

- (1) the subscription price of C\$0.55 entitled the purchaser to receive one Ordinary Share and one half of an Ordinary Share Purchase Warrant. The Company allocated the subscription price as to C\$0.505 as consideration for the issue of each Ordinary Share and C\$0.045 as consideration for the issue of each one half of an Ordinary Share Purchase Warrant.



## Notes to the Financial Statements

For the year ended 31 December 2011

### 17 Share capital (continued)

#### Options to subscribe for ordinary shares

##### Pre-IPO share option plan

Year ended 31 December 2011

Option period	Exercise price	Grant Date	Options in issue at start of period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of options (years)
30 Nov 05 – 01 Apr 16	£1.50	25 Apr 05	278,360	278,360	n/a	4.25
01 Apr 06 – 01 Apr 16	£3.00	25 Apr 05	274,925	274,925	n/a	4.25
<b>As at 31 December 2011</b>			<b>553,285</b>	<b>553,285</b>		
Weighted average exercise price			£2.24	£2.24		

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 options (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
<b>As at 31 December 2010</b>			5,532,939	(4,977,654)	553,285		
Weighted average exercise price			22.4p	–	£2.24		

#### Serabi Mining plc Long-term Incentive Plan 2005

The Company terminated this plan on 28 January 2011 for all current employees and the remaining options are held by former employees.

Year ended 31 December 2011

Option period	Exercise price	Grant Date	Options in issue at start of period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of options (years)
28 Mar 07 – 27 Mar 17	£3.84	28 Mar 07	7,500	7,500	n/a	5.24
15 Nov 07 – 14 Nov 17	£2.64	15 Nov 07	25,000	25,000	n/a	5.88
<b>As at 31 December 2011</b>			<b>32,500</b>	<b>32,500</b>		
Weighted average exercise price			£2.92	£2.92		

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 options (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
<b>As at 31 December 2010</b>			325,000	(292,500)	32,500		
Weighted average exercise price			29.2p	31.6p	£2.92		

## 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	UK£0.15	21 Dec 09 to 20 Dec 19	UK£0.080

During the year a charge of US\$43,127 (2010: US\$125,040) has been recorded in these financial statements in respect of these options of which US\$9,647 has been capitalised as deferred exploration expenditures.

### 2011 Option Plan

During 2011, the Company approved the Serabi Mining 2011 Share Option Plan and allotted the following options under this option plan

Date of grant	Number of options granted	Exercise price	Exercise period	Fair value
28 January 2011	1,455,000	UK£0.41	28 Jan 11 to 27 Jan 21	UK£0.085
28 January 2011	450,000	UK£0.37	28 Jan 11 to 27 Jan 21	UK£0.094
31 May 2011	1,630,000	C\$0.60	31 May 11 to 30 May 14	C\$0.117

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\$264,738 (2010: US\$nil) has been recorded in these financial statements in respect of these options of which US\$34,358 has been capitalised as deferred exploration expenditures.

## 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. This resolution was approved on 21 December 2010.

Each Special Warrant, which was priced at C\$0.55, was on 30 March 2011, concurrent with the Company's Ordinary Shares being listed to the Toronto Stock Exchange, 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 an Ordinary Share Purchase Warrant. The Ordinary Shares issued pursuant to this automatic exercise rank pari passu with the existing Ordinary Shares.

Each Ordinary Share Purchase Warrant is 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.

As at 31 December 2010, there existed uncertainty as to the number of shares that could be issued on exercise of the Special Warrants. Notwithstanding that the actual number of shares has been established as of the date of the approval of the financial statements for that year, 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 was within 12 months of the balance sheet date this liability was classified as a current liability.

## Notes to the Financial Statements

For the year ended 31 December 2011

### 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. Over the past 3 years the Group has been 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. Following a successful discovery drilling campaign as a result of which the Company made new discoveries the Board has now commissioned a preliminary economic assessment of the viability of re-commencing mining operations at the Palito Mine.

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 (before impairments) has reduced to US\$30,838,229 compared with the value at 31 December 2010 of US\$36,511,083. 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 used in making the calculation as of 31 December 2010. In particular they have considered it appropriate to review the projected levels of production that they would seek to achieve, the date of a 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\$28.2 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 provision \$	Carrying value after impairment \$
Mining Property	27,333,504	2,037,682	25,295,822
Land and Buildings	200,890	86,132	114,758
Plant and Equipment	3,303,835	466,718	2,837,117
	30,838,229	2,590,532	28,247,697

An initial impairment provision against the carrying value of the Palito cash generating unit for the Group, was established in the financial year ended 31 December 2009. The provision was first applied against Goodwill of US\$1,752,516 and accordingly the value reported by the Group as Goodwill at that time was impaired in full.

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

## 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 a portion of only the Group's current inventory of measured and indicated mineral resources of 224,272 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 July 2012
Long Term Gold Price	US\$1,300
Exchange Rate Br R\$ to US\$	1.8758
Discount factor	10%
Cost estimates	Based on historic cost and usage data
Mine Plan	A period of initial de-watering of the underground mine followed by a period of ramp, waste and gallery development for a further three months prior to the first stopes being accessed. Development and production ore will initially be stockpiled. The processing plant will commence operations 12 months after the initial de-watering begins.
Average monthly LOM plant throughput rate	8,400 tonnes per month
Average annual LOM gold production (2014 onwards)	20,900 gold equivalent ounces
Production Period	5.5 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 2011. The rate on 28 March 2012 was BrR\$1.82: 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 \$m	Decline \$m
Change in project start up by one year	n/a	3.0
Change in gold price by \$100	5.9	5.9
Variation of BrR\$:US\$ exchange rate by 10%	3.8	4.7
Variation in discount factor by 1%	1.5	1.4
Variation in cost estimates by 10%	4.8	4.8

## 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 March 2011 through the issue of new shares and used these funds to advance exploration activity around the Palito mine. In January 2012 the Group raised further finance through the issue of new shares and is using these funds to conduct a preliminary economic assessment into the re-establishment of mining operations at 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 than the equity markets in order to introduce this additional finance into the Group and will continue to seek to minimise 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 Gold plc has not been prepared as permitted by the Section 408 of the Companies Act 2006. The loss of the Company during 2011 was US\$1,880,033 (2010: loss of US\$1,459,926).

## Notes to the Financial Statements

For the year ended 31 December 2011

### 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\$228,583 (US\$254,313).

#### Operating lease commitments

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

	Group		Company	
	31 December 2011 \$	31 December 2010 \$	31 December 2011 \$	31 December 2010 \$
Commitments falling due:				
within one year	81,103	112,887	59,079	58,790
between one year and five years	7,385	90,933	7,385	66,138
<b>Total</b>	<b>88,488</b>	<b>203,820</b>	<b>66,464</b>	<b>124,928</b>

#### 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\$9,422,881 (2010: US\$5,212,000). The Company has loans receivable from subsidiaries totalling US\$46,342,112 (2010: US\$36,919,231) before any provision for the impairment of these loans (see note 12).

#### Key management remuneration

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

	For the year ended 31 December 2011 \$	For the year ended 31 December 2010 \$
Short-term employee benefits	611,158	380,723
Post employment benefits	4,818	4,684
Share-based payments	289,591	81,537
<b>Total</b>	<b>905,567</b>	<b>466,944</b>

## 24 Financial instruments

The Group's and the Company's financial assets at 31 December 2011 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 both the current and previous financial years, 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

	Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	Fixed interest maturity		Total \$
				One year or less \$	Over one to five years \$	
<b>2011</b>						
<b>Financial assets</b>						
Cash	0.95%	–	1,406,458	–	–	1,406,458
Receivables	–	87,440	–	–	–	87,440
<b>Total</b>		<b>87,440</b>	<b>1,406,458</b>	<b>–</b>	<b>–</b>	<b>1,493,898</b>
<b>Financial liabilities</b>						
Payables and accruals	–	3,192,899	–	–	–	3,192,899
Interest bearing liabilities	18.35%	–	–	–	296,122	296,122
<b>Total</b>		<b>3,192,899</b>	<b>–</b>	<b>–</b>	<b>296,122</b>	<b>3,489,021</b>

	Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	Fixed interest maturity		Total \$
				One year or less \$	Over one to five years \$	
<b>2010</b>						
<b>Financial assets</b>						
Cash	0.63%	–	8,598,755	–	–	8,598,755
Receivables	–	96,143	–	–	–	96,143
<b>Total</b>		<b>96,143</b>	<b>8,598,755</b>	<b>–</b>	<b>–</b>	<b>8,694,898</b>
<b>Financial liabilities</b>						
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
<b>Total</b>		<b>8,933,628</b>	<b>–</b>	<b>–</b>	<b>249,176</b>	<b>9,182,804</b>



## Notes to the Financial Statements

For the year ended 31 December 2011

### 24 Financial instruments (continued)

#### Interest rate risk (continued)

##### Company

	Weighted average effective interest rate %	Non-interest bearing \$	Floating \$	Fixed interest maturity		Total \$
				One year or less \$	Over one to five years \$	
<b>2011</b>						
<b>Financial assets</b>						
Cash	0.95%	–	1,070,297	–	–	1,070,297
Receivables	–	34,651,402	–	–	–	34,651,402
<b>Total</b>		<b>34,651,402</b>	<b>1,070,297</b>	<b>–</b>	<b>–</b>	<b>35,721,699</b>
<b>Financial liabilities</b>						
Payables and accruals	–	968,765	–	–	–	968,765
Interest bearing liabilities	18.35%	–	–	–	296,122	296,122
<b>Total</b>		<b>968,765</b>	<b>–</b>	<b>–</b>	<b>296,122</b>	<b>1,264,887</b>
<b>2010</b>						
<b>Financial assets</b>						
Cash	0.63%	–	8,032,125	–	–	8,032,125
Receivables	–	25,228,810	–	–	–	25,228,810
<b>Total</b>		<b>25,228,810</b>	<b>8,032,125</b>	<b>–</b>	<b>–</b>	<b>33,260,935</b>
<b>Financial liabilities</b>						
Payables and accruals	–	728,849	–	–	–	728,849
Special Warrants	–	5,059,995	–	–	–	5,059,995
Interest bearing liabilities	17.74%	–	–	–	249,176	249,176
<b>Total</b>		<b>5,788,844</b>	<b>–</b>	<b>–</b>	<b>249,176</b>	<b>6,038,020</b>

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 note 16) 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 2011 the Group raised new funds through the issue of 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 as at 31 December 2011:

	2011		2010	
	Group \$	Company \$	Group \$	Company \$
Due in less than one month	1,103,457	508,731	597,887	271,115
Due between one month and three months	166,445	–	5,410,627	5,059,995
Due between three months and one year	1,414,318	40,498	2,373,087	457,734
Total due within one year	2,684,220	549,229	8,381,601	5,788,844
Due more than one year	804,802	296,122	801,203	249,176
<b>Total</b>	<b>3,489,022</b>	<b>845,351</b>	<b>9,182,804</b>	<b>6,038,020</b>

## 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:

	2011		2010	
	P&L (loss on ordinary activities before interest and other income) \$000	Equity \$000	P&L (loss on ordinary activities before interest and other income) \$000	Equity \$000
10% strengthening of the Brazilian Real against the US Dollar	(365,000)	4,551,047	(599,375)	4,478,263
10% weakening of the Brazilian Real against the US Dollar	298,636	(3,723,584)	283,563	(3,664,033)

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 2011 \$	31 December 2010 \$
US Dollar	439,739	1,708,548
Canadian Dollar	586,986	5,238,373
Sterling	245,742	1,634,450
Australian Dollar	134	3,059
Brazilian Real	133,857	14,326
<b>Total</b>	<b>1,406,458</b>	<b>8,598,755</b>

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\$1,493,898 (2010: US\$8,694,898). 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\$35,721,699 (2010: US\$33,260,935). Of this amount US\$34,591,402 (net of impairment charge) (2010: US\$25,168,521) is due from subsidiary companies.

## 25 Post balance sheet events

On 24 January 2012 the Company completed an unbrokered placing of 27.3 million Units at a price of UK£0.10 per Unit to a small selection of mostly existing investors. The placing raised UK£2.73 million before expenses and the funds will be used for working capital and to undertake a preliminary economic assessment into the re-commencement of underground mining operations at the Palito Mine. Each Unit comprised one Ordinary Share of 5 pence par value ("Ordinary Share") and one sixth of a share purchase warrant whereby each whole share purchase warrant shall entitle the holder to acquire one new Ordinary Share at a subscription price of UK£0.15 at any time up to and including 23 January 2014.

## Glossary

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<b>Alteration</b>	A change in the mineralogical composition of a rock commonly brought about by reactions with hydrothermal solutions or by pressure changes
<b>CIP</b>	Carbon in Pulp – a process used in gold extraction by addition of cyanide
<b>Chalcopyrite</b>	A sulphide of copper and iron
<b>Decline</b>	Inclined roadway within the mine leading from the mine entrance
<b>Development</b>	Excavations used to access underground workings
<b>Dilution</b>	The mixing of barren non-mineral bearing rock (waste) with mineral bearing rock (ore). Usually expressed as a percentage of ore to waste
<b>Electromagnetics</b>	A geophysical exploration tool measuring the magnetic field generated by subjecting the ground to electrical currents
<b>Face</b>	The exposed rock area at the end of each development drive
<b>Garimpeiro</b>	Local artisanal miners
<b>Geochemical</b>	Geological information using measurements derived from chemical analysis
<b>Geophysical</b>	Geological information using measurements derived from the use of magnetic and electrical readings
<b>Gold equivalent</b>	Quantities of materials other than gold stated in units of gold by reference to relative product values at prevailing market prices
<b>Gossan</b>	An iron-bearing weathered product that overlies a sulphide deposit
<b>Grade</b>	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)
<b>High grade feed</b>	Mined product which is delivered to the process plant and has a grade above the targeted average
<b>Jumbo drill rig (“Jumbo”)</b>	A self-propelled and steered machine used to drill holes in rock which in turn will be charged with explosives and blasted
<b>Level spacing</b>	The vertical distance between floors of the development drives (levels)
<b>LOM</b>	Life of mine
<b>Long-hole stoping</b>	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
<b>Mineralised</b>	Rock which contains minerals e.g. iron, copper, gold
<b>Oxides</b>	Near surface bed-rock which has been weathered and oxidised by long-term exposure to the effects of water and air
<b>Ramp</b>	Interchangeable with “Decline”
<b>Saprolite</b>	A weathered or decomposed clay-rich rock
<b>Scoop-trams</b>	Self-propelled and steered machines used to collect and transport broken rock within the mine
<b>Shrink stoping</b>	A highly selective but labour intensive mining methodology using hand-held machines to drill and blast ore from the stopes
<b>Stopes</b>	The area of mineralised rock that lies between the roof of one development drive and the floor of the development drive immediately above
<b>Stoping</b>	A generic method for extracting ore in underground mining
<b>Strike</b>	The direction of bearing of a bed or layer of rock in the horizontal plane
<b>Structure</b>	A term used to describe an area of rock typically where it shows differing composition or properties to the surrounding rocks
<b>Sulphide</b>	Minerals consisting of a chemical combination of sulphur with a metal
<b>Tailings</b>	The residual waste material that it is produced by the processing of mineralised rock
<b>Tracked mining</b>	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
<b>Vein</b>	A generic term to describe an occurrence of mineralised rock within an area of non mineralised rock
<b>VTEM</b>	The name given to a particular variant of a helicopter-borne time-domain electromagnetic geophysical survey system

## Shareholder Information

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Mike Hodgson – Chief Executive  
Clive Line – Finance Director  
Doug Jones – Non-executive Director  
Christopher Kingsman – Non-executive Director  
Mel Williams – Non-executive Director

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Clive Line

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