SERABI GOLD

Serabi Gold plc
Annual Report 2012

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Welcome to Serabi Gold plc

Serabi Gold plc is a company engaged in the evaluation and development of gold projects in Brazil. It intends to complete the development and rehabilitation of its 100% owned Palito gold mine during 2013 with the objective of commencing gold production before the end of the year.

The company's projects are located in the Tapajos region of northern Brazil. There has been little systematic exploration in the region which covers an area of approximately 100,000 km^2 in the southwest of Para state. However, historic production in the region from alluvial and small scale surface mining operations by local garimpeiros has officially been estimated at up to 10 million ounces whilst actual production is believed to be two to three times higher.

The Palito Mine, where the Group has established a Measured and Indicated Resource of 224,272 ounces and an Inferred Resource of 443,956 ounces, is a past producing gold mine and the Group holds a current mining licence and a process plant, mains power and other essential production infrastructure is already in place. A Preliminary Economic Assessment was completed in June 2012 and the funding for the development and rehabilitation of the mine and process plant secured in January 2013. The Company intends that Palito will be a small-scale, high-grade operation using selective mining techniques with an initial production target of around 24,000 ounces per annum. Cash flow will be used to fund exploration, initially focused on three discoveries made during 2011 located within three kilometres of the existing Palito deposit. If this exploration were successful it is the Company's objective to expand production through the future development of these discoveries.

In addition to the Palito Mine the Company holds, or has in application, exploration licences over a surrounding 53,000 hectares of highly prospective exploration tenements and holds or is seeking additional exploration holdings in the Tapajos region.

Chairman's Statement

2012 has been a transformational year for Serabi. During the year, and on the back of a successful exploration programme conducted in 2011, we progressed with the preparation of a PEA over the viability of small scale production at the Palito mine. The report was published in June 2012 and its conclusions supported our earlier internal studies, which had demonstrated the viability of a small scale, high grade operation using selective mining techniques.

Our decision to consider putting the mine into production had been taken in the face of declining valuations for pure exploration companies, a reflection of the altered risk profiles adopted by investors in the wake of the continued uncertainties over world economies. Whilst Serabi has not been immune from the decline in the junior resource equity markets, its ability during 2012 to deliver a PEA supporting a low capital production start-up with the potential to generate cash flow sufficient for its on-going exploration sets it apart from many of its junior gold peers.

That the Company has then been able to obtain the financing to place the Palito Mine into production in such a difficult market is a testament to the project itself and the potential future growth opportunities that its successful implementation will have.

Whilst there are signs of recovery in some world markets, there remains a great deal of uncertainty in Europe and I believe that Investors still want to find high quality investment opportunities in the gold sector. There are many ways to assess this, but low capital requirements, early cash-flow and limited technical and environmental risk are all key metrics and on which I believe that the Palito mine delivers. Our objective is to use our future cash-flow to focus on improving the size and the sustainability of the project, by seeking to grow the resource base using the discoveries made to date, and if successful and viable, bringing these discoveries into production.

The support of Fratelli Investments Limited throughout the last 12 months cannot be underestimated and the Board and management join me in extending thanks to them for the commitments they have made. In Fratelli we have a financially strong, long term investor that shares the Board's vision of developing and growing Serabi. They share our belief in the potential of the Tapajos region of Brazil and the objective of utilising the cash flow that initial gold production would generate to re-invest in exploration to build critical mass. Whilst last year we had offers of project debt financing to meet some of the Palito project construction and development costs, the requirements associated with such financing would in the Board's view have restricted the Company's expansion by re-directing free cash flow into supporting debt servicing and security arrangements for the lenders. We were nevertheless encouraged that a number of banks and other lenders were willing to provide indicative terms and we will continue to consider the use of debt to finance future production growth.

Over the remainder of the year, our objective is to deliver the project, and commence gold production on time and within budget and I look forward, in next year's Annual Report, to being able to confirm that this objective has been achieved.

The junior gold sector has suffered heavily over the past few years and equity funding for junior exploration companies is likely to remain challenging for some period to come and undoubtedly during this time there will be companies and projects that will no longer be able to find favour with investors. It is for this reason that we have been so keen to try to insulate Serabi in the future from the funding cycle of exploration companies that requires them to regularly return to the equity markets and in recent years this has of, course, been at ever decreasing share prices. Sector consolidation is probably overdue and should result in a smaller pool of companies but between them managing a higher quality asset base. With its potential production cash-flow our objective is that Serabi will able to take advantage of opportunities that arise that can add value for its shareholders. With a smaller pool of companies satisfying the same size investor pool this should also increase demand and liquidity which we can hope will translate into seeing an improvement in valuations.

The remainder of 2013 presents a challenge to the Company but I firmly believe that we have the building blocks in place to meet this challenge. We have a robust project, the finance in place and a senior team with the credentials to manage and deliver. We are already well advanced in the initial development and rehabilitation work and the timeline to completions is clearly defined.

Finally, on behalf of the board of directors I would specifically like to thank Mike Hodgson, our CEO and Clive Line, our Finance Director, for their tireless work last year during which they spearheaded the change in corporate strategy and successfully managed the work on and completion of the PEA and then more importantly, the capital raise that now has put Serabi back on the path to production, and ultimately a rejuvenated Brazilian gold growth story.

T Sean Harvey
Chairman
27 March 2013

Management Discussion and Analysis

Operational Review

Corporate Highlights for the Year

> On 17 January 2013 the Company completed the placement of 270 million new ordinary shares to raise in aggregate UK£16.2 million to finance the development and start-up of underground mining operations at its Palito Mine. The placement of new shares was underwritten by Fratelli Investments Limited, one of the Company's major shareholders.

> NCL Ingenieria y Construccion SA ("NCL") completed an independent Preliminary Economic Assessment (the "PEA") into the viability of re-establishing mining operations at the Palito Mine in June 2012. The results were reported on 13 June 2012 and the completed NI 43-101 compliant Technical Report was filed on 29 June 2012.

> Highlights of the PEA were as follows:

- After-tax internal rate of return ("IRR") of 68% at a realised gold price of US$1,400 per ounce;
- Project payback within two years of first gold production;
- Net after-tax cash flow generated over project life of US$72.2 million at a realised gold price of US$1,400 per ounce;
- After-tax net present value ("NPV") of US$38.2 million; based on a 10% discount rate and a realised gold price of US$1,400 per ounce;
- Average Life of Mine ("LOM") cash operating costs of US$739 per ounce (gold equivalent) including royalties and refining costs;
- Average annual free cash flow (after tax and sustaining capital expenditure) of US$11.0 million;
- Average gold grade of 8.98 g/t gold producing a total gold equivalent of 201,300 ounces;
- Average annual production of 24,400 gold equivalent ounces over the initial 8 year period with a range of between 19,000 to 30,000 ounces gold equivalent per annum; and
- Initial capital expenditures of US$17.8 million prior to production start-up.

> The Operational Environmental Licence for the Palito Mine was renewed by Secretaria de Estado de Meio Ambiente ("SEMA"), the state Environmental Agency for the State of Para on 27 April 2012.

> The Company completed a placing of 27,300,000 units on 24 January 2012 raising gross proceeds of UK£2.73 million. Each of the 27,300,000 units were comprised of one ordinary share and one-sixth of one ordinary share purchase warrant of the Company, with each whole warrant being exercisable to acquire one ordinary share at an exercise price of UK£0.15 until 23 January 2014.

History

The Company currently holds, either granted or under application, approximately 108,000 hectares of Exploration Licences all located within the Tapajos Gold Mining Province, within the states of Para and Amazonas, Northern Brazil. These licences are divided into three project areas, namely the Jardim do Ouro ("JDO"), Sucuba, and Pizon projects. The Company does not currently have any assets or mineral properties in commercial production, however, the JDO Project does incorporate the Palito Mine. The Palito Mine has been in production under Serabi's ownership in the past, and work commenced in October 2012 to remediate and develop the existing underground mine and renovate the process plant with a view to commencing gold production before the end of the fourth quarter of 2013. In January 2012 the Company announced that it was undertaking a PEA into the viability of re-establishing underground mining operations at the Palito Mine the results of which were released in June 2012. The PEA focussed on the existing resources and considered a selective mining methodology, focused on maximising grade with production levels around 24,000 ounces per annum. On 17 January 2013 a placement of new shares raising gross proceeds of UK£16.2 million was completed and announced to finance the development of the project in line with the plans and scope outlined in the PEA and it is anticipated that first gold production will occur before the end of the fourth quarter of 2013. The Sucuba Project, located in the state of Para, for which the Company has submitted two applications for exploration permits covering an area of 10,815 hectares. The Pizon Project, located in the state of Amazonas, represents 44,712 hectares, in five exploration licences, one granted and four in application. The Company has not engaged in any exploration activity at the Sucuba or Pizon 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 52,954 hectares, and is comprised of one mining licence granted on 23 October 2007 covering an area of 1,150 hectares, three exploration licences and six applications for exploration licences covering an aggregate of 51,804 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. Towards the end of 2008 additional working capital was required to undertake necessary mine development and with no opportunity to raise additional working capital, as a result of the state of global financial markets at that time, management concluded that it was necessary to halt mining activity and place the underground portion of the Palito Mine on care and maintenance. Between the start of 2005 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. The Company continued to maintain 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).

Mineral Resources	Tonnage	Gold (g/t Au)	Copper (% Cu)	Contained Gold (Ounces)(1)	Contained Gold Equivalent (Ounces)(2)
Measured	97,448	9.51	0.26	29,793	32,045
Indicated	753,745	7.29	0.23	176,673	192,228
Measured and Indicated	851,193	7.54	0.23	206,466	224,272
Inferred	2,087,741	5.85	0.27	392,817	443,956

(1) Mineral resources are reported at a cut-off grade of 1.0 g/t.
(2) Equivalent gold is calculated using an average long-term gold price of US$700 per ounce, a long-term copper price of US$2.75 per pound, average metallurgical recovery of 90.3% for gold and 93.9% for copper.

Since placing the operation on care and maintenance the Company has sought to keep intact as much of the infrastructure as possible. This includes the process plant comprising flotation and carbon-in-pulp ("CIP") gold recovery circuits which had historically been treating up to 600 t/day (200,000 t/year) of ore, a camp that had housed over 200 employees and maintenance and workshop facilities. The site is supplied with mains power sourced from a 25 mW hydroelectric generating station located approximately 100 km north east of the town of Novo Progresso on the Curuá (Iriri) River.

Following the suspension of mining operations the Company focused on mine-site exploration, primarily airborne and ground geophysics and geochemistry, followed by a 12,000m discovery and follow-up diamond drilling programme 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. Three discoveries were made during 2011 within 3 kilometres of the Palito Mine. Management believes that these three discoveries, Piaui, Palito South and Currutela, warrant further drilling to enhance and bring them to a resource status. In addition management is of the view that the Palito gold deposit, the Palito South discovery and the Currutela discovery are hosted along the same structural zone. Initial drilling undertaken during the latter part of 2011 on the Palito South prospect located along strike immediately to the south east of Palito, yielded encouraging assay results.

Management are sufficiently encouraged by these results to consider that Piaui, Curutela and Palito South will between them and in time form a cornerstone of the resource growth that they set out to achieve at the start of 2010. In January 2012, the Company commissioned NCL to undertake a Canadian NI 43-101 compliant PEA into the viability of re-establishing underground mining operations at the Palito Mine. The results of the PEA were announced by the Company on 13 June 2012 and the complete NI 43-101 compliant technical report issued on 29 June 2012. The directors believe that the PEA results support a small scale, high grade operation using selective mining techniques. On 17 January 2013 a placement of new shares raising gross proceeds of UK£16.2 million was completed and announced to finance the development of the project in line with the plans and scope outlined in the PEA. Work commenced in October 2012 to remediate and develop the existing underground mine and renovate the process plant with a view to commencing gold production before the end of the fourth quarter of 2013. Management is hopeful that, if successful, the cash flow from the initial underground mining operation can be used, at least in part, to fund the future evaluation and development of the Piaui, Currutela and Palito South prospects.

Management Discussion and Analysis

Operational Review Continued

Results of Operations

Exploration and technical programmes executed during the fourth quarter of 2012

The Company's results of operations for the three month period ended 31 December 2012 were comprised solely of the activities related to the results of operations of the Company's 100% owned subsidiary Serabi Mineração S.A.

Following completion of the PEA, activity at the Palito Mine site during the fourth quarter has been comprised primarily of preparatory work for the development programme for the commencement of mining operations. Work commenced on the de-watering of the mine using existing pumps and suppliers were approached to provide detailed quotations and delivery schedules for long lead time items and equipment. Work has been on-going on refinement of the mining plan and management has been interviewing key personnel to form the core of the project development team.

By the end of February 2013:

> De-watering of the mine had been completed;
> A new mine management and technical team had been hired and were in place;
> A mining contractor with a proven track record in narrow vein selective mining secured and hired;
> The first items of mining equipment had arrived at site on 15 February 2013; and
> Remediation of the crushing and flotation sections of the process plant was underway together with the detailed engineering design for the milling circuit and cyanidation plant.

On 2 October 2012, the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli"), one of its major shareholders, to subscribe for and underwrite a placement of new shares to raise in aggregate UK£16.2 million to finance the development and start-up of underground mining operations at its Palito gold mine. In addition, Fratelli provided an interim secured short term loan facility of US$6.0 million to the Company ("Loan Agreement") to provide additional working capital to enable it to commence the initial works at Palito. On 17 January 2013 the Company announced that it had completed a placement of 270 million new ordinary shares raising gross proceeds of UK£16.2 million and shortly thereafter the short term loan was re-paid.

Progress during the quarter and twelve months ended 31 December 2012

Property Highlights

> Assay results from ALS Minerals confirmed preliminary results issued in December 2011 for drilling undertaken on the Palito South extension and the Piaui prospect. Independent results reported an average upgrade for gold assays of 8% and 14.9% respectively, compared with the preliminary reported results;
> NCL personnel visited Palito during March 2012 to undertake their field evaluation as part of the NI 43-101 compliant PEA into the viability of re-establishing underground mining operations at the Palito Mine;
> The Operational Environmental Licence for the Palito Mine was renewed by Secretaria de Estado de Meio Ambiente ("SEMA"), the state Environmental Agency for the State of Para on 27 April 2012;
> On 13 June 2012, the results of the PEA were announced by the Company and the complete NI 43-101 compliant technical report issued on 29 June 2012;
> De-watering of the mine was completed in January 2013;
> A new mine management and technical team commenced in mid-January 2013;
> The first items of mining equipment arrived at site on 15 February 2013;
> Initial contract mining personnel arrived at site on 15 February 2013;
> Remediation of the crushing and flotation sections of the process plant commenced early in 2013; and
> The contract for the detailed engineering design on the milling circuit and cyanidation plant has been awarded and work commenced.

Exploration activity has been suspended during 2012 with the completion of the discovery exploration drilling programmes at the Piaui, Palito South and Currutela prospects in late 2011.

For the first 6 months of 2012, the focus was exclusively on the preparation of the PEA and preparatory and planning work required in advance of commencement of the required development and remediation works. Personnel numbers have been reduced to reflect the lower levels of activity at the Palito Mine and the Company's neighbouring exploration projects and the remaining employees were involved with on-going plant and infrastructure maintenance, environmental management and general site rehabilitation.

A renewal of the Operational Environmental Licence for the Palito Mine was issued on 27 April 2012 by SEMA which is the appropriate regulatory authority for such matters. The new Operating Licence (LO6704/2012) allows the Company to extract and process gold and associated metallic ores from the Company's mining licence area 850.175/2003, where the Palito Mine and all the Company's current Measured and Indicated resources and Inferred resources are located and means that all the required permits are current and in place in advance of any re-commencement of mining operations at Palito. The new Operating Licence was granted, consistent with prior renewals, for a period of one year. During November 2012, the Company submitted all the necessary documents to SEMA for the renewal of the Operating Licence upon its expiry on 26 April 2013.

Left – Primary Crushing plant being re-assembled

Management Discussion and Analysis

Operational Review Continued

With a positive PEA and the financing required for the capital development of Palito underwritten, the development plan outlined in the PEA was set in motion at the start of October 2012. Key elements of this development plan as set out in the MD&A for the third quarter of 2012 were as follows:

> De-watering of the mine;
> Appointment of a mining contractor;
> Appointment of key project personnel;
> Placement of orders for mining equipment and mobile mining fleet;
> Underground mine development, with stoping areas defined and prepared and a stockpile of ore produced; and
> Refurbishment of the crushing and processing plant in preparation for commencing ore processing in the fourth quarter of 2013.

The de-watering of the mine was completed during January 2013 and also in January 2013 a new mine management and technical team were appointed. These appointments complement and follow the appointment of a project manager during the latter part of 2012 and with the mine dry, reinstatement of the underground mine services (including power, compressed air supply and ventilation) is now well underway.

An underground loader and drilling rig were delivered to site during February 2013 at the same time as the arrival of the initial group of mining contractors. As a result remediation of existing underground haulage routes and work on new mine development accesses and galleries commenced before the end of February 2013. Orders for further items of mobile mining fleet have been placed. These items are not immediately required and fabrication and shipping timetables indicate that these additional drilling rigs and underground loaders should be delivered to site during the third quarter of 2013.

In parallel with the progress on development of the underground mine, work on the remediation of the process plant is underway. Necessary repairs and overhaul of the crushing plant and flotation sections have commenced, with the crushing plant having been largely dismantled for renovation. The remainder of the process plant – the milling, cyanidation and elution circuits – is undergoing a detailed engineering study which will optimise the performance of the plant and should be completed by the end of March 2013 in order for construction to commence shortly thereafter.

In anticipation of a progressive increase in staffing levels over the coming months, new pre-fabricated accommodation units have been ordered and will be functional by mid-year. These will complement the existing accommodation facilities and allow the Company to improve the overall standard of accommodation that it provides to its employees. Civil works to locate this accommodation have commenced.

Outlook

The proceeds of the share placement completed and announced on 17 January 2013 will be allocated to the development programme for the start-up of gold production at Palito. The Company's exploration activities will therefore continue to be limited and the directors expect that future exploration activity will be financed from the cash flow from gold production at Palito and may therefore not be undertaken until such time as sufficient and sustainable levels of cash flow are achieved.

Development activity to place the Palito Mine into commercial production will be ongoing over the remainder of 2013.

The Company's technical staff will continue their work on the optimisation of the mine plan. In the short term the Company's own personnel, working alongside personnel supplied by a specialist narrow-vein mining contractor, will undertake the required ramp development and installation of new accesses and ore development galleries ahead of stope preparation, which will commence before the end of the year. All ore that is mined from development activity over the next nine month period will be stockpiled on the surface. The Company intends to establish a sufficiently large, uncrushed, high-grade ore stockpile ensuring that, once the plant is commissioned in the fourth quarter, an ore stock is available for the first few months of processing.

The Company is using a combination of its own staff, local contract engineering firms and specialist engineering groups to renovate and upgrade the process plant and infrastructure. This allows work to be carried out concurrently in each area of the plant. However, until the detailed engineering studies are completed, in particular on the cyanidation and elution sections, activity will be focussed on the crushing, grinding and flotation sections.

During the first half of 2013, the Company will also be approaching a number of refining and trading groups to ascertain interest in, and obtaining indicative terms for purchasing the copper/gold concentrate that will be produced at the Palito Mine and which is expected to account for in excess of 70% of the revenues of the operation.

Mike Hodgson
Chief Executive
27 March 2013

Left – Concrete base prepared for new accommodation unit

Below – Renovation works on the milling circuit

Management Discussion and Analysis

Financial Review

During the early part of 2012 the Company commissioned a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. The report which was completed and published in June 2012 was positive and the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") on 2 October 2012 to subscribe for and underwrite a placement of new shares to finance the development and start-up of underground mining activities at the Palito gold mine.

Three month period ended 31 December 2012 compared to the three month period ended 31 December 2011

The loss from operations increased from US$103,528 for the 3 months ended 31 December 2011 to US$299,842 for the 3 month period ended 31 December 2012. The Company has in the 3 months ended 31 December 2012 made provision of BrR$546,436 (US$280,280) in respect of spare parts that it considers are obsolete or will not otherwise be required by the Company in its planned gold production operations. This represents approximately 27% of the inventory held by the Company at 31 December 2012.

In the 3 months to 31 December 2011 all costs relating to the maintenance of the process plant were treated as an operating expense as they were incurred. For that 3 month period this costs was BrR$192,411 (US$103,429). Since the decision was taken by the Board, at the end of June 2012, to proceed with the commencement of mining activities the plant has been considered to be in a state of refurbishment and all costs related to the plant are being capitalised as part of the overall mine development costs and therefore there is no change to the income statement in the 3 month period to 31 December 2012.

Notwithstanding the increased loss from operations the loss on ordinary activities before interest has reduced from US$1,554,525 to US$1,349,489. Major contributors to the reduced level of loss are a reduction in administration costs from US$773,512 to US$679,272 and a reduction in depreciation charges from US$509,873 to US$83,110.

Administration costs for the 3 month period ended 31 December 2011 reflected income from the sale of crushed mined waste rock for road aggregate amounting to approximately US$76,000. There has been no similar revenue in the 3 month period ended 31 December 2012. In Brazil administration costs have reduced by approximately US$240,000. In the 3 month period ended 31 December 2011 the Company made a provision for additional taxes amounting to BrR$237,900 (US$142,430) for which there has been no corresponding transaction in the 3 month period ended 31 December 2012. Expenditure reductions between the corresponding periods have also been realised on travel and information technology and from the expiry of certain rental contracts for equipment. The level of claims made against the Company with respect to past employment disputes has also reduced from US$88,000 in the 3 month period to 31 December 2011 to approximately US$20,000 in the 3 month period to 31 December 2012.

The reduction in depreciation charges between the two periods reflects many of the Company's assets reaching the end of their original forecast lives for amortisation purposes and have therefore now been fully amortised.

During the period ended 31 December 2012, management took the decision not to renew certain exploration licences relating to the Modelo project. Accordingly accumulated exploration expenditures amounting to US$267,703 have been written off.

The Company recorded a foreign exchange gain of US$95,975 in the 3 month period to 31 December 2011 although US$70,500 of this related to the reversal of a previous foreign exchange charge relating to the rehabilitation provision. Realised foreign exchange gains in the 3 month period to 31 December 2011 were therefore US$26,000 compared with a loss of US$799 for the 3 month period ended 31 December 2012.

Net interest charges for the 3 month period to 31 December 2012 were US$498,343 compared with US$432,312 for the corresponding period 3 month period to 31 December 2011. An analysis of the composition of these charges is set out in the table below:

	2012 US$	2011 US$
Interest on short term loan	**80,745**	–
Fee for provision of short term loan	**180,000**	–
Interest expense on convertible loan stock	**14,131**	11,254
Finance element of adjustment to rehabilitation provision	**170,913**	305,136
Other interest and finance expenses	**52,542**	122,898
	498,385	439,288
Interest income	**(42)**	(6,976)
	498,343	432,312

Interest and fees on the short term loan relate to a US$6.0 million facility provided by Fratelli Investments Limited ("Fratelli") entered into on 1 October 2012. Under the loan agreement a facility fee of 3% was payable to Fratelli and interest accrued at the rate of 12% per annum. The facility was repaid in January 2013 from the proceeds of a UK£16.2 million placement of new ordinary shares that was completed on 17 January 2013.

The rehabilitation provision relates to the estimated costs of the remediation of the Palito Mine site upon its eventual closure and uses cost estimates made by the Company previously submitted in reports to the DNPM. The provision represents the discounted present value of the cost estimates which are themselves subject to inflation adjustments. To the extent that the value of the provision is varied through changes in exchange rates or changes in inflation or interest rates such variations are treated as a foreign exchange cost or an interest cost. Accordingly the variation reflecting the reduced discount rate applied following reductions in the Brazilian SELIC rate at the end of 2012 as well as changes in inflation rates have been accounted for as interest charges. Whilst management had been reviewing the level of provision carried during prior quarters it had not recorded any adjustment to the level of provision in any of the earlier 3 month periods of 2012. Accordingly the movement in the provision for the 3 month period ended 31 December 2012 is the same as the movement in the provision for the 12 month period ended 31 December 2012.

Other interest and finance expenses are primarily related to the Brazilian operation and the reduction in the 3 months to 31 December 2012 compared with the 3 months to 31 December 2011 reflects reduced levels of settlements with long term creditors to which interest is being applied and also reduced levels of penalty from tax authorities for past adjustments of taxes due to be collected by the Company on behalf of both the Federal and State tax authorities.

Twelve month period ended 31 December 2012 compared to the twelve month period ended 31 December 2011

For the twelve month period ended 31 December 2012 the Company recorded a net loss of US$4,736,986 (5.29 US cents per share) compared to a net loss of US$5,935,823 (10.01 US cents per share) for the comparative period last year.

The loss from operations for the year to 31 December 2012 was reduced to US$477,961 by comparison with the year to 31 December 2011 when the loss incurred was US$567,705. It should be noted that the year to 31 December 2012 only includes plant maintenance costs related to the process plant up to 30 June 2012 after which time all related costs have been treated as part of the development expenditures of starting gold production operations at the Palito Mine and therefore capitalised. Expenditures for the year ended 31 December 2011 of US$571,512 were for the full 12 month period and also reflect that, for this 12 month period, the crushing section of the plant was operational as the company was selling crushed mine waste material for road aggregate, an activity which has now ceased.

As noted earlier the Company has, during the financial period ended 31 December 2012, made a provision of BrR$546,436 (US$280,080) in respect of obsolete spare parts or items it considers the Company will not use in the future operations.

Administration costs for the 12 month period to 31 December 2012 were US$2,513,272 compared with US$2,886,707 for the preceding financial year. The reduction of US$373,435 is net of the income generated in 2011 of US$506,575 from waste rock sales resulting in an actual year on year reduction of US$880,010. Of this reduction US$465,261 is the result of a reduced provision for the settlement of past employment related claim. A further US$430,000 reduction is also attributable to activities in Brazil. The reduction in administration costs recorded in Brazilian Reals was BrR$526,000 (US$269,600) reflecting lower salary costs, reduced consulting fees and expiring equipment rental arrangements. In addition the Company made provision for additional taxes amounting to BrR$237,900 (US$142,430) in the period to 31 December 2011 and there has been no similar provision required for the year to 31 December 2012. The remainder is primarily the result of exchange rate effects following the weakening of the exchange rate between the US$ and the BrR$. For the 12 months to 31 December 2011 the average rate was 1.6703 whilst for the corresponding period to 31 December 2012 the average rate was 1.9510.

In the year ended 31 December 2011 the Company recorded a one-off charge relating to a provision against the recoverability of certain taxes from the State of Para amounting to BrR$215,910 (US$129,264) and received a one-off income in the form of a settlement of an outstanding charge with a supplier which reduced the liability that had been recorded by the Company by an amount equivalent to US$540,441. There have been no such corresponding events in the year ended 31 December 2012.

Management Discussion and Analysis

Financial Review Continued

The Company has written off all exploration costs relating to past exploration activity at the Modelo project amounting to US$267,703. This follows the decision of management not to renew exploration licences that it held for this project.

Depreciation charges for the year ended 31 December 2012 were US$891,101 a reduction of approximately US$1.36 million. A significant portion of the property, plant and equipment held by the Company has now been fully depreciated.

The charge in respect of the fair value of share based payments has reduced from US$263,861 for the year ended 31 December 2011 to US$128,882 for the year ended 31 December 2012. Option awards are valued using the Black-Scholes valuation method. Recent awards have been made at lower exercise prices than in the past reflecting the prevailing share prices and consequently generate lower valuations for each option award.

Net interest expense for the year ended 31 December 2012 was US$549,664 compared with US$478,114 for the year ended 31 December 2011. An analysis of the composition of these charges is set out in the table below:

	2012 US$	2011 US$
Interest on short term loan	**80,745**	–
Fee for provision of short term loan	**180,000**	–
Interest expense on convertible loan stock	**56,304**	45,722
Finance element of adjustment to rehabilitation provision	**170,913**	334,636
Other interest and finance expenses	**67,802**	156,839
	555,835	537,197
Interest income	**(6,171)**	(59,083)
	549,664	478,114

Interest and fees on the short term loan relate to a US$6.0 million facility provided by Fratelli Investments Limited ("Fratelli") entered into on 1 October 2012. Under the loan agreement a facility fee of 3% was payable to Fratelli and interest accrued at the rate of 12% per annum. The facility was repaid in January 2013 from the proceeds of a UK£16.2 million placement of new shares that was completed on 17 January 2013.

The rehabilitation provision relates to the estimated costs of the remediation of the Palito Mine site upon its eventual closure and uses cost estimates made by the Company previously submitted in reports to the DNPM. The provision represents the discounted present value of the cost estimates which are themselves subject to inflation adjustments. To the extent that the value of the provision is varied through changes in exchange rates or changes in inflation or interest rates such variations are treated as a foreign exchange cost or an interest cost. Accordingly the variation reflecting the reduced discount rate applied following reductions in the Brazilian SELIC rate at the end of 2012 as well as changes in inflation rates have been accounted for as interest charges.

Other interest and finance expenses are primarily related to the Brazilian operation and the reduction in the 12 months to 31 December 2012 compared with the 12 months to 31 December 2011 reflects reduced levels of settlements with long term creditors to which interest is being applied and also reduced levels of penalty from tax authorities for past adjustments of taxes due to be collected by the Company on behalf of both the Federal and State tax authorities.

Reduced levels of cash holdings explain the reduced level of interest income derived in the twelve months ended 31 December 2012 compared with the corresponding period of 2011 falling from US$59,083 to US$6,171.

Exchange differences on the currency translation of foreign operations reflect the revaluation of the assets and liabilities of those foreign operations. The Brazilian Real has fallen in value relative to the United States Dollar over the twelve month period ended 31 December 2012. The rate as at 31 December 2012 was 2.0435 Brazilian Real to one United States Dollar compared with a rate as at 31 December 2011 of 1.8758. This decline has resulted in a reduction in US Dollar terms of the book value of the assets of the Company's Brazilian subsidiary in particular the values attributable to the Palito Mine and the deferred exploration interests. Any appreciation in the Brazilian Real will result in a reversal of this exchange loss.

Summary of quarterly results

	Quarter ended 31 December 2012 US$	Quarter ended 30 September 2012 US$	Quarter ended 30 June 2012 US$	Quarter ended 31 March 2012 US$
Revenues	–	–	–	–
Operating expenses	(296,017)	–	(64,250)	(117,694)
Gross loss	(296,017)	–	(64,250)	(117,694)
Administration expenses	(679,272)	(450,047)	(573,167)	(810,786)
Provision for indirect taxes	–	–	–	–
Option costs	(33,244)	(33,244)	(33,244)	(29,150)
Write-off of past exploration expenditures	(267,703)	–	–	–
Gain on asset disposals	9,857	–	8,599	–
Depreciation of plant and equipment	(83,110)	(223,150)	(158,204)	(426,637)
Operating loss	(1,349,489)	(706,441)	(820,266)	(1,384,267)
Exchange	(4,380)	9,434	(19,103)	87,190
Finance costs	(498,343)	(18,541)	(14,731)	(18,049)
Loss before taxation	(1,852,212)	(715,548)	(854,100)	(1,315,126)
Loss per ordinary share (basic and diluted)	(2.03) cents	(0.78) cents	(0.94) cents	(1.56) cents
Development and deferred exploration costs	17,360,805	18,249,489	17,405,081	17,998,296
Property, plant and equipment	26,848,991	25,514,742	25,845,466	28,690,108
Total current assets	3,993,428	2,054,299	3,305,872	5,291,258
Total assets	48,203,224	45,818,530	46,556,419	51,979,662
Total liabilities	8,942,223	4,358,930	4,219,578	4,537,035
Shareholders' equity	39,261,001	41,459,600	42,336,841	47,442,627

Management Discussion and Analysis

Financial Review Continued

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)	–
Write-off of past exploration expenditures	–	–	–	(30,571)
Gain/(loss) on asset disposals	38,803	(5,204)	11,178	(13,515)
Depreciation of plant and equipment	(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)/income	(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
Shareholders' equity	43,284,480	45,328,689	54,450,877	54,097,874

Liquidity and Capital Resources

The Company had a working capital position of US$(2,760,104), inclusive of a US$4.5 million short term loan received from a major shareholder, at 31 December 2012 compared to US$625,602 at 31 December 2011. On 2 October 2012, the Company announced that it had entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli"), one of its major shareholders, to subscribe for and underwrite a placement of new shares to raise in aggregate UK£16.2 million to finance the development and start-up of underground mining operations at its Palito gold mine. In addition, Fratelli agreed to provide an interim secured short term loan facility of US$6.0 million to the Company to provide immediate working capital to enable it to commence the initial works at Palito. The Company made its first drawdown against this loan facility on 2 October 2012 and as at 31 December 2012 the total amount drawn down was US$4,500,000. The working capital position at 31 December 2012 includes cash and cash equivalents of US$2,582,046 (2011: US$1,406,458) and the outstanding loan to Fratelli of US$4.5 million, which was repaid in January 2013.

The Company does not have any asset backed commercial paper investments. As the Company has no revenue and has in recent years supported its activities by the issue of further equity, the working capital position at any time reflects the timing of the most recent share placement completed by the Company.

During the twelve month period ended 31 December 2012, the Company issued 27,300,000 Ordinary Shares and 4,549,998 Warrants for gross cash proceeds of UK£2.7 million. The placement comprised the issue of 27,300,000 units where each unit consists of one Ordinary Share and one sixth of a Warrant whereby each whole Warrant entitles the holder to subscribe for one Ordinary Share at a price of UK£0.15 at any time until 23 January 2014.

The Company has, during the twelve month period ended 31 December 2012, incurred costs of US$2,272,894 for development and exploration expenditures on its mineral properties, including the costs of the PEA undertaken by NCL, US$71,977 on asset purchases, US$1,697,975 related to the rehabilitation and development of the Palito Mine and used cash of US$3,439,852 to support its operating activities. Further details of the exploration and development activities conducted during the year are set out elsewhere in this MD&A.

On 31 December 2012, the Company's total assets amounted to US$48,203,224 which compares to the US$48,224,798 reported at 31 December 2011. The Current Asset component has increased by some US$0.60 million reflecting higher cash balances offset by the write off of inventory. Whilst some US$4.0 million has been expended on non-current assets the devaluation of the Brazilian Real against the United States Dollar has resulted in exchange variations reducing the carrying value of exploration interests by US$1.3 million and of mining property, plant and equipment by US$2.3 million. The remaining reduction in value of some US$0.9 million is attributable to depreciation charges raised during the period. Total assets are mostly comprised of property, plant and equipment, which as at 31 December 2012 totalled US$26,848,991 (December 2011: US$28,266,092), of which US$1,622,093 relates to project development expenditure at the Palito Mine and deferred exploration and development cost which as at 31 December 2012 totalled US$17,360,805 (December 2011: US$16,648,884), of which US$16,298,769 relates to capitalised exploration expenditures at, or in close proximity to, the Palito Mine. The Company's total assets also included cash holdings of US$2,582,046 (December 2011: US$1,406,458).

Receivables of US$85,509 as at 31 December 2012 are at similar levels to 31 December 2011 when the receivables balance was US$87,440. The receivables as of 31 December 2012 are primarily deposits paid by the Company. Prepayments as of 31 December 2012 were US$603,005 compared with US$701,669 as at 31 December 2011, a decrease of US$98,664. The prepayments primarily represent prepaid taxes in Brazil amounting to US$514,493, of which the majority is federal and state sales taxes which the Company expects to recover either through off-set against other federal tax liabilities or through recovery directly.

The Company's total liabilities at 31 December 2012 of US$8,942,223 (December 2011: US$4,940,318) included the short term loan payable to Fratelli Investments Limited which, including interest, amounted to US$4,580,745 as well as accounts payable to suppliers and other accrued liabilities of US$2,384,724 (December 2011: US$3,192,900). The total liabilities include US$364,656 including accrued interest (December 2011: US$296,122) 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$1,612,098 (December 2011: US$1,451,296) in respect of provisions including US$1,223,392 (December 2011: US$1,155,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity.

During the early part of 2012 the Company commissioned a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. The report which was completed and published in June 2012 was positive and the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") on 2 October 2012 to subscribe for and underwrite a placement of new shares to finance the development and start-up of underground mining activities at the Palito gold mine. In addition, Fratelli agreed to provide an interim secured loan facility of US$6.0 million to provide additional working capital to the Company and to enable it to commence the initial works at Palito. The placing of 270 million new Ordinary Shares with Fratelli and other subscribers was completed on 17 January 2013, raising gross proceeds of UK£16.2 million. The Company has repaid out of the proceeds the amount of the loan facility that had been drawn down, which at that time was US$4.5 million plus accrued interest. Management considers that the Company has adequate access to capital to be able to complete the necessary mine development and process plant and infrastructure rehabilitation works that are required in order to be able to commence gold production before the end of 2013. From the time that production operations commence at planned rates management anticipates that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects.

There are, however, risks associated with the commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale.

Clive Line
Finance Director
27 March 2013

Directors and Senior Management

T Sean Harvey
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 12 years has held senior executive and board positions with various mining companies. Sean 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.). Sean also currently sits on the board of directors of several other mining companies.

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

Mike Hodgson
Chief Executive
Mike has worked in the mining industry for over 25 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 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.

Melvyn Williams
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 Western Troy Capital Resources.

Douglas Jones
Non-executive
Doug is a geologist with 35 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 Technical 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
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.

Eduardo Rosselot
Non-executive
Eduardo is a mining engineer with 25 years' experience in the mining industry, having worked extensively in the Americas and Europe. Currently he works as an independent consultant for various mining companies and mining funds mainly in South America, and is a partner of the privately owned mining company HMC Gold SCM, with development projects in Chile. Prior to that he worked as VP business development and special projects for Orvana Minerals Corp. Previous appointments include senior positions with European Goldfields Ltd. and TVX Gold Inc. Prior to that he was a partner of the South American based mining consultancy firm NCL Ingeniería y Construcción Ltd..

Eduardo has a Mining Engineer degree from Universidad de Chile, and is a member of the Institute of Materials, Minerals and Mining, a Chartered Engineer of the Engineering Council of UK and a "Qualified Person" in accordance with the Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

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

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

Directors' Remuneration Report

For the year ended 31 December 2012

REMUNERATION COMMITTEE

The Remuneration Committee consists of Messrs Williams, Harvey and Jones and is chaired by Mr Williams. 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 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. The Board notes also that it is normal practice for natural resources companies listed on the Toronto Stock Exchange to award Non-executive directors share options as part of their remuneration. The Company has therefore concluded that, in order to attract Non-executive directors of an appropriate stature and experience, 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 2012, had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Shares held at 31 December 2012	Shares held at 31 December 2011	**Warrants held at 31 December 2012(1)**	Warrants held at 31 December 2011(1)	**Share options held at 31 December 2012**	Share options held at 31 December 2011	Option price	Exercise period
Michael Hodgson	**441,320**	392,320	**–**	–	**500,000**	500,000	UK£0.15	21 Dec 09 to 20 Dec 19
					600,000	600,000	UK£0.41	28 Jan 11 to 27 Jan 21
					250,000	250,000	C$0.60	31 May 11 to 30 May 14
					275,000	–	UK£0.10	21 May 12 to 20 May 15
Clive Line	**466,653**	417,653	**–**	–	**500,000**	500,000	UK£0.15	21 Dec 09 to 20 Dec 19
					600,000	600,000	UK£0.41	28 Jan 11 to 27 Jan 21
					250,000	250,000	C$0.60	31 May 11 to 30 May 14
					225,000	–	UK£0.10	21 May 12 to 20 May 15
T Sean Harvey	**200,000**	200,000	**–**	100,000	**200,000**	200,000	C$0.60	31 May 11 to 30 May 14
Melvyn Williams	**45,000**	45,000	**–**	22,500	**200,000**	200,000	C$0.60	31 May 11 to 30 May 14
Dr Doug Jones	**100,000**	50,000	**–**	25,000	**200,000**	200,000	C$0.60	31 May 11 to 30 May 14
Christopher Kingsman(2)	**18,851,000**	11,590,000	**–**	500,000	**–**	–	–	–
Eduardo Rosselot(3)	**–**	–	**–**	–	**–**	–	–	–

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

(2) Mr Kingsman is the beneficial owner of Greenwood Investments Limited ("Greenwood"). 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. Mr Kingsman was appointed as a director of Anker Holding AG in November 2012.

(3) Mr E Rosselot was appointed to the Board on 2 October 2012.

During the year ended 31 December 2012 the Company's shares have traded between 17.00 pence and 5.43 pence.

Remuneration

Director	Salary US$	Bonus US$	Pension US$	IFRS 2 charge for options granted US$	Other US$	**For the year to 31 December 2012 Total US$**	For the year to 31 December 2011 Total US$
Michael Hodgson	211,266	107,460	4,757	42,086	6,062	**371,631**	325,275
Clive Line	205,764	–	100,243	40,837	4,849	**351,693**	316,228
T Sean Harvey	43,123	–	–	8,235	–	**51,358**	44,743
Melvyn Williams	35,693	–	–	8,235	–	**43,928**	40,539
Dr Doug Jones	31,401	–	–	8,235	–	**39,636**	36,626
Christopher Kingsman	–	–	–	–	–	**–**	–
Eduardo Rosselot	8,058	–	–	–	–	**8,058**	–
Graham Roberts	–	–	–	–	–	**–**	67,082
Bill Clough	–	–	–	–	–	**–**	18,511
Total	**535,305**	**107,460**	**105,000**	**107,628**	**10,911**	**866,304**	**849,004**

Included in remuneration for the year to 31 December 2011 are pension costs of US$68,660 including US$63,842 that was paid by way of the issue of new shares.

Directors' Report

For the year ended 31 December 2012

The Directors present their report together with the audited financial statements for the year ended 31 December 2012.

RESULTS AND DIVIDENDS

The Group loss for the year after taxation amounts to US$4,736,986 (2011: loss of US$5,935,823). The Directors do not recommend the payment of a dividend.

The results for the year are set out on page 28 in the Statement of Comprehensive Income.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

A detailed review of activities, future developments and the Company's projects is included in the Chairman's Statement, the Management Discussion and Analysis – Operational Review and Financial Review on pages 4 to 15.

SUBSTANTIAL SHAREHOLDINGS

As at 27 March 2013 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
Fratelli Investments Limited	184,695,647	51.1%
Anker Holding AG	40,000,000	11.1%
Drake PIPE Fund	31,119,686	8.6%
FIP Santa Monica	22,443,947	6.2%
Eldorado Gold Corporation	21,340,000	5.9%

SHARE CAPITAL

Movements in share capital during the period are disclosed in note 17 to the financial statements. On 17 January 2013, the Company completed the placing of 270 million new Ordinary Shares. 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.

Date of issue	Number issued	Price	Expiry
21 May 2012	500,000	£0.10	20 May 2015

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 2012, the Group had 105 (2011: 65) 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. During the early part of 2012 the Company commissioned a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. The report which was completed and published in June 2012 was positive and the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") on 2 October 2012 to subscribe for and underwrite a placement of new shares to finance the development and start-up of underground mining activities at the Palito gold mine. In addition Fratelli agreed to provide an interim secured loan facility of US$6 million to provide additional working capital to the Company and to enable it to commence the initial works at Palito. The placing of 270 million new Ordinary Shares with Fratelli and other subscribers was completed on 17 January 2013, raising gross proceeds of UK£16.2 million. The Company has repaid out of the proceeds the amount of the loan facility that had been drawn down, which at that time was US$4.5 million plus accrued interest. Management considers that the Company has adequate access to capital to be able to complete the necessary mine development and process plant and infrastructure rehabilitation works that are required in order to be able to commence gold production before the end of 2013. From that time management anticipate that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects.

There are, however, risks associated with the commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale. On this basis the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis. However there is no certainty that such additional funds will be forthcoming. These financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate. These adjustments could be material.

IMPAIRMENT

The Directors have undertaken a review of the carrying value of the mining and exploration assets of the Group and given particular consideration to the results of the PEA, the current operational status of Palito and the potential risks and implications of starting up a past producing gold mine. As part of this review they have assessed the value of the existing Palito Mine asset on the basis of the projected value in use that could be expected should the Company follow the re-development, start-up and future mining plans proposed in the PEA. 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 IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, 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.

Directors' Report

For the year ended 31 December 2012

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 16.

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. The Audit Committee comprises Messrs Williams, Harvey and Jones and is chaired by Mr Williams. All of the members of the Audit Committee are considered to be independent.

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

By the nature of its activities and whilst the Group is not currently producing revenue and does not expect to generate any significant revenue during 2013, 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.

Interest rate risk

The 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.

As at 31 December 2012 the Company had outstanding US$4.5 million plus accrued interest which formed part of a secured loan agreement for a total facility of US$6.0 million with Fratelli Investments Limited ("Fratelli"). The loan was to be repaid within 6 months of the first drawdown and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. Following completion of the share placing on 17 January 2013, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli.

There is not considered to be any material interest rate risk. The Company's policy is to retain surplus funds as short-term deposits, of up to 32 days 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 primarily 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. On 1 October 2012, the Company entered into a secured loan agreement for a total facility of US$6.0 million with Fratelli and at the same time entered into conditional subscription agreement with Fratelli for the placement of up to 270 million new Ordinary Shares. At that time Fratelli held a 19.3% interest in the issued share capital of the Company. The outstanding loan and accrued interest was repaid to Fratelli in January 2013. As at 31 December 2012 the Group did not otherwise have any 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 take account of the risks inherent in its plans and proposed activities and prevailing market conditions. It is the intention of the Company to use the funds raised from a placement of new Ordinary Shares completed on 17 January 2013 to commence gold production from the Palito gold mine. The cash flow generated is expected to be sufficient to allow the Company to meet its on-going obligations as and when they fall due and to provide working capital to develop other exploration projects that the Company controls. The Company would expect to use fixed rate finance arrangements for the purchase of certain items of capital equipment and will consider short term trade finance particularly in respect of its projected sales of copper/gold concentrate.

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 acceptable 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.

Directors' Report

For the year ended 31 December 2012

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 presented in US Dollars which is also considered to be the functional currency of the Parent Company

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 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 that it considers most appropriate to their expected future utilisation.

POST BALANCE SHEET EVENTS

On 17 January 2013, the Company completed a placing of 270 million new Ordinary Shares at a price of UK£0.06 per Ordinary Shares raising gross proceeds of UK£16.2 million. The share placement was pursuant to a conditional subscription agreement entered into on 2 October 2012 between the Company with Fratelli Investments Limited ("Fratelli") to subscribe for and underwrite a placement of 270 million new Ordinary Shares to finance the development and start-up of underground mining operations at its Palito gold mine. The investment by Fratelli took the form of (a) a subscription for 90,403,000 new Ordinary Shares at the Subscription Price of 6 pence per new Ordinary Share; and (b) a conditional subscription for up to a further 179,597,000 new Ordinary Shares at a subscription price of 6 pence per new Ordinary Share, such number to be reduced by any subscriptions for new Ordinary Shares from third party investors. The Company procured subscriptions from third parties not deemed to be acting as a concert party with Fratelli for 81,350,353 new Ordinary Shares. Following completion of the placing Fratelli received 8,135,035 warrants. Each warrant is exercisable for one new Ordinary Share at an exercise price of 10 pence per share and may be exercised at any time up to and including 16 January 2015.

As a result of the subscription by Fratelli, Fratelli has a direct interest of 51.1% in the share capital of the Company and has become a controlling party subsequent to the year ended 31 December 2012.

Following completion of the share placement the Company repaid a short-term loan facility of US$4.5 million plus accrued interest that had been provided to the Company by Fratelli.

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 a 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.

The pro-forma balance sheet presented below, which is provided for illustrative purposes only, indicates how the balance sheet of the company as at 31 December 2012 would have been affected had the share placement been completed prior to 31 December 2012, the estimated expenses of the transaction settled and the loan and accrued interest as at 31 December re-paid to Fratelli.

	US$000's
Total non-current assets	44,210
Current assets (excluding cash)	1,411
Cash at bank and in hand	23,330
Total current assets	24,741
Total current liabilities	2,173
Net current assets	22,568
Total assets less current liabilities	66,778
Total non-current liabilities	2,189
Net assets	64,589
Equity shareholders' funds	64,589

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

The auditors, PKF (UK) LLP, have announced they are merging their business into BDO LLP. A resolution to appoint BDO LLP will be put to the 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
27 March 2013

Independent Auditor's Report

To the members of Serabi Gold plc

We have audited the financial statements of Serabi Gold plc for the year ended 31 December 2012 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 2012 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

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in Note 1(a) to the financial statements concerning the group's ability to continue as a going concern. The group is dependent on its ability to successfully develop and commence gold production at the Palito Mine in order to continue as a going concern. However, there are risks associated with the commencement of a new mining and processing operation and additional working capital may be required to fund delays in the development of the mine should they occur. These conditions, along with the other matters explained in Note 1(a) to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the company and the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and the group were 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
27 March 2013

Statement of Comprehensive Income

For the year ended 31 December 2012

		Group	
	Notes	**For the year ended 31 December 2012 US$**	For the year ended 31 December 2011 US$
CONTINUING OPERATIONS			
Revenue	2	**–**	3,807
Operating expenses		**(477,961)**	(571,512)
Gross loss		**(477,961)**	(567,705)
Administration expenses		**(2,513,272)**	(2,886,707)
Provision for indirect taxes		**–**	(129,264)
Share-based payments		**(128,882)**	(263,861)
Write-off of past exploration costs		**(267,703)**	–
Settlement of supplier claim		**–**	540,441
Gain on asset disposals		**18,456**	31,262
Depreciation of plant and equipment		**(891,101)**	(2,251,850)
Operating loss	3	**(4,260,463)**	(5,527,684)
Foreign exchange gain		**73,141**	69,975
Finance expense	4	**(555,835)**	(537,197)
Finance income	4	**6,171**	59,083
Loss before taxation		**(4,736,986)**	(5,935,823)
Income tax expense	5	**–**	–
Loss for the period from continuing operations(1)(2)		**(4,736,986)**	(5,935,823)
Other comprehensive income (net of tax)			
Exchange differences on translating foreign operations		**(3,531,144)**	(4,957,335)
Total comprehensive loss for the period(2)		**(8,268,130)**	(10,893,158)
Loss per ordinary share (basic and diluted)	7	**(5.29c)**	(10.01c)

(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 2012

		Group		Company	
	Notes	**2012 US$**	2011 US$	**2012 US$**	2011 US$
Non-current assets					
Development and deferred exploration costs	8	**17,360,805**	16,648,884	**2,160,943**	1,749,055
Property, plant and equipment	9	**26,848,991**	28,266,092	**1,169,835**	1,187,907
Investments in subsidiaries	10	**–**	–	**10,913,322**	10,913,322
Other receivables	12	**–**	–	**39,691,402**	34,591,402
Total non-current assets		**44,209,796**	44,914,976	**53,935,502**	48,441,686
Current assets					
Inventories	11	**722,868**	1,114,255	**–**	–
Trade and other receivables	12	**85,509**	87,440	**80,519**	60,000
Prepayments		**603,005**	701,669	**57,743**	53,979
Cash and cash equivalents	13	**2,582,046**	1,406,458	**2,281,318**	1,070,297
Total current assets		**3,993,428**	3,309,822	**2,419,580**	1,184,276
Current liabilities					
Trade and other payables	14	**2,001,683**	2,538,055	**709,261**	822,601
Interest bearing liabilities	16 (a)	**4,580,745**	–	**4,580,745**	–
Accruals		**171,102**	146,165	**171,101**	146,164
Total current liabilities		**6,753,530**	2,684,220	**5,461,107**	968,765
Net current (liabilities)/assets		**(2,760,102)**	625,602	**(3,041,527)**	215,511
Total assets less current liabilities		**41,449,694**	45,540,578	**50,893,975**	48,657,197
Non-current liabilities					
Trade and other payables	14	**211,939**	508,680	**–**	–
Provisions	15	**1,612,098**	1,451,296	**–**	–
Interest bearing liabilities	16 (b)	**364,656**	296,122	**364,656**	296,122
Total non-current liabilities		**2,188,693**	2,256,098	**364,656**	296,122
Net assets		**39,261,001**	43,284,480	**50,529,319**	48,361,075
Equity					
Share capital	17	**31,416,993**	29,291,551	**31,416,993**	29,291,551
Share premium reserve		**50,182,624**	48,292,057	**50,182,624**	48,292,057
Option reserve		**2,019,782**	1,956,349	**2,019,782**	1,956,349
Other reserves		**780,028**	702,095	**780,028**	702,095
Translation reserve		**(4,606,311)**	(1,075,167)	**–**	–
Accumulated losses	21	**(40,532,115)**	(35,882,405)	**(33,870,108)**	(31,880,977)
Equity shareholders' funds attributable to owners of the parent		**39,261,001**	43,284,480	**50,529,319**	48,361,075

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2013 and signed on its behalf by:

Clive Line
Finance Director
27 March 2013

Company Number 5131528

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2012

Group	Share capital US$	Share premium US$	Share option reserve US$	Other reserves US$	Translation reserve US$	Accumulated losses US$	Total equity US$
Equity shareholders' funds at 31 December 2010	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
Equity shareholders' funds at 31 December 2011	29,291,551	48,292,057	1,956,349	702,095	(1,075,167)	(35,882,405)	43,284,480
Foreign currency adjustments	–	–	–	–	(3,531,144)	–	(3,531,144)
Loss for year	–	–	–	–	–	(4,736,986)	(4,736,986)
Total comprehensive income for the year	–	–	–	–	(3,531,144)	(4,736,986)	(8,268,130)
Issue of new ordinary shares for cash	2,125,442	2,047,509	–	77,933	–	–	4,250,884
Costs associated with issue of new ordinary shares for cash	–	(156,942)	–	–	–	–	(156,942)
Share options lapsed	–	–	(87,276)	–	–	87,276	–
Share option expense	–	–	150,709	–	–	–	150,709
Equity shareholders' funds at 31 December 2012	**31,416,993**	**50,182,624**	**2,019,782**	**780,028**	**(4,606,311)**	**(40,532,115)**	**39,261,001**

Company	Share capital US$	Share premium US$	Share option reserve US$	Other reserves US$	Accumulated losses US$	Total equity US$
Equity shareholders' funds at 31 December 2010	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
Equity shareholders' funds at 31 December 2011	29,291,551	48,292,057	1,956,349	702,095	(31,880,977)	48,361,075
Loss for the year	–	–	–	–	(2,076,407)	(2,076,407)
Comprehensive income for year	–	–	–	–	(2,076,407)	(2,076,407)
Issue of new ordinary shares	2,125,442	2,047,509	–	77,933	–	4,250,884
Costs associated with issue of new ordinary shares	–	(156,942)	–	–	–	(156,942)
Share options lapsed	–	–	(87,276)	–	87,276	–
Share option expense	–	–	150,709	–	–	150,709
Equity shareholders' funds at 31 December 2012	**31,416,993**	**50,182,624**	**2,019,782**	**780,028**	**(33,870,108)**	**50,529,319**

Cash Flow Statements

For the year ended 31 December 2012

	Group		Company	
	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$	**For the year ended 31 December 2012 US$**	For the year ended 31 December 2011 US$
Cash outflows from operating activities				
Operating loss	**(4,260,463)**	(5,527,684)	**(1,834,390)**	(1,970,985)
Depreciation – plant, equipment and mining properties	**891,101**	2,251,850	**40,907**	112,486
(Gain)/loss on sale of assets	**(18,456)**	(31,262)	**–**	–
Deferred asset write-off	**267,703**	–	**57,382**	–
Option costs	**128,882**	263,861	**128,882**	263,861
Interest paid	**(247,802)**	(156,838)	**(180,000)**	–
Foreign exchange	**(261,974)**	(174,367)	**(23,730)**	(11,663)
Changes in working capital				
Decrease/(increase) in inventories	**313,248**	162,979	**–**	–
Decrease/(increase) in receivables, prepayments and accrued income	**47,982**	267,985	**(24,283)**	(18,105)
(Decrease)/increase in payables, accruals and provisions	**(300,072)**	(269,289)	**(7,657)**	239,915
Net cash flow from operations	**(3,439,851)**	(3,212,765)	**(1,842,889)**	(1,384,491)
Investing activities				
Proceeds of sale of fixed assets	**19,724**	212,887	**–**	–
Purchase of property, plant, equipment and projects in construction	**(1,769,951)**	(119,974)	**(22,835)**	(4,718)
Exploration and development expenditure	**(2,251,067)**	(8,663,471)	**(447,443)**	(757,257)
Capital and loan investments in subsidiaries	**–**	–	**(5,100,000)**	(9,422,881)
Interest received	**6,171**	59,083	**6,171**	59,083
Net cash outflow on investing activities	**(3,995,122)**	(8,511,475)	**(5,564,107)**	(10,125,773)
Financing activities				
Issue of ordinary share capital	**4,250,883**	4,961,180	**4,250,883**	4,961,180
Issue of special warrants	**–**	208,229	**–**	208,229
Short term secured loan	**4,500,000**	–	**4,500,000**	–
Payment of share issue costs	**(156,942)**	(696,549)	**(156,942)**	(696,549)
Payment of special warrant issue costs	**–**	(14,900)	**–**	(14,900)
Net cash inflow from financing activities	**8,593,941**	4,457,960	**8,593,941**	4,457,960
Net increase/(decrease) in cash and cash equivalents	**1,158,968**	(7,266,280)	**1,186,945**	(7,052,304)
Cash and cash equivalents at beginning of period	**1,406,458**	8,598,755	**1,070,297**	8,032,125
Exchange difference on cash	**16,620**	73,983	**24,076**	90,476
Cash and cash equivalents at end of period	**2,582,046**	1,406,458	**2,281,318**	1,070,297

Notes to the Financial Statements

For the year ended 31 December 2012

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 2012.

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. During the early part of 2012 the Company commissioned a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. The report which was completed and published in June 2012 was positive and the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") on 2 October 2012 to subscribe for and underwrite a placement of new shares to finance the development and start-up of underground mining activities at the Palito gold mine. In addition Fratelli agreed to provide an interim secured loan facility of US$6 million to provide additional working capital to the Company and to enable it to commence the initial works at Palito. The placing of 270 million new Ordinary Shares with Fratelli and other subscribers was completed on 17 January 2013, raising gross proceeds of UK£16.2 million. The Company has repaid out of the proceeds the amount of the loan facility that had been drawn down, which at that time was US$4.5 million plus accrued interest. Management considers that the Company has adequate access to capital to be able to complete the necessary mine development and process plant and infrastructure rehabilitation works that are required in order to be able to commence gold production before the end of 2013. From that time management anticipate that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects.

There are, however, risks associated with the commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale. On this basis the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis. However there is no certainty that such additional funds will be forthcoming. These conditions indicate the existence of a material uncertainty which may cast doubt over the Group's and the Company's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate. These adjustments could be material.

Impairment

The Directors have undertaken a review of the carrying value of the mining and exploration assets of the Group and given particular consideration to the results of the PEA, the current operational status of Palito and the potential risks and implications of starting up a past producing gold mine. As part of this review they have assessed the value of the existing Palito Mine asset on the basis of the projected value in use that could be expected should the Company follow the re-development, start-up and future mining plans proposed in the PEA. 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 comprehensive 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 on the basis that the Group's primary product is generally traded by reference to its pricing in US Dollars. The functional currency of the Parent Company is also considered to be the US Dollar.

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 2012 was 1.6189 (2011: 1.5547). The Brazilian Real/US Dollar exchange rate at 31 December 2012 was 2.0435 (2011: 1.8758).

(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
Costs relating to maintenance and upkeep of the Group's assets once such assets have been commissioned and entered into commercial operations will generally be expensed as incurred. In the event, however, that the costs demonstrably result in extending the original estimated life of such asset or enhances its value, then such expenditure is added to the carrying value of that asset and amortised over its remaining estimated useful life.

Notes to the Financial Statements

For the year ended 31 December 2012

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 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.

At such time as commercial feasibility is established and a development decision is reached, the costs associated with that property will be transferred to and re-categorised as Mining Assets.

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 International Financial Reporting Standard 2 – Share Based Payment ("IFRS2"), 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 that are not interest bearing are stated at cost. Any interest charges or late payment penalties are recognised only when agreed with the supplying party or it considered probable that they will be levied.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Materials that are no longer considered as likely to be used by the Group or their value is unlikely to be readily realised through a sale to a third party, are provided for.

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 2012

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.

(t) Investments in subsidiaries

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

1 Significant accounting policies (continued)

(u) Critical accounting estimates and judgements

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

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

The estimates and underlying assumptions are reviewed on an 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 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.

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.

	2012		2011	
Major customers (accounting for more than 10% of the Group's revenues)	**US$**	**%**	US$	%
Customer 1	**–**	**100.0**	3,807	100.0

Notes to the Financial Statements

For the year ended 31 December 2012

2 Segmental analysis (continued)

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

	2012			2011		
	Brazil US$	**Other US$**	**Total US$**	Brazil US$	Other US$	Total US$
Revenue	**–**	**–**	**–**	(3,807)	–	(3,807)
Operating expenses	**477,961**	**–**	**477,961**	571,381	131	571,512
Operating loss	**477,961**	**–**	**477,961**	567,574	131	567,705
Administration expenses	**906,054**	**1,607,218**	**2,513,272**	881,024	1,594,506	2,475,530
Share based payments	**–**	**128,882**	**128,882**	–	263,861	263,861
Deferred asset write-off	**199,513**	**68,190**	**267,703**	–	–	–
Depreciation and loss/(gain) on asset disposals	**831,738**	**40,907**	**872,645**	2,108,102	112,486	2,220,588
Operating loss	**2,415,266**	**1,845,197**	**4,260,463**	3,556,700	1,970,984	5,527,684
Foreign exchange (gain)/loss	**(4,210)**	**(68,931)**	**(73,141)**	7,616	(77,591)	(69,975)
Finance expense/(income)	**238,715**	**310,949**	**549,664**	491,475	(13,361)	478,114
Loss before taxation	**2,649,771**	**2,087,215**	**4,736,986**	4,055,791	1,880,032	5,935,823

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

	Total non-current assets	
	31 December 2012 US$	31 December 2011 US$
Brazil – operations	**25,224,077**	28,247,698
Brazil – exploration	**18,982,898**	16,648,884
Other	**2,821**	18,394
	44,209,796	44,914,976

An analysis of total assets by location is as follows:

	Total assets	
	31 December 2012 US$	31 December 2011 US$
Brazil	**45,776,276**	47,017,584
Other	**2,426,948**	1,207,214
	48,203,224	48,224,798

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 2012 US$	For the year ended 31 December 2011 US$
Brazil	**2,272,894**	8,707,476

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

	Group	
	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Brazil	**1,768,716**	115,255
Other	**1,235**	4,719
	1,769,951	119,974

3 Operating loss

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

	Group	
	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Staff costs	**2,955,914**	4,418,920
Depreciation (plant and equipment)	**891,101**	2,251,850
Cost of inventories recognised as an expense	**508,170**	1,079,443
Operating lease charges	**108,752**	115,374

b. Auditor's remuneration

	Group	
	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Fees payable to the group's auditor for the audit of the group's annual financial statements	**66,896**	49,525
Fees payable to the group's auditor and its associates for other services:		
audit of the group's subsidiaries pursuant to legislation	**21,527**	23,353
tax services	**6,094**	12,566
all other services	**12,496**	52,438

4 Finance expense and income

	Group	
	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Finance element of adjustment to rehabilitation provision	**(170,914)**	(334,637)
Finance charge re convertible loan stock	**(56,304)**	(45,722)
Other finance related expenses	**(328,618)**	(156,838)
Interest payable	**(555,835)**	(537,197)
Finance income on short-term deposits	**6,171**	59,083
Net interest	**(549,664)**	(478,114)

5 Taxation

	Group	
	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Current tax		
UK tax	**–**	–
Foreign tax	**–**	–
Deferred tax	**–**	–
Total	**–**	–

Notes to the Financial Statements

For the year ended 31 December 2012

5 Taxation (continued)

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained as follows:

	Group	
	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Loss on ordinary activities before tax	**(4,736,986)**	(5,935,823)
Tax thereon at UK corporate tax rate of 24.5% (2011: 26.5%)	**(1,160,562)**	(1,572,993)
Factors affecting the tax charge:		
expenses not deductible for tax purposes	**125,476**	164,568
income not taxable	**–**	–
higher rate tax overseas	**(220,773)**	(277,444)
unrecognised tax losses carried forward	**1,255,859**	1,685,869
Tax charge	**–**	–

The Group has total tax losses of US$40.5 million (2011: US$38.5 million) giving rise to a potential deferred tax asset of US$12.2 million (2011: US$11.9 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 2012 Number	For the year ended 31 December 2011 Number
Management and administration	**9**	11
Exploration	**11**	35
Mine development and operations	**32**	39
Total	**52**	85

	US$	US$
Staff costs		
Wages and salaries	**1,949,774**	2,655,389
Cost of incentive scheme shares and Director shares vested	**150,709**	307,865
Social security costs	**513,468**	748,623
Termination costs	**236,963**	702,225
Pension contributions	**105,000**	4,818
Total	**2,955,914**	4,418,920

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.

6 Employee information (continued)

Directors' remuneration

The compensation of the Directors' is:

	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Salary and other benefits	**653,676**	554,595
Post employment benefits	**105,000**	4,818
Share-based payments	**107,628**	289,591
Total	**866,304**	849,004

The remuneration of the highest paid Director during the year was US$371,631 (2011: US$325,275). The Company made cash contributions to his money purchase pension scheme of US$4,757 (2011: US$4,818) and contribution by way of shares of US$ Nil (2011: US$31,921). The remuneration also includes the valuation of options granted in accordance with IFRS 2 of US$42,086 (2011: US$71,944).

During the year ended 31 December 2012, two of the Directors (2011: two) were entitled to accrue retirement benefits under money purchase schemes.

7 Loss per share

The calculation of the basic loss per share of 5.29 cents (2011 loss per share: 10.01 cents) is based on the loss attributable to ordinary shareholders of US$4,736,986 (2011: loss of US$5,935,823) and on the weighted average number of ordinary shares of 89,552,955 (2011: 59,309,035) in issue during the period. Diluted loss per share is the same as the basic loss per share because the exercise of share options would be anti-dilutive.

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 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Cost				
Opening balance	**16,648,884**	9,797,406	**1,749,055**	947,793
Exploration and development expenditure	**2,251,067**	8,663,471	**390,011**	757,257
Share option charges capitalised	**21,827**	44,005	**21,827**	44,005
Write-off of past exploration costs	**(267,703)**	–	**–**	–
Foreign exchange movements	**(1,293,270)**	(1,855,998)	**–**	–
Total as at end of period	**17,360,805**	16,648,884	**2,160,943**	1,749,055

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

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For the year ended 31 December 2012

9 Tangible assets

Property, plant and equipment – Group

2012	Land and buildings – at cost US$	Mining property – at cost US$	Projects in construction – at cost US$	Plant and equipment – at cost US$	Total US$
Cost					
Balance at 31 December 2011	3,628,135	29,395,558	–	10,997,006	44,020,699
Additions	5,073	–	1,697,975	66,903	1,769,951
Foreign exchange movements	(297,973)	(2,115,419)	(75,882)	(850,062)	(3,339,336)
Disposals	–	–	–	(87,139)	(87,139)
At 31 December 2012	**3,335,235**	**27,280,139**	**1,622,093**	**10,126,708**	**42,364,175**
Depreciation					
Balance at 31 December 2011	(3,513,375)	(4,099,737)	–	(8,141,495)	(15,754,607)
Charge for period	(198,220)	–	–	(692,881)	(891,101)
Reclassification of impairment provision	86,130	(86,130)	–	–	–
Foreign exchange movements	290,230	146,123	–	608,300	1,044,653
Eliminated on sale of asset	–	–	–	85,871	85,871
At 31 December 2012	**(3,335,235)**	**(4,039,744)**	**–**	**(8,140,205)**	**(15,515,184)**
Net book value at 31 December 2012	**–**	**23,240,395**	**1,622,093**	**1,986,503**	**26,848,991**
Net book value at 31 December 2011	114,760	25,295,821	–	2,855,511	28,266,092

Property, plant and equipment – Group

2011	Land and buildings – at cost US$	Mining property – at cost US$	Projects in construction – at cost US$	Plant and equipment – at cost US$	Total US$
Cost					
Balance at 31 December 2010	4,084,536	32,549,037	–	12,635,123	49,268,696
Additions	–	–	–	119,974	119,974
Foreign exchange movements	(456,401)	(3,153,479)	–	(1,305,355)	(4,915,235)
Disposals	–	–	–	(452,736)	(452,736)
At 31 December 2011	3,628,135	29,395,558	–	10,997,006	44,020,699
Depreciation					
Balance at 31 December 2010	(3,337,117)	(4,323,725)	–	(7,656,714)	(15,317,556)
Charge for period	(605,898)	–	–	(1,645,952)	(2,251,850)
Reclassification of impairment provision	–	–	–	–	–
Foreign exchange movements	429,640	223,988	–	890,060	1,543,688
Eliminated on sale of asset	–	–	–	271,111	271,111
At 31 December 2011	(3,513,375)	(4,099,737)	–	(8,141,495)	(15,754,607)
Net book value at 31 December 2011	114,760	25,295,821	–	2,855,511	28,266,092
Net book value at 31 December 2010	747,419	25,295,821	–	4,978,409	33,951,140

Further details regarding the impairment review undertaken by the Directors, are set out in note 18.

9 Tangible assets (continued)

Property, plant and equipment – Company

2012	Land and buildings – at cost US$	Mining property – at cost US$	Projects in construction – at cost US$	Plant and equipment – at cost US$	Total US$
Cost					
Balance at 31 December 2011	–	2,167,502	–	617,085	2,784,587
Additions	–	–	21,600	1,235	22,835
Foreign exchange movements	–	–	–	–	–
Disposals	–	–	–	–	–
At 31 December 2012	**–**	**2,167,502**	**21,600**	**618,320**	**2,807,422**
Depreciation					
Balance at 31 December 2011	–	(1,022,060)	–	(574,620)	(1,596,680)
Charge for period	–	–	–	(40,907)	(40,907)
Reclassification of impairment provision	–	–	–	–	–
Foreign exchange movements	–	–	–	–	–
Eliminated on sale of asset	–	–	–	–	–
At 31 December 2012	**–**	**(1,022,060)**	**–**	**(615,527)**	**(1,637,587)**
Net book value at 31 December 2012	**–**	**1,145,442**	**21,600**	**2,793**	**1,169,835**
Net book value at 31 December 2011	–	1,145,442	–	42,466	1,187,907

Property, plant and equipment – Company

2011	Land and buildings – at cost US$	Mining property – at cost US$	Projects in construction – at cost US$	Plant and equipment – at cost US$	Total US$
Cost					
Balance at 31 December 2010	–	2,167,502	–	612,367	2,779,869
Additions	–	–	–	4,718	4,718
Foreign exchange movements	–	–	–	–	–
Disposals	–	–	–	–	–
At 31 December 2011	–	2,167,502	–	617,085	2,784,587
Depreciation					
Balance at 31 December 2010	–	(924,475)	–	(559,719)	(1,484,194)
Charge for period	–	–	–	(112,486)	(112,486)
Reclassification of impairment provision	–	(97,585)	–	97,585	–
Foreign exchange movements	–	–	–	–	–
Eliminated on sale of asset	–	–	–	–	–
At 31 December 2011	–	(1,022,060)	–	(574,620)	(1,596,680)
Net book value at 31 December 2011	–	1,145,442	–	42,465	1,187,907
Net book value at 31 December 2010	–	1,243,027	–	52,648	1,295,675

Further details regarding the impairment review undertaken by the Directors, are set out in note 18.

Notes to the Financial Statements

For the year ended 31 December 2012

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 2012 US$	31 December 2011 US$
Cost at start and end of period	**17,339,256**	17,339,256
Impairment provision		
Balance at start and end of period	**6,425,934**	6,425,934
Net book value at start and end of period	**10,913,322**	10,913,322

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

11 Inventories

	Group		Company	
	31 December 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Consumables	**722,868**	1,114,255	**–**	–

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

12 Trade and other receivables

	Group		Company	
	31 December 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Current				
Trade receivables	**–**	20,972	**–**	–
Other receivables	**85,509**	66,468	**80,519**	60,000
Trade and other receivables	**85,509**	87,440	**80,519**	60,000
Non-current				
Amounts owed by subsidiaries	**–**	–	**51,442,112**	46,342,112
Impairment provision	**–**	–	**(11,750,710)**	(11,750,710)
Other receivables	**–**	–	**39,691,402**	34,591,402

13 Cash and cash equivalents

	Group		Company	
	31 December 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Cash and cash equivalents	**2,582,046**	1,406,458	**2,281,318**	1,070,297

14 Trade and other payables

	Group		Company	
	31 December 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Current				
Trade payables	**790,665**	1,204,877	**207,886**	386,445
Other payables	**319,271**	444,465	**–**	1,315
Employee benefits	**217,867**	173,825	**–**	–
Other taxes and social security	**673,880**	714,888	**81,839**	15,305
Amounts due to subsidiaries	**–**	–	**419,536**	419,536
Trade and other payables	**2,001,683**	2,538,055	**709,261**	822,601
Non-current				
(Between one and five years)				
Trade payables	**–**	–	**–**	–
Other payables	**9,641**	146,812	**–**	–
Employee benefits	**–**	127,161	**–**	–
Other taxes and social security	**202,298**	234,707	**–**	–
	211,939	508,680	**–**	–

15 Non-current provisions

Employment and claims provision

	Group		Company	
	31 December 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Opening balance	**296,296**	333,571	**–**	–
Movement in year	**122,260**	–	**–**	–
Exchange	**(29,850)**	(37,275)	**–**	–
Closing balance	**388,706**	296,296	**–**	–

Environmental rehabilitation provision

	Group		Company	
	31 December 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Opening balance	**1,155,000**	1,055,000	**–**	–
Provided for in year				
as a result of finance variations	**170,914**	334,637	**–**	–
as a result of exchange variations	**(102,522)**	(234,637)	**–**	–
	68,392	100,000	**–**	–
Closing balance	**1,223,392**	1,155,000	**–**	–
Total non-current provisions	**1,612,098**	1,451,296	**–**	–

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For the year ended 31 December 2012

15 Non-current provisions (continued)

The employment and claims provision covers claims that may be brought by;

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

ii) third parties against Serabi Mineração SA where sums are claimed over and above contracted amounts. Whilst the Company will contest these claims it has made an additional provision as a best estimate of the potential value of any settlement that could arise based on legal opinion.

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

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

16 Interest bearing liabilities

(a) Short term secured loan facility

On 1 October 2012, the Company entered into a secured loan agreement for a total facility of US$6 million ("the Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into conditional subscription agreement with Fratelli for the placement of up to 270 million new Ordinary Shares. Under the Loan Agreement Fratelli agreed to provide up to US$6 million to be drawn down in four instalments commencing 1 October 2012 to provide working capital to the Company and the Group and to allow initial development work to commence on the start-up of gold production at the Palito Mine. The loan was to be repaid within 6 months of the first drawdown and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. The loan was secured against the entire share capital of Serabi Mining Limited, a subsidiary of Serabi Gold plc, and the 99.99% shareholder of Serabi Mineração SA, which is the licence holder for the Palito Mine. In addition the Company also made a charge in favour of Fratelli over all current and future sums owed by Serabi Mineração SA to Serabi Gold plc. Following completion of the share placing on 17 January 2013, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli.

(b) 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.

- interest will accrue at the rate of 1 per cent. 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 UK£0.15 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.

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	
	31 December 2012 US$	31 December 2011 US$
Interest bearing liabilities – non-current		
Convertible loan stock	**364,656**	296,122
	364,656	296,122

17 Share capital

	2012 Number	2012 £	2011 Number	2011 £
Authorised				
Ordinary shares of 5 pence each	**733,735,776**	**36,686,789**	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
		50,000,000		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.

	2012 Number	2012 US$	2011 Number	2011 US$
Allotted, called up and fully paid				
Ordinary shares of 5 pence each	**91,268,529**	**7,395,598**	63,968,529	5,270,156
Deferred shares of 9.5 pence each	**140,139,065**	**24,021,395**	140,139,065	24,021,395
		31,416,993		29,291,551

Movements in issued share capital

	31 December 2012 Number	31 December 2012 US$	31 December 2011 Number	31 December 2011 US$
Ordinary shares				
Opening balance	**63,968,529**	**5,270,156**	44,774,059	3,731,439
Issue of shares for cash	**27,300,000**	**2,125,442**	19,194,470	1,538,717
Closing balance	**91,268,529**	**7,395,598**	63,968,529	5,270,156

	31 December 2012 Number	31 December 2012 US$	31 December 2011 Number	31 December 2011 US$
Deferred shares				
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:

24 January 2012	Placing of 27,300,000 Units at a price of UK£0.10 per Unit. 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.

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17 Share capital (continued)

Options to subscribe for ordinary shares

Pre-IPO share option plan

Year ended 31 December 2012

Option period	Exercise price	Grant date	Options in issue at start of period	Options lapsed in 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	3.25
01 Apr 06 – 01 Apr 16	£3.00	25 Apr 05	274,925	–	274,925	n/a	3.25
As at 31 December 2012			**553,285**	**–**	**553,285**		
Weighted average exercise price			£2.24	–	£2.24		

Year ended 31 December 2011

Option period	Exercise price	Grant date	Options in issue at start of period	Options lapsed in 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
As at 31 December 2011			553,285	–	553,285		
Weighted average exercise price			£2.24	–	£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 2012

Option period	Exercise price	Grant date	Options in issue at start of period	Options lapsed in 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	–
15 Nov 07 – 14 Nov 17	£2.64	15 Nov 07	25,000	–	25,000	n/a	4.88
As at 31 December 2012			**32,500**	**(7,500)**	**25,000**		
Weighted average exercise price			£2.92	£3.84	£2.64		

Year ended 31 December 2011

Option period	Exercise price	Grant date	Options in issue at start of period	Options lapsed in 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
As at 31 December 2011			32,500	–	32,500		
Weighted average exercise price			£2.92	–	£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.

Year ended 31 December 2012

Option period	Exercise price	Grant date	Options in issue at start of period	Options lapsed in period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of options (years)	Fair value
21 Dec 09 to 20 Dec 19	UK£0.15	21 Dec 09	1,900,000	(200,000)	1,700,000	n/a	7.0	UK£0.080
As at 31 December 2012			**1,900,000**	**(200,000)**	**1,700,000**			
Weighted average exercise price			£0.15	£0.15	£0.15			

Year ended 31 December 2011

Option period	Exercise price	Grant date	Options in issue at start of period	Options lapsed in period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of options (years)	Fair value
21 Dec 09 to 20 Dec 19	UK£0.15	21 Dec 09	1,900,000	–	1,900,000	n/a	6.0	UK£0.080
As at 31 December 2011			1,900,000	–	1,900,000			
Weighted average exercise price			£0.15	–	£0.15			

The fair value of these options has been fully recognised in prior years and therefore no charge (2011: US$43,127) is required to be recorded in these financial statements in respect of these options.

2011 Option Plan

During 2011, the Company approved the Serabi Mining 2011 Share Option Plan and the following options have been granted under this option plan:

Year ended 31 December 2012

Option period	Exercise price	Grant date	Options in issue at start of period	Options granted in period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of options (years)	Fair value
28 Jan 11 to 27 Jan 21	UK£0.41	28 Jan 2011	1,455,000	–	(170,000)	1,285,000	8.1	UK£0.085
28 Jan 11 to 27 Jan 21	UK£0.37	28 Jan 2011	450,000	–	–	450,000	8.1	UK£0.094
31 May 11 to 30 May 14	C$0.60	31 May 2011	1,630,000	–	(30,000)	1,600,000	1.4	C$0.117
21 May 12 to 20 May 15	UK£0.10	21 May 2012	–	500.000	–	500,000	2.4	UK£0.029
As at 31 December 2012			**3,535,000**	**500,000**	**(200,000)**	**3,835,000**		
Weighted average exercise price			£0.40	£0.10	£0.41	£0.36		

Year ended 31 December 2011

Option period	Exercise price	Grant date	Options in issue at start of period	Options lapsed in period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of options (years)	Fair value
28 Jan 11 to 27 Jan 21	UK£0.41	28 Jan 2011	–	1,455,000	1,455,000	1,455,000	9.1	UK£0.085
28 Jan 11 to 27 Jan 21	UK£0.37	28 Jan 2011	–	450,000	450,000	450,000	9.1	UK£0.094
31 May 11 to 30 May 21	C$0.60	31 May 2011	–	1,630,000	1,630,000	1,630,000	2.4	C$0.117
As at 31 December 2011			–	–	3,535,000	3,535,000		
Weighted average exercise price			–	£0.40	£0.40	£0.40		

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For the year ended 31 December 2012

17 Share capital (continued)

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 have been 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$150,709 (2011: US$264,738) has been recorded in these financial statements in respect of these options of which US$21,827 has been capitalised as deferred exploration expenditures.

The fair value of all options granted under all of the above plans that have lapsed during the period, totalling US$87,286 has been transferred from the Option Reserve to the Accumulated Losses Reserve.

18 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 three new discoveries in close proximity to the Palito Mine, the Board commissioned a preliminary economic assessment of the viability of re-commencing mining operations at the Palito Mine. This independent preliminary economic assessment report ("PEA") was published in June 2012. The Company completed a share placement raising gross proceeds of UK£16.2 million which will be used to finance the start-up of gold production 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$27,814,608 compared with the value at 31 December 2011 of US$30,838,229. This is primarily the result of exchange rates variations and depreciation charges made during the period, with the balance attributable to small levels of asset additions and 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 2011. The current assessment has been based on the economic assessment of the Palito Mine project set out in the PEA and in particular the timing of the commencement of production, projected capital and operating costs and expected production levels. The Directors have based their estimates of gold price on consensus forecasts of a selection of analysts covering the gold sector The resulting post-tax Net Present Value of the project still supports the carrying value of US$25.2 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 ("IAS36"), 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.

18 Impairment (continued)

Group

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

	Carrying value before impairment US$	Impairment provision US$	Carrying value after impairment US$
Mining Property	25,364,208	2,123,814	23,240,394
Land and Buildings	–	–	–
Plant and Equipment	2,450,400	466,718	1,983,682
	27,814,608	2,590,532	25,224,076

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.

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 using the mine plan and costs estimates developed by the authors of the PEA. This plan anticipates total Life of Mine ("LOM") production of 201,300 gold equivalent ounces compared with the Group's current inventory of Measured and Indicated mineral resources of 224,272 gold equivalent ounces and Inferred resources of 443,956 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 October 2012 with first production in Q4 2013
Long term gold price	US$1,790 for 2014, US$1,550 for 2015 and US$1,400 thereafter based on consensus estimates from a selection of analysts collated in January 2013
Exchange rate BrR$ to US$	2.00
Discount factor	10%
Cost estimates	Based on estimates provided in the PEA which incorporated historic cost and usage data
Mine plan	A period of initial de-watering of the underground mine followed by a period ramp, waste and gallery development. Development and production ore will initially be stockpiled. The processing plant will commence operations 12-14 months after the initial de-watering begins.
Average monthly LOM plant throughput rate	7,500 tonnes per month
Average annual LOM gold production (2014 onwards)	24,400 gold equivalent ounces
Production period	8.25 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. Costs estimates prepared by the authors of the PEA were based on an assumed exchange rate of BrR$2.00 to US$1.00. This compares with the prevailing exchange rate at 31 December 2012 of BrR$2.0435. The rate on 27 March 2013 was BrR$2.0160: 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 US$m	Decline US$m
Change in gold price by $100	8.9	8.9
Variation of BrR$:US$ exchange rate by 10%	6.7	8.1
Variation in discount factor by 1%	2.6	2.4
Variation in cost estimates by 10%	8.5	8.5

Notes to the Financial Statements

For the year ended 31 December 2012

19 Capital management

The Group has historically sourced capital through share issues on the London Stock Exchange and the Toronto Stock Exchange and the Board had managed the capital structure of the Group and aligned this with the risk profiles of its underlying assets. In January 2012 the Group raised finance through the issue of new shares and these funds were utilised to undertake a preliminary economic assessment into the re-establishment of mining operations at the Palito Mine. On 2 October 2012 the Company announced that it had entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") whereby Fratelli underwrote the issue of 270 million new Ordinary Shares raising gross proceeds of UK£16.2 million. At the same time Fratelli agreed to provide a short term secured loan facility of US$6 million to provide working capital to the Company and to enable it to commence initial development works at the Palito Mine. The placing of 270 million new Ordinary Shares with Fratelli and other subscribers was completed on 17 January 2013 and the Company repaid the loan funds which had been advanced as at that date of $4.5 million plus accrued interest from the proceeds of the placing. The Company anticipates that, whilst it may seek to raise further finance in the future, it now has access to sufficient funding to be able to start production operations before the end of 2013 and from that time the Company expects to have sufficient cash flow to finance its on-going requirements and to, at least in part, fund exploration and development activity on its other gold properties.

The Company's shares are listed on both AIM and the TSX which management consider increases the potential of the Group to raise finance through further issues of shares in the future. Management consider that with cash flow being generated from its operations in the near-term this also enhances the ability of the Group to raise debt finance in the future.

20 Company statement of comprehensive income

A separate statement of comprehensive income for Serabi Gold plc has not been prepared as permitted by Section 408 of the Companies Act 2006. The loss of the Company during 2012 was US$2,076,407 (2011: loss of US$1,880,033).

21 Commitments and contingencies

Capital commitments

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

Management estimates that the cost over the next twelve months of fulfilling the current contracted commitments on all the properties in which the Group has an interest is US$154,122 (US$228,583).

Operating lease commitments

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

	Group		Company	
	31 December 2012 US$	31 December 2011 US$	**31 December 2012 US$**	31 December 2011 US$
Commitments falling due:				
within one year	**72,261**	81,103	**7,690**	59,079
between one year and five years	**48,429**	7,385	**–**	7,385
Total	**120,690**	88,488	**7,690**	66,464

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.

Serabi Mineração SA ("SMSA") has been requested by the Tax Authorities for the State of Para, to provide supporting documentation in respect of certain tax reclaims made by SMSA dating back for six years. The Group considers that it will be able to supply all necessary documentary evidence in respect of the claims made and that all claims made were in accordance with prevailing legislation. The total sum of the tax claims that are subject to this review is BrR$1.3 million.

22 Related party transactions

During the period the Company has made loans to subsidiary entities totalling US$5,100,000 (2011: US$$9,422,881). The Company has loans receivable from subsidiaries totalling US$51,442,112 (2011: US$46,342,112) before any provision for the impairment of these loans (see note 12).

On 1 October 2012, the Company entered into a secured loan agreement for a total facility of US$6.0 million ("the Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into conditional subscription agreement with Fratelli for the placement of up to 270 million new Ordinary Shares. At that time Fratelli held a 19.3% interest in the issued share capital of the Company. Under the Loan Agreement Fratelli agreed to provide up to US$6.0 million to be drawn down in four instalments commencing 1 October 2012 to provide working capital to the Company and the Group and to allow initial development work to commence on the start-up of gold production at the Palito Mine. The loan was to be repaid within 6 months of the first drawdown and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. The loan was secured against the entire share capital of Serabi Mining Limited a subsidiary of Serabi Gold plc and the 99.99% shareholder of Serabi Mineração SA, which is the licence holder for the Palito Mine. In addition the Company also made a charge in favour of Fratelli over all current and future sums owed by Serabi Mineração SA to Serabi Gold plc. Following completion of the share placing on 17 January 2013, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

Key management remuneration

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

	For the year ended 31 December 2012 US$	For the year ended 31 December 2011 US$
Short-term employee benefits	**722,824**	611,158
Post employment benefits	**105,000**	4,818
Share-based payments	**107,628**	289,591
Total	**935,452**	905,567

23 Financial instruments

The Group's and the Company's financial assets at 31 December 2012 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 is not currently producing revenue and does not expect to generate any significant revenue during 2013, 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.

Notes to the Financial Statements

For the year ended 31 December 2012

23 Financial instruments (continued)

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.

As at 31 December 2012 the Company had outstanding US$4.5 million plus accrued interest which formed part of a secured loan agreement for a total facility of US$6.0 million with Fratelli Investments Limited ("Fratelli"). The loan was to be repaid within 6 months of the first drawdown and carried interest at a rate of 12% per annum and an arrangement fee of 3% of the facility amount. Following completion of the share placing on 17 January 2013, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli.

Group

				Fixed interest maturity		
2012	Weighted average effective interest rate %	Non-interest bearing US$	Floating US$	One year or less US$	Over one to five years US$	Total US$
Financial assets						
Cash	0.30%	–	2,582,046	–	–	2,582,046
Receivables	–	85,509	–	–	–	85,509
Total		**85,509**	**2,582,046**	**–**	**–**	**2,667,555**
Financial liabilities						
Payables and accruals	–	2,465,469	–	–	–	2,465,469
Interest bearing liabilities	12.43%	–	–	4,500,000	364,656	4,864,656
Total		**2,465,469**	**–**	**4,500,000**	**364,656**	**7,330,125**

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

23 Financial instruments (continued)

Interest rate risk (continued)

Company

2012	Weighted average effective interest rate %	Non-interest bearing US$	Floating US$	Fixed interest maturity One year or less US$	Fixed interest maturity Over one to five years US$	Total US$
Financial assets						
Cash	0.30%	–	2,281,318	–	–	2,281,318
Receivables	–	39,771,921	–	–	–	39,771,921
Total		**39,771,921**	**2,281,318**	**–**	**–**	**42,053,239**
Financial liabilities						
Payables and accruals	–	961,107	–	–	–	961,107
Interest bearing liabilities	12.43%	–	–	4,500,000	364,656	4,864,656
Total		**961,107**	**–**	**4,500,000**	**364,656**	**5,825,763**

2011	Weighted average effective interest rate %	Non-interest bearing US$	Floating US$	Fixed interest maturity One year or less US$	Fixed interest maturity Over one to five years US$	Total US$
Financial assets						
Cash	0.95%	–	1,070,297	–	–	1,070,297
Receivables	–	34,651,402	–	–	–	34,651,402
Total		34,651,402	1,070,297	–	–	35,721,699
Financial liabilities						
Payables and accruals	–	968,765	–	–	–	968,765
Interest bearing liabilities	18.35%	–	–	–	296,122	296,122
Total		968,765	–	–	296,122	1,264,887

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 primarily 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. On 1 October 2012, the Company entered into a secured loan agreement for a total facility of US$6.0 million ("the Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into conditional subscription agreement with Fratelli for the placement of up to 270 million new Ordinary Shares. At that time Fratelli held a 19.3% interest in the issued share capital of the Company. The outstanding loan and accrued interest was repaid to Fratelli in January 2013. As at 31 December 2012 the Group did not otherwise have any 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 take account of the risks inherent in its plans and proposed activities and prevailing market conditions. It is the intention of the Company to use the funds raised from a placement of new Ordinary Shares completed on 17 January 2013, to commence gold production from the Palito gold mine. The cash flow generated is expected to be sufficient to allow the Company to meet its on-going obligations as and when they fall due and to provide working capital to develop other exploration projects that the Company controls. The Company would expect to use fixed rate finance arrangements for the purchase of certain items of capital equipment and will consider short term trade finance particularly in respect of its projected sales of copper/gold concentrate.

Notes to the Financial Statements

For the year ended 31 December 2012

23 Financial instruments (continued)

Liquidity risk (continued)

The following table sets out the maturity profile of the financial liabilities as at 31 December 2012:

	2012		2011	
	Group US$	**Company US$**	Group US$	Company US$
Due in less than one month	**6,210,757**	**4,751,846**	1,103,457	508,731
Due between one month and three months	**410,455**	**289,725**	166,445	–
Due between three months and one year	**132,318**	**–**	1,414,318	40,498
Total due within one year	**6,753,530**	**5,041,571**	2,684,220	549,229
Due more than one year	**576,595**	**364,656**	804,802	296,122
Total	**7,330,125**	**5,406,227**	3,489,022	845,351

Currency risk

Although the Parent Company is incorporated in the United Kingdom its financial statements and those of the Group are presented in US Dollar, which is also considered to be the functional currency of the Parent Company.

Share issues have historically been priced solely in Sterling but an issue of Special Warrants undertaken in December 2010 and an 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 but the Group also incurs liabilities denominated in other currencies being primarily Sterling, Euros, US Dollars, 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:

	2012		2011	
	P&L (loss on ordinary activities before interest and other income) US$000	**Equity US$000**	P&L (loss on ordinary activities before interest and other income) US$000	Equity US$000
10% strengthening of the Brazilian Real against the US Dollar	**(283,079)**	**4,323,417**	(365,000)	4,551,047
10% weakening of the Brazilian Real against the US Dollar	**231,610**	**(3,537,341)**	298,636	(3,723,584)

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.

23 Financial instruments (continued)

Currency risk (continued)

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 2012 US$	31 December 2011 US$
US Dollar	**2,198,081**	439,739
Canadian Dollar	**27,090**	586,986
Sterling	**306,127**	245,742
Australian Dollar	**2,324**	134
Brazilian Real	**48,424**	133,857
Total	**2,582,046**	1,406,458

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

Credit risk

The Group's exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables amounting to US$2,667,555 (2011: US$1,493,898). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable 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$42,053,239 (2011: US$35,721,699). Of this amount US$39,961,402 (net of impairment charge) (2011: US$34,591,402) is due from subsidiary companies.

24 Post balance sheet events

On 17 January 2013, the Company completed a placing of 270 million new Ordinary Shares at a price of UK£0.06 per Ordinary Shares raising gross proceeds of UK£16.2 million. The share placement was pursuant to a conditional subscription agreement entered into on 2 October 2012 between the Company with Fratelli Investments Limited ("Fratelli") to subscribe for and underwrite a placement of 270 million new Ordinary Shares to finance the development and start-up of underground mining operations at its Palito gold mine. The investment by Fratelli took the form of (a) a subscription for 90,403,000 new Ordinary Shares at the Subscription Price of 6 pence per new Ordinary Share; and (b) a conditional subscription for up to a further 179,597,000 new Ordinary Shares at a subscription price of 6 pence per new Ordinary Share, such number to be reduced by any subscriptions for new Ordinary Shares from third party investors. The Company procured subscriptions from third parties not deemed to be acting as a concert party with Fratelli for 81,350,353 new Ordinary Shares. Following completion of the placing Fratelli received 8,135,035 warrants. Each warrant is exercisable for one new Ordinary Shares at an exercise price of 10 pence per share and may be exercised at any time up and including 16 January 2015.

As a result of the subscription by Fratelli, Fratelli has a direct interest of 51.1% in the share capital of the Company and has become a controlling party subsequent to the year ended 31 December 2012.

Following completion of the share placement the Company repaid a short term loan facility of US$4.5 million plus accrued interest that had been provided to the Company by Fratelli.

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 a 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.

Glossary

"Ag" means silver.

"Au" means gold.

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

"CIM" means the Canadian Institute of Mining, Metallurgy and Petroleum.

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

"Chalcopyrite" is a sulphide of copper and iron.

"Cut-off grade" the lowest grade of mineralized material that qualifies as ore in a given deposit; rock of the lowest assay included in an ore estimate.

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

"DNPM" means the Departamento Nacional de Producao Mineral.

"Electromagnetics" is a geophysical technique tool measuring the magnetic field generated by subjecting the sub-surface to electrical currents.

"Garimpeiro" is a local artisanal miner.

"Geochemical" refers to geological information using measurements derived from chemical analysis.

"Geophysical" refers to geological information using measurements derived from the use of magnetic and electrical readings.

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

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

"Gossan" is an iron-bearing weathered product that overlies a sulphide deposit.

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

"g/t" means grams per tonne.

"Hectare" or a **"ha"** is a unit of measurement equal to 10,000 square metres.

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

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

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

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

“Mineralization”	the concentration of metals and their chemical compounds within a body of rock.
“Mineralized”	refers to rock which contains minerals e.g. iron, copper, gold.
“Mineral reserve”	is the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.
“Mineral resource”	is a concentration or occurrence of diamonds, natural solid inorganic material or natural fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.
“mt”	means million tonnes.
“NI 43-101”	means Canadian Securities Administrators’ National Instrument 43-101 – Standards of Disclosure for Mineral Projects.
“Ore”	means a metal or mineral or a combination of these of sufficient value as to quality and quantity to enable it to be mined at a profit.
“Oxides”	are near surface bed-rock which has been weathered and oxidised by long-term exposure to the effects of water and air.
“ppm”	means parts per million.
“Saprolite”	is a weathered or decomposed clay-rich rock.
“Sulphide”	refers to minerals consisting of a chemical combination of sulphur with a metal.
“Tailings”	are the residual waste material that it is produced by the processing of mineralized rock.
“tpd”	means tonnes per day.
“Vein”	is a generic term to describe an occurrence of mineralized rock within an area of non mineralized rock.
“VTEM”	refers to versa time domain electromagnetic, a particular variant of time-domain electromagnetic geophysical survey to prospect for conductive bodies below surface.

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Doug Jones – Non-executive Director
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