SERABI GOLD

Serabi Gold plc
Annual Report 2013

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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. During December it completed the development and rehabilitation of its 100% owned Palito gold mine and since the start of January 2014 the mine has been in a ramp-up phase with the intention of reaching steady state production levels for the start of the second quarter of 2014. In July 2013, the Company acquired the neighbouring high grade Sao Chico gold project through the acquisition of Kenai Resources Ltd, a Canadian TSX-V listed company.

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 100,000km^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 gold equivalent ounces and an Inferred Resource of 443,956 gold equivalent 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.

The Company embarked on a successful drilling campaign at Sao Chico during 2013 and management are confident that Sao Chico will be a satellite deposit providing supplemental high grade gold ore to the Palito processing plant to increase the Group's overall gold production. A programme of further evaluation and development is planned for Sao Chico during 2014 at the end of which a decision will be made

Left – Palito Mine

into the viability and optimal mining rates for long term sustainable gold production.

Cash flow from production activities will be used to fund further exploration, initially focused on three discoveries made by Serabi during 2011 located within three kilometres of the existing Palito deposit. If this exploration is successful it is the Company's objective to expand production further through the future development of these discoveries.

In addition to the Palito Mine and the Sao Chico gold project the Company holds, or has in application, exploration licences over a surrounding 41,000 hectares of highly prospective exploration tenements and holds or is seeking additional exploration holdings in the Tapajos region.

Chairman's Statement

Over the last 12 months, the principal activity of Serabi has been the development of our Palito mine, commissioning the plant and the successful start of production, which was achieved on time and within budget. In 2013 we secured the financing to develop the mine and remediate the process plant and I was delighted that the Company could report a first month of production activity for January 2014.

In 2013 we also took the opportunity to acquire the Sao Chico, gold project. Sao Chico is a high grade gold deposit, some 25km from Palito. Following the acquisition we undertook a surface drilling programme that returned gold intercepts in excess of 100 grammes per tonne. To date the original 150 metre strike length of the current mineral resource has more than doubled and with further infill drilling, could become substantially larger. A programme of initial development and further evaluation is planned for 2014 and if this meets expectations we would be hoping to bring the mine into full production during the second half of 2015.

The most recent round of funding, through which the Company raised £10 million in March 2014, was to finance the initial development of Sao Chico. Once again we were grateful for the support of our existing shareholders and especially the support of our "cornerstone" investor, Fratelli Investments Limited. The ongoing support from Fratelli enables the Company to continue to develop its assets in an efficient and timely manner. Our management team is now focused on optimising production at Palito, generating revenues and establishing a profitable operation, together with developing our Sao Chico project.

Economic and market conditions have been difficult for junior mining companies. However, we have a number of factors in our favour; including high quality deposits, a producing gold mine and a strong management team. Although future gold prices continue to remain uncertain, the Company is in a strong position with no significant borrowings and US$13 million in cash available following completion of the latest financing.

At the end of the year, Mr Christopher Kingsman stood down as a Director of the Company. I would like to extend my thanks to him for both the contribution and insight he provided to the Board and for his long-standing and continued support as a shareholder.

I am confident that 2014 will continue to be an exciting and evolutionary year for Serabi in which we will generate value for our shareholders.

Finally may I thank all our employees and management team for their hard work and also thank our shareholders for their continued support.

T Sean Harvey
Chairman
27 March 2014

Management Discussion and Analysis
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Corporate and Operational Highlights – 2013

- On 17 January 2013 the Company completed the placement of 270 million new ordinary shares raising gross proceeds of GB£16.2 million to finance the development of the Palito Mine project as outlined in the preliminary economic assessment. The placement of new shares was underwritten by Fratelli Investments Limited ("Fratelli"), one of the Company's major shareholders.
- Mine development at Palito commenced in the second quarter of 2013 and by the end of 2013 the Company had established a total uncrushed ore stockpile of approximately 25,000 tonnes averaging over 8.0 grammes per tonne gold ("g/t") and 0.35% copper.
- Commissioning of the process plant at Palito commenced at the end of 2013, in accordance with the Company's plan, and gold production started in the first quarter of 2014.
- Contract signed for the refining and purchase of the copper/gold concentrate that will be produced at Palito.
- On 18 July 2013, the Company completed the acquisition of Kenai Resources Ltd ("Kenai") including the Sao Chico gold project:
  - A high grade gold deposit, located approximately 25 kilometres from Serabi's Palito Gold Mine.
  - Hosts a NI 43-101 compliant combined Measured and Indicated Mineral Resource of 25,275 ounces of gold at 29.77g/t and an Inferred Mineral Resource of 71,385 ounces gold at 26.03g/t.
  - Expected to be the first satellite gold resource to supplement Palito Mine gold production, with high grade material.
- Completion of a successful exploration drilling programme at Sao Chico:
  - High–grade gold intersections (ten intercepts have been recorded in excess of 100g/t) confirm a consistent high grade zone within the Main Vein, as well as potential extensions or additional veins to the South, East and West.
  - Strike length of Main Vein has now more than doubled from 150 metres to over 350 metres (see press release of 9 September 2013).
  - Potential for further significant strike and depth extension remains, particularly to the West.
- On 3 March 2014 the Company completed the placement of 200 million new ordinary shares and 100 million share purchase warrants raising gross proceeds of GB£10.0 million to finance the next stage of the evaluation and development of the Sao Chico gold project, to provide working capital for the on-going start-up of the Palito gold mine and for general working capital.
- Mr Nicolas Banados, Managing Director, Equities for Megeve Investments Limited, joined the Board as a Non-Executive Director, on 13 May 2013, and is a representative of Fratelli Investments Limited, the Company's largest shareholder.
- Mr Dan Kunz, the former Chairman of Kenai, was appointed to the Board, as a Non-Executive Director, on 26 July 2013.

History

The Company currently holds, either granted or under application, approximately 99,000 hectares of Exploration Licences all located within the Tapajos Gold Mining Region, 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 the Pizon projects. The JDO Project incorporates the Palito Mine and the Sao Chico gold project. 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 was based on the existing resources and considered a selective mining methodology focused on maximising grade with gold production levels around 24,000 ounces per annum. On 17 January 2013 a placement of new shares, raising gross proceeds of GB£16.2 million, was completed to finance the development of the project in line with the plans and scope outlined in the PEA. Currently the mine and plant are in a ramp-up and commissioning phase.

Sao Chico, acquired by the Company in July 2013 as part of the acquisition of Kenai, is represented by a single exploration licence area (AP 12836). Sao Chico is a small but very high grade gold deposit some 25km from the Palito project. The Sao Chico exploration licence was in force until 14 March 2014 and the Company has, prior to its expiry, commenced the process of converting the concession to a full mining licence. A trial mining licence has also been issued for the property expiring 22 April 2014, and the Company is also in the process of extending this licence for a further 12 month period.

In addition to the JDO Project the Company has two other project areas, although activity on both of these projects has been limited in recent periods.

The Sucuba Project is located in the state of Para, and 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 during the past 12 months, and has currently not budgeted for any exploration activity during 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 approximately 41,000 hectares, and is comprised of one mining licence granted on 23 October 2007 covering an area of 1,150 hectares, three exploration licences and five applications for exploration licences covering the remaining area. 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-east by road of the municipal capital, and similarly named city, of Itaituba.

The Palito Mine

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, 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 6.76g/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 were produced up to June 2010.

In December 2010 the Company released a technical report prepared by its consultants, NCL Brasil Ltda ("NCL"), (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 1.0g/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 in 2008, the Company kept intact as much of the infrastructure as possible. This included a process plant comprising flotation and carbon-in-pulp ("CIP") gold recovery circuits which had historically been treating up to 600t/day (200,000t/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 100km 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 12,000 metre discovery and follow-up diamond drilling programme into advanced targets. The exploration objective was 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 and immediately to the south east of Palito, yielded encouraging assay results. Management are sufficiently encouraged by these results to consider that Piaui, Currutela 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 Preliminary Economic Assessment ("PEA") in compliance with Canadian Securities Administrators National Instrument 43-101 ("NI 43-101") 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 believed that the PEA results supported a small scale, high grade operation using selective mining techniques. On 17 January 2013 a placement of new shares raising gross proceeds of GB£16.2 million was completed to finance the development of the project in line with the plans and scope outlined in the PEA.

Palito Mine ore stockpile

25,000 tonnes at over 8.0g/t

Palito plant throughputs (projected)

7,500tpm

Management Discussion and Analysis Operational Review continued

In October 2012, work began to remediate and develop the existing underground mine and renovate the process plant, with a view to commencing gold production by the end of the fourth quarter of 2013. Initial commissioning of the gold process plant commenced on 13 December 2013 and during the first quarter of 2014 the operation has continued in a planned ramp-up phase. The Company is targeting long-term plant throughput rates of 7,500 tonnes per month and expects to be achieving these levels for the start of the second quarter of 2014.

Sao Chico Gold Project
Also within the JDO Project area is the exploration licence area (AP 12836) of Sao Chico. Sao Chico is a historic garimpo mining operation but exploration over the area has been limited. The most significant recent exploration was a 22 hole programme extending to about 3,300 metres of diamond drilling conducted by Kenai during 2011. Following this drilling programme, Kenai commissioned Exploration Alliance Limited to produce a NI 43-101 compliant technical report including a mineral resource statement.

The report issued on 15 October 2012 estimated a NI 43-101 compliant Measured and Indicated mineral resource of 25,275 ounces of gold and Inferred mineral resources of 71,385 ounces of gold. Since the acquisition of the property by Serabi, the Company has undertaken an infill and step out diamond drilling programme totalling 4,950 metres to enhance the existing resource in terms of both resource confidence and size. The drill programme was supplemented by ground geophysics, and a further 1,120 metre diamond drilling to test initial geophysical anomalies. The results from the ground geophysics have established other potential areas of interest within the Sao Chico exploration licence but the Company will undertake other confirmatory exploration work, including geochemistry, over the identified anomalies before embarking on any further drilling activity. The current Sao Chico gold resource which has grades in excess of 26g/t considers only three vein structures with a further ten more veins identified.

Mineral Resources	Tonnage	Gold (g/t Au)	Contained Gold (Ounces)
Measured	5,064	32.46	5,269
Indicated	21,423	29.14	20,006
Measured and Indicated	26,487	29.77	25,275
Inferred	85,577	26.03	71,385

- The effective date of the Mineral Resource is 30 May 2012.
- No cut-off grades have been applied to the block model in deriving the Mineral Resource reported above given insufficient drilling data.
- The Mineral Resource Estimate for the Sao Chico Gold Project was constrained within lithological and grade based solids. No optimisation studies have been applied to this high-grade, steeply dipping mineralisation.

Results of Operations

Exploration and technical programmes executed during the twelve month period ended 31 December 2013
The Company's results of operations for the twelve month period ended 31 December 2013 were comprised of the activities related to the results of operations of the Company's 100% owned subsidiary Serabi Mineração S.A. and since 18 July 2013 the results of operations of the Company's 100% owned subsidiaries Gold Aura do Brasil Mineração Limitada and Kenai Resources Ltd.

Palito Property Highlights:

- Mine dewatering completed in January 2013.
- New mine management team and contract mining personnel on site in the first quarter of 2013.
- New mining fleet arrived at site and has been operational since July 2013.
- A mine maintenance contract with a 3rd party contractor established Q2 2013.
- Ore stockpiles were established on surface which at 31 December 2013 totalled approximately 25,000 tonnes at over 8.00g/t gold.
- The main ramp was deepened to the next main production level at 84 metres (relative level) with 407 metres of ramp completed and work is on-going to access the next main production level at the 54 metre level. This is planned for completion at the end of April 2014.
- Two cross cuts to access Palito West at the 163 metre and the 126 metre levels were completed with 545 metres of 4m x 4m development. A third cross cut on the 91 metre level is now being driven.
- Stoping of remnant ore blocks during the period ended 31 December 2013 totalled 10,015 tonnes @ 9.55g/t gold and 0.28% copper.
- Ore development during the period ended 31 December 2013 totalled 1,809 metres generating 14,658 tonnes of ore grading 7.26g/t gold.
- Main ventilation return to surface completed and equipped as a secondary egress during the third quarter of 2013.
- Remediation and reassembly of the process plant comprising the primary crushing circuit, milling and flotation sections was completed before the end of December 2013 and plant commissioning started on 13 December 2013.
- The process circuit has been enhanced with the introduction of a gravity concentration section which was also commissioned before the end of December 2013.

Left – High grade chalcopyrite vein over a width of 1.2 metres

Left – Drill rig preparing a development heading for blasting

Sao Chico gold grades

more than
25.0g/t

Sao Chico strike length

at least
350m

Management Discussion and Analysis Operational Review continued

- Gold production started in January 2014 and the first shipments of gold/copper concentrate are en-route for delivery to the Company's appointed refinery. First instalment payments for gold and copper sales were received during March 2014.

- A second ball mill was purchased in February 2014 and is forecast to be operational by Q3 2014.

Sao Chico Property Highlights:

- A diamond drilling programme at Sao Chico commenced late May 2013, and was completed in late October with 6,070 metres having been drilled. The drilling was complemented by a 50 line kilometre ground geophysical Induced Polarisation survey ("IP") over a good proportion of the exploration licence area. Out of the 6,070 total metres drilled, 4,950 metres was infill and step out drilling into the Main Vein geological resource with a further 1,120 metres over the nearby Highway Vein and geophysical anomalous zones identified from the IP survey.

- High–grade gold intersections (ten intercepts have been recorded in excess of 100g/t) confirm a consistent high grade zone within the Main Vein as well as potential extensions or additional veins to the South, East and West.

- The strike length of Main Vein has now more than doubled from 150 metres to over 350 metres and remains open.

- The structures are open and therefore there remains potential for further significant strike and depth extension, particularly to the West.

- Trial mining licence "GUIA" in place.

Palito Activity

Activity at the Palito Mine, which commenced in the fourth quarter of 2012, continued during 2013 as planned. The mine de-watering programme that started in 2012 was completed in January 2013 and was closely followed by the new mine management team arriving at site. The first contract mining crews also started work during the first quarter of 2013 concurrent with some initial mining fleet that the Company had sourced locally.

Orders were placed for additional underground mining fleet during the first quarter of 2013, namely surface loaders, trucks, underground loaders and drilling jumbos. All of these units arrived at site during June, August and September 2013 and have been operating at and above planned levels of production.

Within the mine itself, work has concentrated on development mining and the extension of the main ramp to access deeper levels in the mine. The ramp has now reached the next planned production depth at 84 metres (relative level) and new development drives are being established on this level to access the G1, G2 and G3 veins. Ramp development is ongoing and the Company is targeting to reach the 54 metre (relative level) early in the second quarter of 2014. The secondary egress and ventilation raise has now been completed in the Palito West sector.

During 2013 mining crews were open stoping numerous remnant ore blocks within the upper levels. These blocks are in areas that have been previously developed and have therefore been relatively easy to access. By the end of December, some 25,000 tonnes of ore had been stockpiled at surface with a grade averaging over 8.0g/t gold. This material, equivalent to some three to four months of plant process capacity, has provided the initial ore feed to the process plant and has helped ensure a smooth plant ramp-up during the first quarter of 2014. Stoping activity has also now commenced in the Pipoca section of Palito West area of the mine, with stoping ore starting to be produced during February 2014 from this sector.

The rehabilitation of the gold process plant commenced in June 2013 initially focusing on the primary crushing which was operational by the end of the third quarter of 2013. Work in the fourth quarter of 2013 focused on the remediation of the milling and flotation sections and the installation of gravity concentration circuit which is an enhancement of the gold recovery process compared with that deployed when Palito was previously operational. Commissioning of the plant started on 13 December 2013 and during the first quarter of 2014 the Company has been ramping up its production rates with the intention that it will be in a position to achieve its long term production rates of 7,500 tonnes per month from the start of the second quarter of 2014.

Left – Run of Mine stockpiles total 25,000 ounces at over 8.0g/t

Left – Primary crushing plant producing crushed ore for processing

Management Discussion and Analysis Operational Review continued

The Company is, during the first six months of 2014, commencing work on the remediation of the Carbon in Pulp ("CIP") circuit with the expectation that this can be operational by July 2014. At this time the process plant will have been fully remediated and the Company will be in a position to maximise gold recoveries. Tailings generated prior to the completion of the CIP plant from the flotation and gravity circuits are being stockpiled and the Company intends to reprocess these tailings through the CIP plant at a future date in order to maximise overall gold recovery from material currently being processed.
In addition to the CIP circuit remediation, the Company has also purchased a second ball mill which will be remediated and operational during Q3 2014.

Whilst the Company has benefitted from pre-existing facilities and infrastructure at Palito in achieving the re-start of Palito within the planned time-frame and within budget, it has and will continue to make enhancements to the site. A new accommodation facility was built during the second quarter of 2013, meaning the camp has new or overhauled accommodation for up to 140 personnel. Further work on upgrading camp and other site facilities is on-going.

Sao Chico Activity
Kenai had completed a 22 hole diamond drilling programme in 2011, totalling 3,268 metres. In late May 2013 a second drilling campaign commenced, which was completed in October 2013, for a total of 6,070 metres over 38 drill holes. The programme initially targeted the geological resource defined from the 2011 drilling upon the high grade Main Vein. Twenty one (21) infill and step out holes totalling 4,950 metres were completed. This exploration programme has been supplemented by a ground geophysics Induced Polarisation ("IP") survey which commenced early in August 2013 and was completed in September 2013. Results from a further 5 shallow holes totalling approximately 500 metres that targeted the Highway Vein were also very encouraging and reinforced managements view of the potential for increased resource potential at Sao Chico.

Results from the 21 holes drilled into the Main Vein during the 2013 programme have returned a series of high grade gold intersections including ten intercepts in excess of 100g/t gold. The drilling intercepted a continuous zone of alteration and quartz sulphide veins beneath and along strike from the previous resource drilling campaign. Drilling at the Highway Vein resulted in four holes out of the five producing near surface intersections (less than 85 metres down the hole) in excess of 25g/t.

To date management consider that the original 150 metre strike length of the current mineral resource has been more than doubled to at least 350 metres and are optimistic that, as additional exploration drilling further to the East and West also intersected zones of high grade mineralisation, this strike length could, with further infill drilling, become substantially larger.

The Main Vein reports strong lead and zinc assays which assist in the interpretation of the mineralised zone. Where lower gold grades are returned from the Main Vein zone, the supporting base metal analyses confirm and support the continuity of the structure and the interpretation.

The IP survey was conducted over 50 line kilometres during August 2013 and September 2013. The results have established other potential areas of interest within the Sao Chico exploration licence and whilst the Company undertook some limited scout drilling over some of these, within the overall campaign described above, it will undertake additional confirmatory exploration work, including geochemistry, over the identified anomalies before embarking on any further drilling activity.

Overall these exploration results continue to show the excellent potential of Sao Chico. The drilling results received to date also confirm the possibility of the high grade ore zones extending at depth. The exploration work has significantly enhanced the Company's understanding of the deposit and provides vital information to support the submissions that are being made to the authorities for the conversion of the trial mining licence to a full mining licence.

Outlook
The production start-up during the first quarter of 2014 has progressed well and the Company has been meeting its planned monthly throughput rates and remains confident that it will achieve a rate of 7,500 tonnes per month starting from April 2014. As with any new start up there is a period during which the plant operations are optimised and operational bottlenecks identified and resolved. Optimisation work within the gravity concentration circuit is ongoing and in the meantime, to maximise short term revenue generation, the Company is currently focused on maximising the efficiency of the flotation section of the process plant. The "free" gold that the gravity circuit is targeting, is also recoverable through the CIP circuit. Management expects that overall gold recoveries will reach long term target rates once the CIP circuit is operational.

The Departamento Nacional de Produção Mineral ("DNPM") have already issued a trial mining licence ("GUIA") at Sao Chico, and the application for the renewal of this was submitted in February 2014. It is expected that this will be renewed in April 2014. Development commenced during the first quarter of 2014, being the earthworks to establish a 'box-cut' where the fresh stable bedrock will be exposed and a mine portal established. With the portal established in fresh rock, the Company will continue to develop the ramp to a vertical depth of some 60 metres. At the 30 and 60 vertical metre intervals on-lode development drives will be mined for about 500 metres (1,000 metres in total) along the Main Vein. This work will allow the Company to better evaluate the continuity and payability of the mineralisation. The Company will also undertake underground drilling from within these development drives to identify parallel structures and will supplement this with additional surface drilling. The Company plans to complete this next evaluation stage by the end of 2014 at which time it expects to generate an updated mineral resource, from which a robust mine plan can be developed. It is planned that any ore derived from development mining during 2014 will be transported to the Palito plant for processing but until the results from this next stage of evaluation are completed no firm decision will be taken on the timing of the start-up of commercial mining operations at Sao Chico. Whilst the Company will be purchasing some dedicated mining equipment for this initial development and installing some mine services and infrastructure in the process, any long term commercial production plan will require, amongst other things, additional capital expenditure on mining fleet and surface infrastructure and services.

No other exploration work is planned for 2014 and the Directors expect that future exploration activity at Palito and Sao Chico, and in particular the development of the Palito South, Currutela and Piaui discoveries made in 2011, will be financed from the cash flow from gold production and may therefore not be undertaken until such time as sufficient and sustainable levels of cash flow are achieved.

The Sao Chico exploration licence was in force until 14 March 2014. In February 2014, the Company submitted to the DNPM a Final Exploration Report ("FER") as the first stage in the process of converting the exploration licence into a Mining Licence. Once the DNPM has approved the FER the Company will submit the Plano de Approveimento Economico ("PAE"). The Company anticipates the approval of both documents will take much of 2014.

However, the DNPM have already issued a GUIA for Sao Chico and management consider that, at the very least, the granting of the GUIA illustrates the DNPM's willingness to see the project developed. With the renewal submission made and the expected renewal in April 2014, the development and evaluation programme for 2014 can continue under the GUIA allowing project development to progress whilst the full mining licence is secured. To obtain the full mining licence, essentially three key documents need to be generated, submitted and approved, the FER and the PAE, both of which go to the DNPM and an Environmental Impact Assessment which is submitted for the approval of the environmental agency for the State of Para ("SEMA"). All three documents need to be approved before an installation licence, and final mining operating licence can be issued. To date, discussions with the DNPM suggest that as the FER and PAE will demonstrate that all processing of Sao Chico ore is to be undertaken at Palito, where a fully permitted process facility is already in place, the application for a mining licence at Sao Chico can be processed relatively quickly.

Mike Hodgson
Chief Executive
27 March 2014

Management Discussion and Analysis Financial Review

Results of Operations

Three month period ended 31 December 2013 compared to the three month period ended 31 December 2012

The loss from operations increased by US$1,090,867 from US$1,349,489 for the 3 months ended 31 December 2012 to US$2,440,356 for the 3 month period ended 31 December 2013. The majority of this increase reflects the decision to write-off past exploration expenditure on the Pizon project amounting to US$1,007,000 which compared with the value of past exploration costs written off in the three month period to 31 December 2012 of US$268,000.

Administration costs have shown an overall increase from US$679,272 for the 3 month period ended 31 December 2012 to US$872,677 for the 3 month period to 31 December 2013. This increase is primarily due to costs (notably salary and termination expenses) relating to Kenai Resources Ltd of US$105,000. The Company's level of administrative staffing has also increased compared with the same period in 2012 reflecting the increased level of support activity relating to the commencement of production operations at Palito. These personnel are involved in the accounting, information technology and personnel departments.

The tax charge of US$213,000 (including fines & penalties) is in respect of ICMS (a sales related tax) incurred during the final quarter of 2013 and related to the period 2004-2010. The company was only made aware during 2013 that in preceding calendar years it had incorrectly set-off certain taxes that were repayable to the Company against other taxes that it owed and therefore no corresponding charge was incurred during the same period in 2012. The Company will settle this liability over the period to June 2018.

The increase in depreciation charges of US$103,000 between the two periods reflects the Company having purchased new plant and equipment during the year as it returned the Palito Mine to production. New underground mining fleet was delivered during the third quarter of 2013 and is being depreciated in accordance with normal practice. The depreciation charges for this particular equipment which amounted to US$39,000 for the three months to 31 December 2013 are being capitalised as a pre-production cost whist the mine remains in a ramp-up phase. All other deprecation charges are being expensed.

Deferred exploration expenditure totalling US$1,007,000 was written off during the 3 month period ended 31 December 2013 in comparison to US$268,000 written off during the same period in 2012. This exploration expenditure relates to work carried out on the Pizon project located in the Amazonas state and was carried out before 2008. The board has determined that the project is no longer a priority for the Group and no further work is planned in the immediate future.

Share based payments increased from US$33,000 for the three month period ended 31 December 2012 to US$161,226 for the three month period ended 31 December 2013. The deemed value assigned to these share options is amortised over the expected option life and is calculated using the Black Scholes model. In the fourth quarter of 2013 it was noted that charges in earlier quarters for 2013 had been incorrectly calculated and an amount of US$85,000 has been included during the fourth quarter of 2013 to correct this error. The charge for the three months to 31 December 2013 is in respect of options granted between January 2011 and 31 December 2013.

The Company recorded a foreign exchange loss of US$37,000 in the 3 month period to 31 December 2013 which compares with a foreign exchange loss of US$41,000 recorded for the 3 months ended 31 December 2012. These foreign exchange losses primarily incurred in respect of the cash holdings of the Company in currencies other than US Dollars as at the period end and do not necessarily reflect actual realised profits or losses. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies.

Net interest charges for the 3 month period to 31 December 2013 were US$258,888 compared with US$498,289 for the corresponding period 3 month period to 31 December 2012. An analysis of the composition of these charges is set out in the table below:

	2013 US$	2012 US$
Interest on short term loan	–	80,745
Interest expense on convertible loan stock	**18,083**	14,131
Fee for provision of short term loan	**225,000**	180,000
Asset finance charges	**16,606**	–
Unwinding of discount factor on rehabilitation provision	–	170,913
Other interest and finance expenses	–	52,542
	259,689	498,331
Interest income	**(801)**	(42)
	258,888	498,289

Asset finance charges relate to the acquisition of new mining equipment under supplier credit terms. The first instalment was settled in June 2013 when the first item was received in Brazil.

The fee of US$225,000 for the year ended 31 December 2013 relates to the US$7.5 million loan facility provided by Fratelli Investments Limited ("Fratelli") on 20 December 2013 of which US$2.5 million was drawn down before the year end.

Twelve month period ended 31 December 2013 compared to the twelve month period ended 31 December 2012

The loss from operations has increased by US$1,467,000 from a loss of US$4,260,000 for the twelve months ending 31 December 2012 to US$5,727,000 for the twelve month period to 31 December 2013.

During 2012 operating costs totalled US$478,000. These operating costs were comprised of an inventory write down of US$280,000 (2013: US$ nil), as well as maintenance costs of the process plant totalling US$198,000. In the six month period to 30 June 2012 all costs relating to the maintenance of the process plant were treated as an operating expense as they were incurred. Since the decision was taken by the Board at the end of June 2012 to proceed with the development of the Palito Mine, 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 comparable expense for maintenance costs of the process plant reported in the income statement for the twelve month period to 31 December 2013.

General administration costs have increased by US$747,000, as per the table below, reflecting the increased levels of activity during the twelve month period ended 31 December 2013 compared with the corresponding twelve month period ended 31 December 2012.

	Note	**2013 US$**	2012 US$	Variance US$
Administration expenses	i	**2,663,490**	2,276,309	387,181
Labour claims	ii	**–**	236,963	(236,963)
Kenai acquisition costs	iii	**270,000**	–	270,000
Management performance bonus	iv	**326,512**	–	326,512
		3,260,002	2,513,272	746,730

i. Administration expenses have increased by US$387,181 from 2012 in comparison to 2013. The major contributor to this increase was administration costs totalling US$271,000 (notably salary, re-organisation and termination expenses) relating to the acquisition of Kenai Resources Ltd that was completed in July 2013.
ii. The expense for the twelve months to 31 December 2012 included a charge in respect of labour claims amounting to US$237,000 whilst during the twelve month period to 31 December 2013 the comparable cost reported in the income and expenditure account was US$ nil.
iii. Legal costs of US$270,000 were incurred during 2013 relating to acquisition expenses and re-organisation costs in connection with the acquisition of Kenai Resources Ltd.
iv. The Company made bonus payments to senior employees during 2013, totalling US$326,000. There was no corresponding charge in the previous year.

The provision for indirect taxes of US$626,496 incurred during 2013 relates to tax charges, penalties and fines relating to the period 2004-2010. The Company was only made aware during 2013 that over these preceding calendar years it had incorrectly set-off certain taxes that were repayable to the Company against other taxes that it owed. The Company did not have a corresponding charge during the same period in 2012. The liability is being settled in instalments up to June 2018.

Share based payments increased by US$175,882, from US$128,882 for the year ended 31 December 2012 to US$304,764 during the twelve month period ended 31 December 2013. The deemed value assigned to share options is amortised over the expected option life and is calculated using the Black Scholes model. The charge for the year months to 31 December 2013 is in respect of options granted between January 2011 and 31 December 2013 and the increase reflects the award of options made in January 2013, which was relatively higher than awards made in prior calendar years.

Deferred exploration expenditure totalling US$1,007,000 was written off during the 12 months ended 31 December in comparison to US$268,000 written off during the same period in 2012. The charge for the calendar year ended 31 December 2102 relates to the Pizon project which the board has determined is no longer a priority for the Group and no further work is planned in the immediate future.

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Depreciation charges decreased by US$357,000 from US$891,000 for the twelve month period ended 31 December 2012 to US$534,000 for the 12 month period ended 31 December 2013. The reduction in depreciation charges between the two periods reflects many of the Company's assets reaching the end of their original forecasted lives for amortisation purposes and have therefore now been fully amortised. The new underground mining fleet delivered during the third quarter of 2013, is being depreciated but in accordance with normal practice, the depreciation charges which amounted to US$126,000 for the year to 31 December 2013 were capitalised as a pre-production cost whist the mine is still in development and commercial production has not been declared. Depreciation charges recorded in the income and expenditure account will increase once the company has declared commercial production.

The Company recorded a foreign exchange loss of US$170,000 in the twelve month period to 31 December 2013 which compares with a foreign exchange gain of US$73,000 recorded for the twelve months ended 31 December 2012. The loss for the twelve months to 31 December 2013 primarily comprises losses on cash holdings denominated in UK Pounds Sterling and Euros. The Company holds funds in certain currencies in anticipation of future expenditures that are anticipated to be settled in those currencies. These currency holdings were acquired early in the twelve month period, which saw a period of strengthening of the US Dollar against most major currencies resulting in these book exchange losses over the twelve month period.

Net interest charges for the twelve month period to 31 December 2013 were US$366,967 compared with US$549,593 for the corresponding twelve month period to 31 December 2012. An analysis of the composition of these charges is set out in the table below:

	2013 US$	2012 US$
Interest on short term loan	**26,630**	80,745
Interest expense on convertible loan stock	**67,951**	56,304
Fee for provision of short term loan	**225,000**	180,000
Asset finance charges	**55,320**	–
Unwinding of discount factor on rehabilitation provision	**–**	170,914
Other interest and finance expenses	**(359)**	67,872
	374,542	555,835
Interest income	**(7,575)**	(6,171)
	366,967	549,593

Interest charges on the short term loan relate to a US$6.0 million facility provided by Fratelli Investments Limited ("Fratelli") which was 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 GB£16.2 million placement of new ordinary shares that was completed on 17 January 2013.

The fee of US$225,000 for the year ended 31 December 2013 relates to the US$7.5 million loan provided by Fratelli on 20 December 2013 of which US$2.5 million was drawn down before the year end.

Asset finance charges relate to the acquisition of new mining equipment under supplier credit terms. The first instalment was settled in June 2013 when the first item was received in Brazil. The lease terms are for a three year period and bear interest at the rate of 6.45% per annum.

Summary of quarterly results

	Quarter ended 31 December 2013 US$	Quarter ended 30 September 2013 US$	Quarter ended 30 June 2013 US$	Quarter ended 31 March 2013 US$
Revenues	–	–	–	–
Operating expenses	–	–	–	–
Gross loss	–	–	–	–
Administration expenses	(872,677)	(816,887)	(655,607)	(908,753)
Provision for indirect taxes	(213,220)	(263,250)	(150,026)	–
Option costs	(161,226)	(47,846)	(47,846)	(47,846)
Write-off of past exploration expenditures	(1,007,233)	–	–	–
Depreciation of plant and equipment	(186,000)	(127,850)	(112,974)	(107,667)
Operating loss	(2,440,356)	(1,255,833)	(966,453)	(1,064,266)
Exchange	(36,618)	98,078	23,400	(255,218)
Net finance costs	(268,589)	(44,174)	(14,462)	(39,742)
Loss before taxation	(2,745,563)	(1,201,929)	(957,515)	(1,359,226)
Loss per ordinary share (basic and diluted)	(0.01) cents	(0.27) cents	(0.27) cents	(0.43) cents
Deferred exploration costs	24,659,003	25,950,041	16,375,076	17,696,480
Property, plant and equipment	36,008,318	36,603,692	30,228,704	29,187,365
Total current assets	9,020,774	10,134,384	17,758,039	21,881,077
Total assets	69,688,095	72,688,117	64,361,819	68,764,922
Total liabilities	9,653,388	7,504,716	5,432,817	4,857,524
Shareholders' equity	60,034,707	65,183,401	58,929,002	63,907,398

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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)
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
Net 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
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

Liquidity and Capital Resources
On 20 December 2013, the Company entered into a secured loan agreement for a total facility of US$7.5 million with Fratelli Investments Limited ("Fratelli") and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 162.5 million units as part of a placement of up to 200 million units to raise up to GB£10 million. Under the Loan Agreement Fratelli agreed to provide up to US$7.5 million to be drawn down in three instalments commencing from the date of the agreement to provide working capital to the Company and the Group during the start-up phase of gold production at Palito and to finance the initial development at the Sao Chico gold project. The loan was to be repaid by the earlier of 30 April 2014 and the date falling seven days after the funds due from Fratelli under the conditional subscription were received 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 (i) 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 and (ii) the entire share capital of Kenai Resource Ltd a subsidiary of Serabi Gold plc and the 100% shareholder of Gold Aura do Brasil Mineração Ltda, which is the licence holder for the Sao Chico project. 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 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released. The Company drew down the first instalment of S$2.75 million on the date of the agreement and this money is included in the US$3.8 million cash holdings at the year end.

On 31 December 2013 the Company's net assets amounted to US$60.0 million which compares to US$39.3 million as reported at 31 December 2012, an increase of US$20.7 million. This reflects the share placing completed in January 2013 raising US$25.3 million and the acquisition of Kenai Resources Ltd for US$7.6 million. This increase in net assets has been reduced by the loss reported for the year of US$6.3 million and exchange variations of US$6.2 million.

Non-current assets totalling US$60.7 million at 31 December 2013 (31 December 2012: US$44.2 million), are comprised of property, plant and equipment, which as at 31 December 2013 totalled US$36 million (31 December 2012: US$26.8 million), and includes US$20.7 million (US$23.2 million of 31 December 2012) attributable to the Palito Mine Property and US$10.8 million (US$1.6 million at 31 December 2012) representing the current expenditure on Projects in Construction incurred on the rehabilitation programme. Deferred exploration costs as at 31 December 2013 totalled US$24.7 million (31 December 2012: US$17.4 million) of which US$14.9 million (31 December 2012: US$6.3 million) relates to past exploration expenditures around the Palito Mine and the wider Jardim Do Ouro project area and US$9.8 million (31 December 2012: US$ nil) relates to the past exploration costs relating to the Sao Chico gold project. During the 2013 financial year the Company wrote-off past expenditure relating to the Pizon gold project amounting to US$1.07 million.

The Company has, during the twelve month period ended 31 December 2013, incurred costs of US$2.4 million for development and exploration expenditures on its mineral properties of which US$2.04 million has been spent on the Sao Chico property since the time of acquisition of that project. A further US$470,000 was spent at Sao Chico during the period April to June 2013 which was also funded by Serabi through loans made to Kenai, the previous owners of the property. US$11.5 million was spent on the rehabilitation and development of the Palito Mine and a further US$720,000 for payment of obligations under finance leases.

The current asset component has increased by some US$5 million, from US$3,993,000 at 31 December 2012 to US$9,020,000 at 31 December 2013 primarily reflecting the increase in cash balances of US$1.2 million to US$3,789,000 (31 December 2012: US$2,281,000), as well as an increase in inventories of US$3.2million to US$3.9 million (31 December 2012: US$722,000).

The expenditures on Projects in Construction of US$10.8 million comprises salaries and consumable items in particular consumables for mining activities including fuel and power, relating to the rehabilitation of the Palito Mine and the site infrastructure. This work includes costs relating to the mine dewatering completed in the first quarter of 2013, the deepening of the ramp and the implementation of ventilation systems and a secondary egress. It also includes the cost of the rehabilitation (including labour and contractor costs) of various items of the gold process plant including the remediation of the crushing, milling and flotation sections of the plant.

The Company had a working capital position of US$2,092,000 at 31 December 2013 compared to US$(2,760,000) at 31 December 2012 as per the table below:

	Note	**2013 US$**	2012 US$	Variance US$
Current assets				
Cash at bank and in hand		**3,789,263**	2,582,046	1,207,217
Inventories	i	**3,890,880**	722,868	3,168,012
Prepayments	ii	**1,264,654**	603,005	661,649
Trade and other receivables	iii	**75,977**	85,509	(9,532)
Total current assets		**9,020,774**	3,993,428	5,027,346
Total current liabilities				
Trade and other payables	iv	**2,871,546**	2,001,683	869,863
Interest bearing liabilities	v	**3,790,363**	4,580,745	(790,382)
Accruals		**266,924**	171,102	95,822
Total current liabilities		**6,928,833**	6,753,530	175,303
Working capital		**2,091,941**	(2,760,102)	4,852,043
Non-current liabilities				
Interest bearing liabilities	v	**833,560**	364,656	468,904
Provisions	vi	**1,480,665**	1,612,098	(131,433)
Trade and other payables		**410,330**	211,939	198,391
Total non-current liabilities		**2,724,555**	2,188,693	535,862

The working capital position at 31 December 2012 was inclusive of a US$4.5 million short term loan received from a major shareholder which was repaid in January 2013, following the successful completion of a share placement on 17 January 2013 raising gross proceeds of GB£16.2 million. At 31 December 2013 the Company had outstanding a US$2.75 million short term shareholder loan. This decrease in the loan of US$1.75 million and an inventory of run of mine ore stockpiled on surface, valued at US$3.0 million, are the principle reasons for the significant improvement in the working capital position of the Company.

(i) The levels of inventories have increased by US$3,168,000 compared with 31 December 2012. Inventories of consumables have increased by US$169,101 from US$722,868 at 31 December 2012 to US$891,969 at 31 December 2013 reflecting the increase in activity at the Palito Mine. The major increase in inventories is however the US$3.0 million valuation of the stockpiled ore that has been established on surface in preparation for processing. At 31 December 2013 this stockpile was approximately 25,000 tonnes of ore with a gold grade averaging in excess of 8.00g/t. The valuation has been calculated using the mining costs incurred during 2013 that are directly attributable to the establishment of this ore stockpile.

(ii) The level of prepayments has increased by US$661,649 from US$603,005 at 31 December 2012 to US$1,264,654 at 31 December 2013. The prepayments represent:

a. Prepaid taxes in Brazil amounting to US$1,096,000, 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 amount recoverable has increased by approximately US$400,000 in comparison to the prior year due to an increase in the amount of social taxes the Company has prepaid at 31 December 2013.
b. Supplier down-payments reflecting the level of development and construction activity currently being undertaken for the opening of the Palito Mine the Company has made advances to suppliers in respect of goods purchased or items being fabricated of US$228,000 (31 December 2012: US$12,000).

(iii) Receivables of US$76,000 as at 31 December 2013 have decreased slightly compared to the balance of US$86,000 at 31 December 2012. The balance mainly represents deposits paid by the Company.

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(iv) Reflecting the increased level of activity and therefore purchases, the level of creditors have increased by US$869,863 as orders for equipment, contractor services and consumables are placed. The major items contributing to this increase in accounts payable are:

a. An increase of approximately US$572,000 on trade creditors due to the increase in activity and operating equipment being utilised for mine development;
b. Sales tax liabilities decreased by US$130,000 from US$589,000 to US$459,000 year on year;
c. An increase in the standard wage accrual and social welfare accrual in comparison to the year ended 31 December 2012 of approximately US$271,000. The increase is due to the increased staffing levels compared to the year ended 31 December 2012;
d. Other provisions comprise land and leasehold payments of less than one year, which are roughly in line year on year (2013: US$232,000, 2012: US$ 224,000) and an accrual for the thirteenth salary in Brazil which has increased from US$95,000 in 2012 to US$243,000 in 2013. This thirteenth salary liability arises because in Brazil, employee's salaries are paid over thirteen periods instead of twelve with two payments being made for the month of December. This has increased year on year due to the increase in staffing levels.

(v) Interest bearing liabilities due within one year decreased by US$790,000. At 31 December 2012 the Company owed US$4,580,745 for a shareholder loan which was repaid in January 2013. At 31 December 2013, the Company had received a new shareholder loan of US$2.75 million, which was repaid during March 2014. The Company has also acquired certain assets during the year under finance leases. At 31 December 2013 the Company had liabilities under these financial leases of US$600,000 due before 31 December 2014 and a further US$834,000 due after that date. The leases are for three years and carry interest at a rate of 6.45% per annum. Also included is US$440,000 including accrued interest (December 2012: US$365,000) attributable to the £300,000 loan from a related party, which has a repayment date of 31 October 2014 subject to the right of the holder at any time, on one or more occasions, on or before the repayment date, to convert any of the outstanding amounts owed by the Company to Ordinary Shares at a price of 15 pence per Ordinary Share.

(vi) Non-current liabilities include the amount of US$1,480,000 (December 2012: US$1,612,000) in respect of provisions including US$1,141,000 (December 2012: US$1,224,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity. The Company undertook a review of the underlying cost assumptions during the year which accounts for some of the variation in the value of the provision which also reflects the potential impact of the effects of inflation on these costs estimates and then discounts this future liability into money of today.

The Company does not have any asset backed commercial paper investments. As the Company has no revenue and has in recent years primarily 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 2013 the Company issued 270,000,000 Ordinary Shares for gross cash proceeds of GB£16.2 million. The placement was underwritten by one of the Company's major shareholders who received an underwriting fee of 8,135,035 Warrants in respect of the placement. Each Warrant entitles the holder to subscribe for one Ordinary Share at a price of GB£0.10 at any time until 16 January 2015.

The company issued a further 95,120,675 Ordinary Shares in consideration of the acquisition of Kenai Resources Ltd which was completed on 18 July 2013 by way of a Plan of Arrangement. The consideration for this acquisition has been valued at US$7.59 million and as part of the transaction the Company acquired cash of US$222,211.

The decision to re-commence mining operations at the Palito Mine was supported by a Preliminary Economic Assessment ("PEA") that was completed and published in June 2012. The Company completed a placement of new shares on 17 January 2013 that raised gross proceeds of GB£16.2 million. These funds have been used over the subsequent period to undertake the underground mine development required in advance of restarting the operation together with the purchase of equipment and the remediation of the process plant. On 3 March 2014, the Company completed a further placing of shares and more purchase warrants that raised gross proceeds of GB£10.0 million.

These funds are to be used to provide working capital to the business during the start up phase of the Palito operations and the next stage of development of the Sao Chico project. Commissioning of the process plant at Palito started on 13 December 2013 and the production rates have been increasing since that date. The final stage of the remediation process will be the rehabilitation of the Carbon-In-Pulpand electro-winning circuit which is planned for completion by July 2014.

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 2014

Directors and Senior Management

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 the Institute 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. Between 1999 and 2005 he worked as a divisional finance director within the Interpublic Group, one of the world's largest marketing services groups.

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

T Sean Harvey

Non-Executive Chairman

Sean spent 10 years working in investment and merchant banking, primarily focused on the basic industry (mining) sector and for the last 13 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.

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 40 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).

He is a Chartered Certified Accountant and received an MBA from Cranfield in the United Kingdom. Mel is also a director of Western Troy Capital Resources.

Douglas Jones

Non-Executive

Doug is a geologist with over 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 and the Toronto Stock Exchange 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.

Eduardo Rosselot

Non-Executive

Eduardo is a mining engineer with over 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. Eduardo is also a director of Haldeman Mining Company, a Chilean private copper and gold producer. 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.

Nicolas Bañados

Non-Executive

Nicolas is an attorney-in-fact of Fratelli Investments. He graduated from the Catholic University of Chile in 2000 and from 2001 until 2003 he was an investment analyst of the Research Department at Consorcio Vida Life Insurance Company. In 2003 Nicolas joined Fratelli Investments, and its non-discretionary fund manager, Megeve Investments, as Portfolio Manager. Between 2005 and 2007 he completed an MBA at The Wharton School, University of Pennsylvania, United States. Following completion of his MBA, Nicolas re-joined Fratelli Investments and Megeve Investments, as Vice President and subsequently appointed as Managing Director of Private Equity.

Daniel Kunz

Non-Executive

Daniel has more than 30 years of experience in the mining industry and has held various executive level positions in a number of mining companies, including Turquoise Hill Resources Ltd where he served as President, Chief Operating Officer and Director from 1997 to 2003 and led the team that discovered Oyu Tolgoi, one of the world's largest copper-gold deposits.

In 2003 Daniel founded a geothermal renewable energy company by acquiring the Raft River geothermal test site in his home state of Idaho. Mr Kunz led the subsequent IPO of US Geothermal Inc on the Toronto Stock Exchange and New York Stock Exchange in 2004 and then led U.S. Geothermal Inc in its development and construction of three new geothermal power plant projects, retiring as chief executive and a member of the board of directors in April 2013. In June 2013 he was appointed Executive Chairman of Zinco do Brasil Inc. a mine development company focused on bringing into production an advanced stage zinc project in Brazil. Daniel holds a Masters of Business Administration and a Bachelor of Science in Engineering.

Senior Management in Brazil

Ulisses Melo,

General Manager

Ulisses, who was previously the Chief Financial Officer of Serabi Mineraçâo Limitada in Brazil, took over the role of General Manager in April 2009. He has overall responsibility for the day-to-day affairs of Serabi in Brazil. Prior to joining Serabi he spent five years working with the international accounting firm Arthur Andersen and a further ten years working with Samarco Mineração, Companhia de Fomento Mineral and Rio Capim Caulim S/A as controller and finance director. Ulisses is a graduate in Economics and Business Administration from the University of PUC Minas Gerais and holds a MBA from the University of Fundação Dom Cabral.

Directors' Remuneration Report

For the year ended 31 December 2013

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.

The Remuneration Committee of the Board is responsible for ensuring that the Company has in place an appropriate plan for executive compensation and for making recommendations to the Board with respect to the compensation of the Company's executive officers. The Board ensures that total compensation paid to its executive officers is fair and reasonable and is consistent with the Company's compensation philosophy. The Remuneration Committee has expertise, in among other things, evaluating overall compensation policies, plans and practices, as well as setting compensation for executive officers; overseeing and administering equity compensation plans; and establishing employment, retention and severance arrangements for executive officers.

Compensation plays an important role in achieving short and long-term business objectives that ultimately drive business success. The Company's compensation philosophy is to foster entrepreneurship at all levels of the organisation by making long-term equity-based incentives, through the granting of stock options, a significant component of executive compensation. This approach is based on the assumption that the performance of the Company's share price over the long-term is an important indicator of long-term performance.

The Company's compensation philosophy and objectives are based on the following fundamental principles:

1. Compensation programs align with shareholder interests – the Company aligns the goals of executives with maximising long-term shareholder value;

2. Performance sensitive – compensation for executive officers should be linked to operating and market performance of the Company and fluctuate with the performance; and

3. Offer market competitive compensation to attract and retain talent – the compensation program should provide market competitive pay in terms of value and structure in order to retain existing employees who are performing according to their objectives and to attract new individuals of the highest calibre.

The Company's principal goal is to create value for its shareholders. The Company's compensation philosophy is based on the objectives of linking the interests of the executive officers with both the short and long-term interests of the Company, of linking executive compensation to the performance of the Company and the individual and of compensating executive officers at a level and in a manner that ensures the Company is capable of attracting, motivating and retaining individuals with exceptional executive skills. The executive compensation program is designed to encourage, compensate and reward employees on the basis of individual and corporate performance, both in the short and the long-term. Base salaries are aligned with and judged against corporations of a comparable size and stage of development within the mining industry, thereby enabling the Company to compete for and retain executives critical to the Company's long-term success.

Incentive compensation is directly tied to corporate performance. Share ownership opportunities are provided to align the interests of executive officers with the longer term interests of shareholders.

Elements of executive compensation

The elements of compensation earned by the executives of the Company for the financial year ended 31 December 2013 consists of a base salary, along with annual discretionary incentive compensation in the form of a performance based bonus, and a longer term incentive in the form of stock options.

This reflects a package consisting of a mix of compensation elements designed to provide executives with an "at risk" component of total compensation that reflects their ability to influence business outcomes and performance, and fixed elements that provide security and enable the Company to attract and retain key employees.

The following table outlines how each element of compensation aligns with the Company's compensation philosophy.

Element of compensation	Payment method	Reward objective
Base salary	Cash	Reward of skills, capabilities, knowledge and experience, reflecting the level of responsibility, as well as the expected level of contribution
Short-term incentive	Cash	Reflection of individual performance and the contribution to the Company's overall performance within the fiscal period under review
Long-term incentive	Stock options	Alignment of the interests of the executives and shareholders. Reward for contribution to the long-term performance of the Company and demonstrated potential for future contribution by being linked to fundamental measure of the generation of shareholder value

Short-term compensation

Base salary

The Remuneration Committee approves ranges for base salaries for senior management of the Company based on reviews of market data from peer companies in the global mineral exploration industry. The level of base salary for each employee within a specified range is determined by the level of past performance, as well as by the level of responsibility and the importance of the position to the Company. The Remuneration Committee undertakes its peer review using data gathered from publicly available information and compiles the peer group based on criteria such as market capitalisation, stage of development (currently companies already in small scale production or at a similar stage of development to the Company) and location of operations. The peer group for determining 2013 remuneration levels comprised Orosur Mining Inc, Herencia Resource plc, Mariana Resources Ltd, Minera IRL Limited, Brazilian Gold Corporation and Magellan Minerals Limited.

The Remuneration Committee's recommendations for such base salaries are then submitted for approval by the Board.

Annual bonus

Employees, including executives, are eligible for an annual discretionary incentive award but this is dependent on the financial position of the Company. Corporate performance, as assessed by the Board, determines the aggregate amount of bonus to be paid by the Company to all eligible senior officers in respect of a fiscal year. The aggregate amount of bonus to be paid will vary with the degree to which targeted corporate performance was achieved for the period. The short-term incentive component is structured to reward not only increased value for shareholders but also performance with respect to key operational factors and non-financial goals important to long-term success.

Individuals are, on an annual basis, set a range of areas in which their performance will be judged. As much as possible measurable criteria are established and each performance area is given a relative weighting. For 2013 performance targets have been set for the specific delivery of matters, inter alia, relating to the timing and cost control over the Palito Mine development, compliance with all aspects of regulatory control for the Company and its subsidiaries, development of growth opportunities for the Company and relative shareholder returns.

Other compensation

The Company does not provide retirement benefits for its executive directors. Contributions paid are defined contributions to the relevant executive directors' personal retirement schemes.

Directors' Remuneration Report
continued

Long-term compensation

Stock options

The Company has no long-term incentive plans other than its incentive stock option plan ("Options"). Options are granted to encourage share ownership and entrepreneurship on the part of directors, senior management and other employees. Options are intended to help the Company attract and motivate an energetic, goal-driven management team, and to build long-term employee loyalty and retention.

The Company believes that this long-term incentive vehicle aligns executives with shareholders by driving growth in the share price and increasing the long-term value of the Company. This is the high risk, high-return component of the executive total compensation program because stock options deliver value to an executive only if the share price is above the grant price.

Options are determined by the Board. In monitoring or adjusting the option allotments, the Board takes into account the level of options granted for similar levels of responsibility and considers each participant based on reports received from management, its own observations on individual performance (where possible) and its assessment of individual contribution to shareholder value, previous option grants and the objectives set for the participants. The scale of options is generally commensurate to the appropriate level of base compensation for each level of responsibility.

In addition to determining the number of options to be granted pursuant to the methodology outlined above, the Board also makes the following determinations:

- the participants who are eligible to participate in the Plan;
- the exercise price for each stock option granted, subject to the provision that the exercise price cannot be lower than the market price on the date of grant as determined in accordance with stock exchange policies;
- the date on which each option is granted;
- the vesting period, if any, for each stock option;
- the other material terms and conditions of each stock option grant; and
- any re-pricing or amendment to a stock option grant.

The Board makes these determinations subject to and in accordance with the provisions of the Company's incentive stock option plan. The Board reviews and approves grants of options throughout the year as deemed appropriate.

Compensation risk management

The Company believes that its executive compensation program does not create risk outside the Company's risk appetite. Some of the risk-management initiatives currently employed by the Company are as follows:

- Appointing a Remuneration Committee comprised of independent directors to oversee the executive compensation program;
- The use of deferred equity compensation to encourage a focus on long-term corporate performance as opposed to short-term results;
- Disclosure of executive compensation to stakeholders;
- Use of discretion in adjusting bonus payments up or down as the Remuneration Committee deems appropriate and recommends to the Board; and
- Ultimately complete Board accountability.

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. Some of 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 its 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 2013, had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Shares held at 31 December 2013	Shares held at 31 December 2012	**Share options held at 31 December 2013**	Share options held at 31 December 2012	Option price	Exercise period
Michael Hodgson	**441,320**	441,320	**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 20 May 14
			275,000	275,000	UK£0.10	21 May 12 to 20 May 15
			4,200,000	–	UK£0.061	26 Jan 13 to 25 Jan 16
Clive Line	**766,653**	466,653	**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 20 May 14
			225,000	225,000	UK£0.10	21 May 12 to 20 May 15
			3,700,000	–	UK£0.061	26 Jan 13 to 25 Jan 16
T Sean Harvey	**1,200,000**	200,000	**200,000**	200,000	C$0.60	31 May 11 to 20 May 14
			1,900,000	–	UK£0.061	26 Jan 13 to 25 Jan 16
Melvyn Williams	**295,000**	45,000	**200,000**	200,000	C$0.60	31 May 11 to 20 May 14
			950,000	–	UK£0.061	26 Jan 13 to 25 Jan 16
Dr Doug Jones	**100,000**	100,000	**200,000**	200,000	C$0.60	31 May 11 to 20 May 14
			950,000	–	UK£0.08133	26 Jan 13 to 25 Jan 16
Christopher Kingsman(1)	**n/a**	18,851,000	**–**	–	–	–
Eduardo Rosselot	**–**	–	**1,900,000**	–	UK£0.061	26 Jan 13 to 25 Jan 16
Nicolas Bañados(2)	**22,443,947**	–	**–**	–	–	–
Daniel Kunz(3)	**5,564,726**	–	**127,500**	–	C$0.2941	18 July 13 to 7 June 16

(1) In October 2009 Greenwood Investments Limited ("Greenwood") entered into a convertible loan agreement with the Company ("Convertible") under which Greenwood made available a facility of £300,000 to the Company. The full amount of the Convertible is convertible at the election of the holder 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 1%. 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. The loan was assigned by Anker Holding AG to Anker Investments AG on 31 January 2014.
Mr Kingsman resigned on 23 December 2013.

(2) Mr N Bañados was appointed 13 May 2013. Mr. Bañados has a direct interest in 144,282 Existing Ordinary Shares. Mr Bañados is the beneficial owner of 50%. of the share capital of Asesorias e Inversiones Asturias Limitada which beneficially owns: (1) directly 159,665 Existing Ordinary Shares; and (2) 25%. of the units in Fondo de Inversion Privado Santa Monica, a private financial investment fund, which is interested in 22,140,000 Existing Ordinary Shares.

(3) Mr D Kunz was appointed 26 July 2013.

Directors' Remuneration Report
continued

During the year ended 31 December 2013 the Company's shares have traded between 4.75 pence and 12.00 pence.

Remuneration

Director	Salary US$	Bonus US$	Pension US$	IFRS 2 charge for options granted US$	Other US$	**For the year to 31 December 2013 Total US$**	For the year to 31 December 2012 Total US$
Michael Hodgson	232,294	151,959	4,699	89,079	4,239	**482,270**	371,631
Clive Line	216,588	66,831	77,530	80,452	3,391	**444,792**	351,693
Nicolas Bañados(1)	–	–	–	–	–	**–**	–
T Sean Harvey	40,156	–	–	34,830	–	**74,986**	51,358
Dr Doug Jones	29,628	–	–	22,138	–	**51,766**	39,636
Christopher Kingsman(2)	–	–	–	–	–	**–**	–
Daniel Kunz(3)(5)	9,361	–	–	–	–	**9,361**	–
Eduardo Rosselot(4)	95,817	–	–	31,736	–	**127,553**	8,058
Melvyn Williams	34,156	–	–	18,962	–	**53,118**	43,928
Total	**658,000**	**218,790**	**82,229**	**277,197**	**7,630**	**1,243,846**	**866,304**

Included in remuneration for the year to 31 December 2012 are pension costs of US$105,000.

(1) Mr N Bañados was appointed 13 May 2013 and received no remuneration in the period.
(2) Mr Kingsman resigned on 23 December 2013 and received no remuneration in the period.
(3) Mr D Kunz was appointed 26 July 2013.
(4) Mr E Rosselot received fees as a consultant mining engineer of $75,000 during the year which is included as salary.
(5) The options issued to Mr D Kunz were replacement options for those he held in Kenai Resources Ltd. The fair value of this grant has been recognised by Kenai Resources Ltd in a prior year.

Strategic Report

For the year ended 31 December 2013

The Directors of the Company and its subsidiary undertakings (which together comprise the "Group") present their Strategic Report for the year ended 31 December 2013.

The Strategic Report is a new statutory requirement of the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 and is intended to ensure that shareholders have a balanced and comprehensive review of the development, performance and position of the Company's business that informs shareholders about how the Directors have complied with their duties to promote the success of the Company. The information set out in this report should be read in conjunction with the Chairman's Statement, and the Operational and Financial Reviews.

Review of the business

The Group is focused on bringing the Palito Mine into successful commercial gold production, the further evaluation and development of the Sao Chico gold project and the generation of further gold development and production opportunities in Brazil. A detailed review of the activities together with future development plans of the Group is provided in the Chairman's Statement and the Operational Review.

Organisation overview

The Group's business is directed by the Board and is managed on a day to day basis by the Chief Executive Officer and the Finance Director, based at the Company's offices in London, England. The corporate structure reflects the historical development of the Group together with the various project holdings of the Group, with relevant licences and permits held through locally domiciled subsidiaries. Where there is an appropriate requirement, for fiscal or other reasons, incorporated entities are also located in other territories. The Group's exploration, development and production activities in Brazil are undertaken through Serabi Mineração SA and Gold Aura do Brasil Mineração Ltda. The Board of Directors comprises the Chief Executive Officer, the Finance Director and six Non-Executive Directors.

Aims, strategy and business plan

The Group's aim is to create value for shareholders through the discovery, development and exploitation of economic mineral deposits.

The Group's strategy is to bring the Palito Mine into commercial production and to reinvest, in the short term, the cash flow generated to help develop and bring into production the Sao Chico gold project and develop other known or potential mineral deposits within the exploration licence areas that it controls in the Tapajos region of Brazil. It will also evaluate opportunities for acquisition, exploration and development, gold projects in other areas of Brazil which it considers are suited to the Company's skill-base and expertise.

The Group's business plan is to complete the commissioning and ramp-up of gold production at the Palito Mine during the first quarter of 2014, complete the remediation of the Carbon in Pulp gold recovery plant during the second quarter of 2014, allowing the Company to maximise gold recoveries and gold production during the second half of 2014. It will also progress the evaluation and development of the Sao Chico gold project with the establishment of a mine portal and then continue to ramp down to establish two on-lode development drives of about 500 metres each along the Main Vein. This work will allow the Company to better assess the continuity and payability of the mineralisation. The Company will also undertake underground drilling from within these development drives to identify parallel structures and will supplement this with additional surface drilling. The Company plans to complete this next evaluation stage by the end of 2014 at which time it expects that the additional geological information and understanding will allow the calculation of a new mineral resource and the establishment of a robust mine plan for Sao Chico.

The Group has financed most of its activities through periodic capital raisings with the placement of new shares. It has access to lease finance and trade credit facilities and as the projects continue to develop the Group expects there may be opportunities to obtain funding through a variety of other financial instruments including bank and project finance debt, royalties and the introduction of strategic partners.

Strategic Report
continued

Principal risks and uncertainties

As with any business there are many risks and uncertainties many of which are common to any business. The Company sets out in its quarterly Management Discussion and Analysis and its Annual Information Form a comprehensive list of the risks that the Directors consider are faced by the Company and the Group. Set out below are the principal risks and uncertainties that in the opinion of the Directors are facing the Group.

Exploration and mining risks

The exploration and mining business is controlled by a number of global factors, including global economics and financial and political uncertainty that can dictate supply and demand which in turn is a key driver in global metal prices; these factors are beyond the control of the Company. Exploration and mining is a high-risk business and there can be no guarantee that any mineralisation discovered will result in proven and probable reserves or go on to be an operating mine. At every stage of the exploration process the projects are rigorously reviewed, internally and by qualified third-party consultants to determine if the results justify the next stage of exploration expenditure ensuring that funds are only applied to high priority targets. Any operating mine can be subject to unforeseen technical and geological influences that could at any time cause production to be suspended for indeterminate periods. The principal assets of the Group, comprising the mining and mineral exploration licences are subject to certain obligations and expectations including financial, environmental and social. If these obligations are not fulfilled the licences could be suspended until breaches are rectified or revoked. They are also subject to legislation defined by the government in Brazil; if this legislation is changed it could adversely affect the value of the Group's assets.

Resource estimates

The Group's reported resources are only estimates. No assurance can be given that the estimated resources will be recovered or that they will be recovered at the rates estimated. Mineral reserve and resource estimates are based on limited sampling and as a result are uncertain because the samples may not be fully representative of the full resource. Mineral resource estimates may require revision (either up or down) in future periods based on further drilling or actual production experience.

Any future resource figures will be estimates and there can be no assurance that the minerals are present, will be recovered or that they can be brought into profitable production. Furthermore, a decline in the market price for natural resources, particularly gold, could render reserves containing relatively lower grades of these resources uneconomic to recover.

Country risk

The Group's licences and operations are located in foreign jurisdictions. As a result, the Group is subject to political, economic and other uncertainties, including but not limited to, changes in policies or the personnel administering them, appropriation of property without fair compensation, cancellation or modification of contract rights, royalty and tax increases and other risks arising out of foreign governmental sovereignty over the area in which these operations are conducted. Brazil, the current focus of the Group's activity, offers stable political frameworks and actively supports foreign investment. Brazil has a well-developed exploration and mining code with proactive support for foreign companies and in terms of economic growth, ran at circa 2.0% for 2013 which compares well to the previous year.

Volatility of commodity prices

Historically, commodity prices (including in particular the price of gold) have fluctuated and are affected by numerous factors beyond the Group's control. The aggregate effect of these factors is impossible to predict. Fluctuations in commodity prices in the long-term may adversely affect the returns of the Group's exploration projects.

A significant reduction in the global demand for gold or a changing global economic outlook, resulting in a fall in gold prices, could lead to a significant reduction in the cash flow of the Group in future periods and/or delay in future exploration and production, which may have a material adverse impact on the operating results and financial position of the Group.

Financing

The successful exploration of natural resources on any project requires significant capital investment. The Group has primarily sourced finance through the issue of additional equity capital. Whilst the Group expects to generate cash flow from operations of the Palito Mine this currently remains in a commissioning and ramp-up phase. The Group's ability to raise further funds should this be necessary will be dependent on the successes of its existing acquired operations. The Group may not be successful in procuring the requisite funds on terms which are acceptable and, if such funding is unavailable, the Group may be required to reduce the scope of its investments or anticipated expansion.

Dependence on key personnel

The Group is dependent upon its executive management team. Whilst it has entered into contractual agreements with the aim of securing the services of these personnel, the retention of their services cannot be guaranteed. The development and success of the Group depends on the ability to recruit and retain high quality and experienced staff. The loss of the service of key personnel or the inability to attract additional qualified personnel as the Group grows could have an adverse effect on future business and financial conditions. To date the Group has been successful in recruiting and retaining high quality staff.

Uninsured risk

The Group, as a participant in exploration, development and mining operations, may become subject to liability for hazards that cannot be insured against or third party claims that exceed the insurance cover. The Group may also be disrupted by a variety of risks and hazards that are beyond its control, including geological, geotechnical and seismic factors, environmental hazards, industrial accidents, occupation and health hazards and weather conditions or other acts of God.

Financial risks

The Group's operations expose it to a variety of financial risks, particularly relating to foreign currency exchange rates as a result of the Group's foreign operations. The Group has a risk management programme in place that seeks to limit the adverse effects on the financial performance of the Group of these risks. Further details of the way the Board seeks to manage these risks can be found in the Directors Report.

Performance review

The Group's principal objective for 2013 was to complete the redevelopment and rehabilitation of the Palito Mine, the gold processing plant and the associated site infrastructure before the end of 2013 and this represented the major non-financial KPI for management. By the end of December 2013, a stockpile of uncrushed mined ore has been established on surface of approximately 25,000 tonnes at an average grade in excess of 8.0g/t equivalent to over 6,400 ounces of contained gold. Commissioning of the plant commenced in December 2013 in accordance with the plan and the programme of commission and ramp-up of production has continued during the first quarter of 2014.

The Group has during the year acquired the Sao Chico gold project, a high grade vein gold deposit located some 25 kilometres which the Board considers can be developed as a satellite operation and generate additional mined ore to be processed at the Palito plant to increase the Group's gold production. Following the acquisition the successful advancement of this project became another significant non-financial KPI for management. Exploration work undertaken during 2013 at Sao Chico was, in the opinion of the Board, very successful with a large number of very high grade intersections being encountered in a surface diamond drilling programme and the potential strike length of the Sao Chico deposits being increased from about 150 metres to at least 350 metres and potentially up to 700 metres.

Financial performance review

In 2013 the Group operations were not in commercial production and therefore did not generate income from the sale of gold and other metals and the majority of its expenditures have been capitalised as Deferred Exploration Expenditure or Projects in Construction. The Group is only expected to report revenues and costs of production during the year to 31 December 2014. The principal financial KPIs monitored by the Board therefore comprises levels and usage of cash and in particular during 2013 the management of the budget to redevelop and rehabilitate the Palito Mine, the gold process plant and the related site infrastructure.

The Company had set aside a budget of some US$18 million for the work involved to bringing the Palito Mine and plant back into production based on the Preliminary Economic Assessment published in June 2012. The Group incurred costs of US$1.6 million during the 4th quarter of 2012 and a further US$13.1 million during 2013 including an uncrushed ore stockpile which at the year was valued at US$3.0 million. The Group also acquired plant and equipment during 2013 at a cost of US$3.6 million. Whilst work on the rehabilitation of the Carbon in Pulp recovery plant is still to be completed during the first six months of 2014, the Group has installed a Gravity Concentration Plant which was not included in the original budget. The Board considers that the cost of completing the Palito Mine redevelopment project has been achieved within the original budget parametres which did not include the establishment of a US$3 million ore stockpile ahead of plant commissioning.

The Company incurred additional unplanned costs during the year relating to the acquisition of Kenai Resources Ltd ("Kenai"), the Sao Chico project and further exploration and development of that project. Over US$3 million was made available to Kenai of which US$2.4 million was directly related to exploration expenditures. Further costs were incurred relating to the legal and regulatory costs involved with the acquisition.

Administration costs have increased during the period in part reflecting some of the costs associated with the acquisition and re-structuring of Kenai in the Group but also the need for increased support and resources to meet the start-up of gold production at the Palito Mine.

By order of the Board

Clive Line
Company Secretary
27 March 2014

Directors' Report

For the year ended 31 December 2013

The Directors present their report together with the audited financial statements for the year ended 31 December 2013.

Results and dividends

The Group loss for the year after taxation amounts to US$6,264,233 (2012: loss of US$4,736,986). The Directors do not recommend the payment of a dividend.

The results for the year are set out on page 38 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 subsidiaries. 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 and the Strategic Review.

Substantial shareholdings

As at 27 March 2014 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	337,195,647	51.37%
Anker Holding AG	49,750,000	7.58%
Drake PIPE Fund	45,979,686	7.00%
Eldorado Gold Corporation	34,090,000	5.19%
FIP Santa Monica	22,140,000	3.37%

Share capital

Movements in share capital during the period are disclosed in note 17 to the financial statements. On 3 March 2014, the Company completed the placing of 200 million new Ordinary Shares. Further details are set out below in the section post balance sheet events and in note 26 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
26 January 2013	13,800,000	£0.061	25 January 2017
26 January 2013	950,000	£0.0813	25 January 2017

Going concern and availability of project finance

The Group commenced gold production operations at the Palito Mine at the start of 2014 having completed the construction of the gold recovery plant in December 2013. The operations remain in a commissioning and ramp-up phase and the Company has yet to declare commercial production having been reached. 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.

On 3 March 2014 the Company completed a share placement raising gross proceeds of UK£10 million which provides additional working capital to the Group during the start–up phase of production at Palito and also to fund the initial development and further evaluation of the Sao Chico gold project.

The Directors anticipate that, whilst the Group may seek to raise further finance in the future, it now has access to sufficient funding for its immediate needs. The Group expects to have sufficient cash flow from its forecast production to finance its on-going operational requirements and to, at least in part, fund exploration and development activity on its other gold properties. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Group to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

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 either for working capital or future capital developments 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, having given particular consideration to the independently produced, NI43-101 compliant, Preliminary Economic Assessment published in June 2012 for the Palito Mine, the current operational status of Palito, the latest internally generated operational short and long term plans and the potential risks and implications of starting up any 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 based on the Company's current operational forecasts. The carrying values of assets have not been adjusted to reflect a failure to access sufficient funds to meet project development schedules, not achieving the projected levels of operation or that, if a sale transaction was undertaken, the proceeds may not realise the value as stated in the accounts.

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

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

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

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Corporate governance

The Directors give due regard to the principles set out in The UK Corporate Governance Code published in September 2012 by the Financial Reporting Council and comply with those principles that are appropriate given the size and nature of activities of the Group.

Board composition

The Directors who served during the year are shown on page 20.

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 Group and its activities and its structure ensures that no one individual or group dominates the decision making process.

Directors' Report
continued

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 22 to 26.

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 Group'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 Group'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 the Group and the Company are 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 Group and Company currently finances its operations primarily through equity financing and has a convertible loan of UK£300,000 which bears interest at the rate of 1% per annum compounded and has a repayment date of October 2014. During the year it has taken out fixed rate finance leases for the acquisition of some equipment and in 2014 will utilise floating rate short term trade finance in respect of sales of its copper/gold concentrate production.

As at 31 December 2013 the Group had outstanding US$2.75 million plus accrued interest which formed part of a secured loan agreement for a total facility of US$7.5 million with Fratelli Investments Limited ("Fratelli"). The loan was to be repaid at the latest by 30 April 2014 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 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

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 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 funding raised through the issue of new shares to shareholders but has also received short-term loans from its shareholders. It also uses floating rate short-term trade finance and fixed rate finance leases to finance its activities.

In 2009 the Group drew down on a convertible loan stock instrument for UK£300,000 (see note 16) which is repayable in October 2014. On 20 December 2013 the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 200 million units, whereby Fratelli agreed to subscribe for a minimum of 125 million units and to subscribe for up to a further 37.5 million units by matching subscriptions received from third party investors. At that time Fratelli held a 40.5% interest in the issued share capital of the Company. On 3 March 2014 the Company completed the placing, raising gross proceeds of £10.0 million and the outstanding loan and accrued interest was repaid to Fratelli in March 2014 and all security released. The Group's only other borrowings as at 31 December 2013 comprised obligations under fixed rate finance leases.

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. Gold production operations at the Palito Mine commenced at the start of 2014 although they remain in a commissioning and ramp-up phase. The cash flow generated from gold production operations is expected to be sufficient to allow the Company to meet its on-going operational obligations as and when they fall due and to provide working capital to develop other exploration projects that the Group controls. The Group, where appropriate, will use fixed rate finance arrangements for the purchase of certain items of capital equipment and use short term trade finance particularly in respect of its projected sales of copper/gold concentrate. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Group to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

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. The Group seeks 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 and works with purchasers with good reputations within the industry and a good credit risk history. It otherwise provides credit in respect of any other receivables only with parties that themselves have good credit history or where it can establish some form of lien or other acceptable security pending settlement.

Directors' Report
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 as funding of activities of its subsidiaries is generally made in US Dollars and future remittances of dividends, loans or repayment of capital are expected to be received in US Dollars.

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

The Company's main subsidiaries operate in Brazil with their expenditure being principally in Brazilian Real and their 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 3 March 2014, the Company completed a placing of 200 million units at a price of UK£0.05 per unit raising gross proceeds of UK£10 million. The share placement was pursuant to a conditional subscription agreement entered into on 20 December 2013 between the Company and Fratelli Investments Limited ("Fratelli") for Fratelli to subscribe for a minimum of 125 million units and a maximum of 162.5 million units to finance initial development and underground drilling at the Sao Chico project and to provide further working capital to the business during the start-up phase of gold production at Palito. The final form of the investment by Fratelli comprised (a) a subscription for 125 million units at the Subscription Price of 5 pence per unit; and (b) a further subscription of 27.5 million units at a subscription price of 5 pence per unit. The Company procured subscriptions from third parties not deemed to be acting in concert with Fratelli for 47.5 million units.

Each unit comprises one new ordinary share and one half of a warrant. Each whole warrant entitles the holder to subscribe for one new ordinary share at a price of 6p for a period ending 2 March 2016.

As a result of the subscription by Fratelli, Fratelli has a direct interest of 51.37% in the share capital of the Company and has become a controlling party subsequent to the year ended 31 December 2013.

Following completion of the share placement the Group repaid a short-term loan facility of US$7.5 million plus accrued interest that had been provided to the Group by Fratelli.

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 2013 would have been affected had the share placement been completed prior to 31 December 2013, the estimated expenses of the transaction settled and the loan and accrued interest as at 31 December re-paid to Fratelli.

	US$
Total non-current assets	60,667,321
Current assets (excluding cash)	5,231,511
Cash at bank and in hand	17,289,263
Total current assets	22,520,774
Total current liabilities	4,178,833
Net current assets	18,341,941
Total assets less current liabilities	79,009,262
Total non-current liabilities	2,724,555
Net assets	76,284,707
Equity shareholders' funds	76,284,707

On 3 March 2014, shareholders approved a capital reorganisation whereby the existing ordinary shares of 5 pence each were sub-divided and re-classified into one new ordinary share of 0.5 pence and one new deferred share of 4.5 pence. The rights attaching to the new ordinary shares are, save for the change in the nominal value and the entitlement of shareholders in respect of a return of capital or other distribution arising therefrom, identical in all respects to those of the existing ordinary shares.

The new deferred shares, in common with the existing deferred shares, have no voting or dividend rights and on a return of capital, the right only to receive the amount paid up thereon after the holders of the ordinary shares have received the aggregate amount paid up thereon plus UK£100 per ordinary share. Any further surplus shall be distributed only amongst the holders of ordinary shares.

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.

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 Group against liability incurred as such a Director, Company Secretary or Executive officer to the extent permitted under legislation.

Auditor
The auditors, BDO LLP have confirmed their willingness to remain as auditors to the Company. 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 2014

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 2013 which comprise the statement of comprehensive income, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and 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 auditors
As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2013 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 and 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.

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 re-commission and commence commercial gold production at the Palito Mine in order to continue as a going concern. However, there are risks associated with the re-commencement of a 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 matters prescribed by the Companies Act 2006
In our opinion the information given in the strategic report and 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.

Stuart Barnsdall (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
27 March 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Independent Auditor's Report

In Respect of Canadian National Instrument 52-107 (Acceptable Accounting Principles and Auditing Standards)

In accordance with the requirements contained in Canadian National Instrument 52-107 we also report below on whether our audit has been conducted in accordance with International Standards on Auditing (as issued by the International Auditing and Assurance Standards Board) and whether the financial statements have been prepared in accordance with International Financial Reporting Standards (as issued by the International Accounting Standards Board).

To the Shareholders of Serabi Gold plc

We have audited the accompanying financial statements of Serabi Gold plc for the year ended 31 December 2013 and the year ended 31 December 2012 which comprise the statement of comprehensive income, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and company cash flow statements, for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial reporting framework that has been applied in the preparation of the consolidated and parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (as issued by the International Auditing and Assurance Standards Board). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 re-commission and commence commercial gold production at the Palito Mine in order to continue as a going concern. However, there are risks associated with the re-commencement of a 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

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of Serabi Gold plc as at 31 December 2013 and 31 December 2012 and its financial performance and its cash flows for the years then ended; and
- the consolidated financial statements have been properly prepared in accordance with IFRSs.

BDO LLP
London
United Kingdom
27 March 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	Group For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Continuing operations			
Revenue		**–**	–
Operating expenses		**–**	(477,961)
Gross loss		**–**	(477,961)
Administration expenses		**(3,253,924)**	(2,513,272)
Provision for indirect taxes		**(626,496)**	–
Share-based payments		**(304,764)**	(128,882)
Write-off of past exploration costs		**(1,007,233)**	(267,703)
Gain on asset disposals		**–**	18,456
Depreciation of plant and equipment		**(534,491)**	(891,101)
Operating loss	3	**(5,726,908)**	(4,260,463)
Foreign exchange (loss)/gain		**(170,358)**	73,141
Finance expense	4	**(374,542)**	(555,835)
Finance income	4	**7,575**	6,171
Loss before taxation		**(6,264,233)**	(4,736,986)
Income tax expense	5	**–**	–
Loss for the period from continuing operations[(1)]		**(6,264,233)**	(4,736,986)
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**(6,164,862)**	(3,531,144)
Total comprehensive loss for the period[(1)]		**(12,429,095)**	(8,268,130)
Loss per ordinary share (basic and diluted)	7	**(1.60c)**	(5.29c)

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

Balance Sheets

As at 31 December 2013

		Group		Company	
	Notes	**2013 US$**	2012 US$	**2013 US$**	2012 US$
Non-current assets					
Deferred exploration costs	8	**24,659,003**	17,360,805	**2,040,437**	2,160,943
Property, plant and equipment	9	**36,008,318**	26,848,991	**5,083,073**	1,169,835
Investments in subsidiaries	10	**–**	–	**64,261,541**	10,913,322
Other receivables	12	**–**	–	**11,037,398**	39,691,402
Total non-current assets		**60,667,321**	44,209,796	**82,422,449**	53,935,502
Current assets					
Inventories	11	**3,890,880**	722,868	**–**	–
Trade and other receivables	12	**75,977**	85,509	**63,026**	80,519
Prepayments		**1,264,654**	603,005	**38,486**	57,743
Cash and cash equivalents	13	**3,789,263**	2,582,046	**3,454,296**	2,281,318
Total current assets		**9,020,774**	3,993,428	**3,555,808**	2,419,580
Current liabilities					
Trade and other payables	14	**2,871,546**	2,001,683	**879,882**	709,261
Interest bearing liabilities	16	**3,790,363**	4,580,745	**3,790,363**	4,580,745
Accruals		**266,924**	171,102	**266,923**	171,101
Total current liabilities		**6,928,833**	6,753,530	**4,937,168**	5,461,107
Net current assets/(liabilities)		**2,091,941**	(2,760,102)	**(1,381,360)**	(3,041,527)
Total assets less current liabilities		**62,759,262**	41,449,694	**81,041,089**	50,893,975
Non-current liabilities					
Trade and other payables	14	**410,330**	211,939	**–**	–
Provisions	15	**1,480,665**	1,612,098	**–**	–
Interest bearing liabilities	16	**833,560**	364,656	**833,560**	364,656
Total non-current liabilities		**2,724,555**	2,188,693	**833,560**	364,656
Net assets		**60,034,707**	39,261,001	**80,207,529**	50,529,319
Equity					
Share capital	17	**60,003,212**	31,416,993	**60,003,212**	31,416,993
Share premium reserve		**54,479,151**	50,182,624	**54,479,151**	50,182,624
Option reserve		**2,330,789**	2,019,782	**2,330,789**	2,019,782
Other reserves		**789,076**	780,028	**427,615**	780,028
Translation reserve		**(10,771,173)**	(4,606,311)	**–**	–
Accumulated losses		**(46,796,348)**	(40,532,115)	**(37,033,238)**	(33,870,108)
Equity shareholders' funds attributable to owners of the parent		**60,034,707**	39,261,001	**80,207,529**	50,529,319

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2014 and signed on its behalf by:

Clive Line
Finance Director
27 March 2014

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2013

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 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
Foreign currency adjustments	–	–	–	–	(6,164,862)	–	(6,164,862)
Loss for year	–	–	–	–	–	(6,264,233)	(6,264,233)
Total comprehensive income for the year	–	–	–	–	(6,164,862)	(6,264,233)	(12,429,095)
Issue of new ordinary shares for cash	21,357,000	4,182,600	–	88,800	–	–	25,628,400
Costs associated with issue of new ordinary shares for cash	–	(327,286)	–	–	–	–	(327,286)
Warrants lapsed in period	–	441,213	–	(441,213)	–	–	–
Issue of new ordinary shares for acquisition	7,229,219	–	–	361,461	–	–	7,590,680
Share option expense	–	–	311,007	–	–	–	311,007
Equity shareholders' funds at 31 December 2013	**60,003,212**	**54,479,151**	**2,330,789**	**789,076**	**(10,771,173)**	**(46,796,348)**	**60,034,707**

Other reserves comprise a merger reserve of US$361,461 (2012 : US$ nil), a warrant reserve of US$166,733 (2012 : US$519,146) and initial value for the equity component of the convertible loan stock of US$260,882 (2012 : US$ 260,882).

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 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
Loss for the year	–	–	–	–	(3,163,130)	(3,163,130)
Comprehensive income for year	–	–	–	–	(3,163,130)	(3,163,130)
Issue of new ordinary shares	21,357,000	4,182,600	–	88,800	–	25,628,400
Costs associated with issue of new ordinary shares	–	(327,286)	–	–	–	(327,286)
Warrants lapsed in period	–	441,213	–	(441,213)	–	–
Issue of new ordinary shares for acquisition	7,229,219	–	–	–	–	(7,229,219)
Share option expense	–	–	311,007	–	–	311,007
Equity shareholders' funds at 31 December 2013	**60,003,212**	**54,479,151**	**2,330,789**	**427,615**	**(37,033,238)**	**80,207,529**

Other reserves comprise a warrant reserve of US$166,733 (2012 : US$519,146) and initial value for the equity component of the convertible loan stock of US$260,882 (2012 : US$ 260,882)

Cash Flow Statements

For the year ended 31 December 2013

	Group		Company	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$	**For the year ended 31 December 2013 US$**	For the year ended 31 December 2012 US$
Cash outflows from operating activities				
Operating loss	**(5,726,908)**	(4,260,463)	**(2,665,730)**	(1,834,390)
Depreciation – plant, equipment and mining properties	**534,491**	891,101	**3,173**	40,907
Gain on sale of assets	**–**	(18,456)	**–**	–
Deferred asset write-off	**1,007,233**	267,703	**126,750**	57,332
Option costs	**304,764**	128,882	**304,764**	128,882
Interest paid	**(306,590)**	(247,802)	**(306,590)**	(180,000)
Foreign exchange	**411,860**	(261,975)	**(324,258)**	(23,731)
Changes in working capital				
(Increase)/decrease in inventories	**(3,541,962)**	313,248	**–**	–
(Increase)/decrease in receivables, prepayments and accrued income	**(663,125)**	47,982	**36,752**	(24,283)
Increase/(decrease) in payables, accruals and provisions	**72,116**	(300,072)	**185,698**	(7,657)
Net cash flow from operations	**(7,908,121)**	(3,439,852)	**(2,639,441)**	(1,842,940)
Investing activities				
Proceeds of sale of fixed assets	**–**	19,724	**–**	–
Purchase of property, plant, equipment and projects in construction	**(11,504,538)**	(1,769,951)	**(1,916,882)**	(22,835)
Exploration and development expenditure	**(2,432,871)**	(2,251,067)	**(6,244)**	(447,393)
Capital and loan investments in subsidiaries	**–**	–	**(17,352,492)**	(5,100,000)
Interest received	**7,575**	6,171	**7,575**	6,171
Net cash outflow on investing activities	**(13,929,834)**	(3,995,122)	**(19,268,043)**	(5,564,057)
Financing activities				
Issue of ordinary share capital	**25,628,400**	4,250,884	**25,628,400**	4,250,884
Issue of special warrants	**–**	–	**–**	–
Receipts from short term secured loan	**2,750,000**	4,500,000	**2,750,000**	4,500,000
Repayment of short term secured loan	**(4,500,000)**	–	**(4,500,000)**	–
Payment of finance lease liabilities	**(719,654)**	–	**(719,654)**	–
Acquisition of subsidiary – cash acquired	**222,211**	–	**222,211**	–
Payment of share issue costs	**(327,286)**	(156,942)	**(327,286)**	(156,942)
Net cash inflow from financing activities	**23,053,671**	8,593,942	**23,053,671**	8,593,942
Net increase in cash and cash equivalents	**1,215,716**	1,158,968	**1,146,187**	1,186,945
Cash and cash equivalents at beginning of period	**2,582,046**	1,406,458	**2,281,318**	1,070,297
Exchange difference on cash	**(8,499)**	16,620	**26,791**	24,076
Cash and cash equivalents at end of period	**3,789,263**	2,582,046	**3,454,296**	2,281,318

Notes to the Financial Statements
For the year ended 31 December 2013

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 shareholder information section of the Annual Report.

The principal activities of the Group are described in the Directors' Report on page 30.

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.

As the Company has prepared these financial statements in accordance with IFRS and their interpretations issued by the IASB, early adoption of IFRS 10, IFRS 11 and IFRS 12 has been taken in respect of IFRS for use within the European Union. There has been no significant measurement impact on the consolidated financial statements from the early adoption of these standards or from new standards or interpretations effective in 2013.

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

The Company commenced gold production operations at the Palito Mine at the start of 2014 having completed the construction of the gold recovery plant in December 2013. The operations remain in a re-commissioning and ramp-up phase and the Company has yet to declare commercial production having been reached. 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.

On 3 March 2014 the Company completed a share placement raising gross proceeds of UK£10 million which provided additional working capital to the Company during the start-up phase of production at Palito and also to fund the initial development and further evaluation of the Sao Chico gold project.

The Directors anticipate that, whilst the Company may seek to raise further finance in the future, it now has access to sufficient funding for its immediate needs. The Company expects to have sufficient cash flow from its forecast production to finance its on-going operational requirements and to, at least in part, fund exploration and development activity on its other gold properties. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Company to satisfy the obligations and undertakings that would be imposed in connection with such borrowings. 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 either for working capital or for future capital developments 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 having given particular consideration to the independently produced, NI43-101 compliant, Preliminary Economic Assessment published in June 2012 for the Palito Mine, the current operational status of Palito, the latest internally generated operational short and long term plans and the potential risks and implications of starting up any 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 based on the Company's current operational forecasts. 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 was undertaken, the proceeds may not realise the value as stated in the accounts.

(b) Basis of consolidation

(i) Subsidiaries and acquisitions

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 an investor is expected, or has rights, to variable returns from its investment with the investee and has the ability to affect these returns through its power over the investee. 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 a "fair value" adjustment. 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.

In the Company's balance sheet, the investment in Kenai includes the nominal value of the shares issued as consideration for the acquisition of that company. As permitted by the Companies Act 2006, no premium was recorded on the issue of such shares. On consolidation, the difference between the nominal value of the shares issued and their fair value was credited directly to the merger reserve, which is included within other reserves.

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 2013 was 1.6521 (2012: 1.6189). The Brazilian Real/US Dollar exchange rate at 31 December 2013 was 2.3420 (2012: 2.0435).

(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.

Notes to the Financial Statements
continued

1 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(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.

(iv) Depreciation

Depreciation is charged to 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 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 Property.

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.

1 Significant accounting policies (continued)

(h) Impairment

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

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

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

(ii) title to the asset is compromised;

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

(iv) variations in the currency of operation.

(i) Share capital

The Company's ordinary shares 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.

On 3 March 2014, shareholders approved a capital reorganisation whereby the existing ordinary shares of 5 pence each were sub-divided and re-classified into one new ordinary share of 0.5 pence and one new deferred share of 4.5 pence. The rights attaching to the new ordinary shares are, save for the change in the nominal value and the entitlement of shareholders in respect of a return of capital or other distribution arising therefrom, identical in all respects to those of the existing ordinary shares.

The new deferred shares, in common with the existing deferred shares, have no voting or dividend rights and on a return of capital, the right only to receive the amount paid up thereon after the holders of the ordinary shares have received the aggregate amount paid up thereon plus UK£100 per ordinary share. Any further surplus shall be distributed only amongst the holders of ordinary shares.

(j) Borrowings

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.

Notes to the Financial Statements
continued

1 Significant accounting policies (continued)

(k) Employee benefits (continued)

(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 profit 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 which are inflated and then 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 amortised 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, copper/gold concentrate run of mine ore and any other production inventories are valued at the lower of cost and net realisable value. Dependent on the current stage of any product inventory in the process cycle, cost will reflect, as appropriate, mining, processing, transport and labour costs as well as an allocation of mine services overheads required to bring the product to its current state.

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

(o) Revenue

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 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 the lower of production cost and net realisable value 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, development and commissioning 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.

1 Significant accounting policies (continued)

(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) Financing expenses

Financing expenses comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested. It also includes charges arising on the unwinding of discount factors relating to the provisions for future charges.

(q) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end and any adjustments in respect of prior years.

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 asset 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.

Notes to the Financial Statements
continued

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 assessing and 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 mining and other assets

Determining whether mining assets are impaired requires an estimation of the value in use of the cash-generating units. 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 assessing the value in use.

Goodwill and intangibles

Significant accounting judgements made in the preparation of the financial statements relate to the allocation of the purchase price of acquisitions between intangibles and goodwill as required under IFRS3 Business Combinations and the determination of the useful lives of the intangible assets.

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.

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

	2013			2012		
	Brazil US$	**Other US$**	**Total US$**	Brazil US$	Other US$	Total US$
Revenue	**–**	**–**	**–**	–	–	–
Operating expenses	_	**–**	_	477,961	–	477,961
Operating loss	**–**	**–**	**–**	477,961	–	477,961
Administration expenses	**1,378,244**	**2,502,176**	**3,880,420**	906,054	1,607,218	2,513,272
Share based payments	**–**	**304,764**	**304,764**	–	128,882	128,882
Deferred asset write-off	**868,691**	**138,542**	**1,007,233**	199,513	68,190	267,703
Depreciation and gain on asset disposals	**524,829**	**9,662**	**534,491**	831,738	40,907	872,645
Operating loss	**2,771,764**	**2,955,144**	**5,726,908**	2,415,266	1,845,197	4,260,463
Foreign exchange (gain)/loss	**38,471**	**131,887**	**170,358**	(4,210)	(68,931)	(73,141)
Finance expense	**–**	**366,967**	**366,967**	238,715	310,949	549,664
Loss before taxation	**2,810,235**	**3,453,998**	**6,264,233**	2,649,771	2,087,215	4,736,986

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

	Total non-current assets	
	31 December 2013 US$	31 December 2012 US$
Brazil – operations	**36,001,733**	26,846,170
Brazil – exploration	**24,659,003**	17,360,805
Other	**6,585**	2,821
	60,667,321	44,209,796

An analysis of total assets by location is as follows:

	Total assets	
	31 December 2013 US$	31 December 2012 US$
Brazil	**66,096,282**	45,776,276
Other	**3,591,813**	2,426,948
	69,688,095	48,203,224

Notes to the Financial Statements
continued

2 Segmental analysis (continued)

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

	Group	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Brazil	**10,626,954**	2,272,894

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

	Group	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Brazil	**13,706,957**	1,768,716
Other	**6,937**	1,235
	13,713,894	1,769,951

3 Operating loss

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

	Group	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Staff costs	**5,774,825**	2,955,914
Depreciation (plant and equipment)	**534,491**	891,101
Operating lease charges	**96,123**	108,752

b. Auditor's remuneration

	Group	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Fees payable to the group's auditor for the audit of the group's annual financial statements	**94,583**	66,896
Fees payable to the group's auditor and its associates for other services:		
audit of the group's subsidiaries pursuant to legislation	**24,368**	21,527
tax services	**19,594**	6,094
all other services	**45,213**	12,496

4 Finance expense and income

	Group	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Unwinding of discount on rehabilitation provision	**–**	(170,914)
Interest payable on finance leases	**(55,320)**	–
Finance charge re-convertible loan stock	**(67,951)**	(56,304)
Other finance related expenses	**(251,271)**	(328,618)
Interest payable	**(374,542)**	(555,835)
Finance income on short-term deposits	**7,575**	6,171
Net interest	**(366,967)**	(549,664)

5 Taxation

	Group	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Current tax		
UK tax	**–**	–
Foreign tax	**–**	–
Deferred tax	**–**	–
Total	**–**	–

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are explained as follows:

	Group	
	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Loss on ordinary activities before tax	**(6,264,234)**	(4,736,986)
Tax thereon at UK corporate tax rate of 23.25% (2012: 24.5%)	**(1,456,434)**	(1,160,562)
Factors affecting the tax charge:		
expenses not deductible for tax purposes	**104,074**	125,476
income not taxable	**224,665**	–
higher rate tax overseas	**(1,067,405)**	(220,773)
unrecognised tax losses carried forward	**2,1985,100**	1,255,859
Tax charge	**–**	–

The Group has total tax losses of US$49.3 million (2012: US$40.5 million) giving rise to a potential deferred tax asset of US$14.3 million (2012: US$12.2 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.

Notes to the Financial Statements
continued

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 2013 Number	For the year ended 31 December 2012 Number
Management and administration	**13**	9
Exploration	**6**	11
Mine development and operations	**97**	32
Total	**116**	52

	US$	US$
Staff costs		
Wages and salaries	**4,377,224**	1,949,774
Cost of incentive scheme shares and Director shares vested	**277,198**	150,709
Social security costs	**997,678**	513,468
Termination costs	**40,496**	236,963
Pension contributions	**82,229**	105,000
Total	**5,774,825**	2,955,914

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 and Gold Aura do Brasil Mineração Ltda contribute via social security payments to the state pension scheme which operates in Brazil and to which all its employees are entitled.

Directors' remuneration

The compensation of the Directors' is:

	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Salary and other benefits	**884,420**	653,676
Post employment benefits	**82,229**	105,000
Share-based payments	**277,197**	107,628
Total	**1,243,846**	866,304

The remuneration of the highest paid Director during the year was US$482,270 (2012: US$371,631). The Company made cash contributions to his money purchase pension scheme of US$4,699 (2012: US$4,757) and contribution by way of shares of US$ Nil (2012: US$Nil). The remuneration also includes the valuation of options granted in accordance with IFRS 2 of US$89,079 (2012: US$42,086).

During the year ended 31 December 2013, two of the Directors (2012: two) were entitled to accrue retirement benefits under money purchase schemes.

7 Loss per share

The calculation of the basic loss per share of 1.60 cents (2012 loss per share: 5.29 cents) is based on the loss attributable to ordinary shareholders of US$6,264,233 (2012: loss of US$4,736,986) and on the weighted average number of ordinary shares of 392,693,275 (2012: 89,552,955) 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

Deferred exploration costs

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Cost				
Opening balance	**17,360,805**	16,648,884	**2,160,943**	1,749,055
Exploration and development expenditure	**2,432,871**	2,251,067	**–**	447,393
Share option charges capitalised	**6,244**	21,827	**6,244**	21,827
Additions on acquisition of subsidiary	**8,187,839**	–	**–**	–
Write-off of past exploration costs	**(1,007,233)**	(267,703)	**(126,750)**	(57,332)
Foreign exchange movements	**(2,321,523)**	(1,293,270)	**–**	–
Total as at end of period	**24,659,003**	17,360,805	**2,040,437**	2,160,943

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

The Company has, in the year ended 31 December 2013, written off past exploration expenditures relating to the Pizon project which the board has determined is no longer a priority for the Group and no further work is planned in the immediate future.

9 Tangible assets

Property, plant and equipment – Group

2013	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 2012	3,335,235	27,280,139	1,622,093	10,126,708	42,364,175
Additions	–	2,635	10,069,244	3,642,015	13,713,894
Addition on acquisition of subsidiary	–	321,674	–	–	321,674
Foreign exchange movements	(425,093)	(3,033,489)	(861,905)	(1,317,662)	(5,638,150)
At 31 December 2013	**2,910,142**	**24,570,958**	**10,829,432**	**12,451,061**	**50,761,593**
Depreciation					
Balance at 31 December 2012	(3,335,235)	(4,039,744)	–	(8,140,205)	(15,515,184)
Charge for period	–	(12,979)	–	(737,828)	(750,807)
Balance on acquisition of subsidiary	–	(66,812)	–	–	(66,812)
Foreign exchange movements	425,093	212,979	–	941,457	1,579,528
At 31 December 2013	**(2,910,142)**	**(3,906,556)**	**–**	**(7,936,577)**	**(14,753,275)**
Net book value at 31 December 2013	**–**	**20,664,402**	**10,829,432**	**4,514,484**	**36,008,318**
Net book value at 31 December 2012	–	23,240,395	1,622,093	1,986,503	26,848,991

Additions during the period include US$2,209,356 in respect of plant and equipment purchased by finance lease. The net book value of assets acquired under finance leases at 31 December 2013 was US$1,999,529 (2012:US$ nil).

Notes to the Financial Statements
continued

9 Tangible assets (continued)

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

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

Property, plant and equipment – Company

2013	Mining property – at cost US$	Projects in construction – at cost US$	Plant and equipment – at cost US$	Total US$
Cost				
Balance at 31 December 2012	2,167,502	21,600	618,320	2,807,422
Additions	–	1,825,076	2,301,162	4,126,238
At 31 December 2013	**2,167,502**	**1,846,676**	**2,919,482**	**6,933,660**
Depreciation				
Balance at 31 December 2012	(1,022,060)	–	(615,527)	(1,637,587)
Charge for period	–	–	(213,000)	(213,000)
At 31 December 2013	**(1,022,060)**	**–**	**(828,527)**	**(1,850,587)**
Net book value at 31 December 2013	**1,145,442**	**1,846,676**	**2,090,956**	**5,083,073**
Net book value at 31 December 2012	1,145,442	21,600	2,793	1,169,835

Additions during the period include US$2,209,356 in respect of plant and equipment purchased by finance lease. The net book value of assets acquired under finance leases as at 31 December 2013 was US$1,999,529 (2012: US$ nil).

9 Tangible assets (continued)

Property, plant and equipment – Company

2012	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
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)
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

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

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%*
Kenai Resources Ltd	British Columbia, Canada	Investment	100%
Gold Origin Limited	British Virgin Islands	Investment	96.1%*
Gold Aura do Brasil Mineração Ltda	Brazil	Gold mining and exploration	99.9%*
Gold Origin Mexico SA de CV	Mexico	Dormant	100%*
Serabi Mining Ltd	British Virgin Islands	Investment	100%
Serabi Mining Services Pty Ltd	Australia	Dormant	100%

* indirectly held.

	Company	
	31 December 2013 US$	31 December 2012 US$
Cost at start of period	**17,339,256**	17,339,256
Investment during the year	**11,329,219**	–
Inter-company loans converted to equity	**42,019,000**	–
Cost at end of period	**70,687,475**	17,339,256
Impairment provision balance at start and end of period	**(6,425,934)**	(6,425,934)
Net book value at end of period	**64,261,541**	10,913,322

Inter-group loans with a value of US$42,019,000 were converted into new shares issued by the subsidiaries during the year.

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

Notes to the Financial Statements
continued

11 Inventories

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Consumables	**891,969**	722,868	**–**	–
Stockpile of mined ore	**2,998,911**	–	**–**	–
	3,890,880	722,868	**–**	–

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

12 Trade and other receivables

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Current				
Other receivables	**75,977**	85,509	**63,026**	80,519
Trade and other receivables	**75,977**	85,509	**63,026**	80,519
Non-current				
Amounts owed by subsidiaries	**–**	–	**22,788,108**	51,442,112
Impairment provision	**–**	–	**(11,750,710)**	(11,750,710)
Other receivables	**–**	–	**11,037,398**	39,691,402

13 Cash and cash equivalents

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Cash and cash equivalents	**3,789,263**	2,582,046	**3,454,296**	2,281,318

14 Trade and other payables

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Current				
Trade payables	**1,363,500**	790,665	**427,161**	207,886
Other payables	**475,248**	319,271	**–**	–
Employee benefits	**235,526**	217,867	**–**	–
Other taxes and social security	**797,272**	673,880	**33,185**	81,839
Amounts due to subsidiaries	**–**	–	**419,536**	419,536
Trade and other payables	**2,871,546**	2,001,683	**879,882**	709,261
Non-current				
(Between one and five years)				
Other payables	**–**	9,641	**–**	–
Other taxes and social security	**410,330**	202,298	**–**	–
	410,330	211,939	**–**	–

15 Non-current provisions

Employment and claims provision

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Opening balance	**388,706**	296,296	**–**	–
Movement in year	**–**	122,260	**–**	–
Exchange	**(49,542)**	(29,850)	**–**	–
Closing balance	**339,164**	388,706	**–**	–

Environmental rehabilitation provision

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Opening balance	**1,223,392**	1,155,000	**–**	–
Provided for in year				
as a result of cost adjustment	**80,458**	–	**–**	–
unwinding of discount factor	**–**	170,914	**–**	–
as a result of exchange variations	**(162,349)**	(102,522)	**–**	–
	(81,891)	68,392	**–**	–
Closing balance	**1,141,501**	1,223,392	**–**	–
Total non-current provisions	**1,480,665**	1,612,098	**–**	–

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

i) Former employees of Serabi Mineração SA and Gold Aura do Brasil Mineração Ltda against these companies. 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 Group 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 and Gold Aura do Brasil Mineração Ltda where sums are claimed over and above contracted amounts. Whilst the Group 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.

Notes to the Financial Statements
continued

16 Interest bearing liabilities

(a) Short term secured loan facility

On 20 December 2013, the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 162.5 million units. Under the 2013 Loan Agreement Fratelli agreed to provide up to US$7.5 million to be drawn down in three instalments commencing from the date of the agreement to provide working capital to the Company and the Group during the start-up phase of gold production at Palito and to finance the initial development at the Sao Chico gold project. The loan was to be repaid by the earlier of 30 April 2014 and the date falling seven days after the funds due from Fratelli under the conditional subscription were received 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 (i) the entire share capital of Serabi Mining Ltd, a subsidiary of Serabi Gold plc, and the 99.99% shareholder of Serabi Mineração SA, which is the licence holder for the Palito Mine and (ii) the entire share capital of Kenai Resource Ltd a subsidiary of Serabi Gold plc and the 100% shareholder of Gold Aura do Brasil Mineração Ltda, which is the licence holder for the Sao Chico project. 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 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

(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 with interest accruing at the rate of 1%. per annum and compounded. The loan is repayable on 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 UK£0.15 per share.

On 26 January 2012, Greenwood assigned its interest in the convertible loan stock to Anker Holding AG. On 31 January 2014, Anker Holding AG assigned its interest in the convertible loan stock to Anker Investments AG.

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

Interest bearing liabilities

	Group and Company	
	31 December 2013 US$	31 December 2012 US$
Short term secured loan facility	**2,750,000**	4,580,745
Convertible loan stock	**440,084**	–
Obligations under finance leases	**600,279**	–
Due in less than one year	**3,790,363**	4,580,745
Convertible loan stock	**–**	364,656
Obligations under finance leases	**833,560**	–
Due in more than one year	**833,560**	364,656

Each finance lease is secured against the underlying assets that are the subject of that lease.

17 Share capital

	2013		2012	
	Number	**£**	Number	£
Authorised				
Ordinary shares of 5.0 pence each	**733,735,776**	**36,686,789**	733,735,776	36,686,789
Deferred shares of 9.5 pence each	**140,139,065**	**13,313,211**	140,139,065	13,313,211
		50,000,000		50,000,000

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, the holders of deferred shares shall receive 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.

The Companies Act 2006 (as amended) abolishes the requirement for a company to have an authorised share capital and on 3 March 2014 the Company adopted new articles of association to reflect this.

On 3 March 2014, shareholders approved a capital reorganisation whereby the existing ordinary shares of 5 pence each were sub-divided and re-classified into one new ordinary share of 0.5 pence and one new deferred share of 4.5 pence. The rights attaching to the new ordinary shares are, save for the change in the nominal value and the entitlement of shareholders in respect of a return of capital or other distribution arising therefrom, identical in all respects to those of the existing ordinary shares.

The new deferred shares, in common with the existing deferred shares, have no voting or dividend rights and on a return of capital, the right only to receive the mount paid up thereon after the holders of the ordinary shares have received the aggregate amount paid up thereon plus UK£100 per ordinary share. Any further surplus shall be distributed only amongst the holders of ordinary shares.

	2013		2012	
	Number	**US$**	Number	US$
Allotted, called up and fully paid				
Ordinary shares of 5.0 pence each	**456,389,204**	**35,981,817**	91,268,529	7,395,598
Deferred shares of 9.5 pence each	**140,139,065**	**24,021,395**	140,139,065	24,021,395
		60,003,212		31,416,993

Movements in issued share capital

	31 December 2013 Number	**31 December 2013 US$**	31 December 2012 Number	31 December 2012 US$
Ordinary shares				
Opening balance	**91,268,529**	**7,395,598**	63,968,529	5,270,156
Issue of shares for cash	**270,000,000**	**21,357,000**	27,300,000	2,125,442
Issue of shares on acquisition of subsidiary	**95,120,675**	**7,229,219**	–	–
Closing balance	**456,389,204**	**35,981,817**	91,268,529	7,395,598

	31 December 2013 Number	**31 December 2013 US$**	31 December 2012 Number	31 December 2012 US$
Deferred shares				
Opening balance and closing balance	**140,139,065**	**24,021,395**	140,139,065	24,021,395

Notes to the Financial Statements
continued

17 Share capital (continued)

Movements in issued share capital (continued)

The following share issues of ordinary shares occurred during the year:

17 January 2013	Issue of 270,000,000 new ordinary shares at a price of GB£0.06 per ordinary share. The issue was underwritten by Fratelli Investment Limited who received 8,135,035 warrants exercisable at GB£0.10 for a period of 2 years ending 16 January 2015.
18 July 2013	Issue of 95,120,675 new ordinary shares in consideration for all of the issued share capital of Kenai Resources Ltd by a plan of arrangement. On the date of the completion of the transaction the closing price of Serabi shares was GB£0.0525 per ordinary share. In addition the company issued a total of 2,533,000 replacement share options to parties that were at the date of the completion of the transaction, the holders of share options of Kenai Resources Ltd.

Options to subscribe for ordinary shares

Pre-IPO share option plan

Year ended 31 December 2013

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 option (years)
30 Nov 05 – 01 Apr 16	£1.50	25 Apr 05	278,360	–	278,360	n/a	2.25
01 Apr 06 – 01 Apr 16	£3.00	25 Apr 05	274,925	–	274,925	n/a	2.25
As at 31 December 2013			**553,285**	**–**	**553,285**		
Weighted average exercise price			£2.24	–	£2.24		

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 option (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		

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 2013

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 option (years)
28 Mar 07 – 27 Mar 17	£3.84	28 Mar 07	–	–	–	n/a	–
15 Nov 07 – 14 Nov 17	£2.64	15 Nov 07	25,000	–	25,000	n/a	3.88
As at 31 December 2013			**25,000**	**–**	**25,000**		
Weighted average exercise price			£2.64	–	£2.64		

17 Share capital (continued)

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 option (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		

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 2013

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	1,700,000	–	1,700,000	n/a	4.0	UK£0.080
As at 31 December 2013			**1,700,000**	**–**	**1,700,000**			
Weighted average exercise price			£0.15	–	£0.15			

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	5.0	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			

The fair value of all of the above options has been fully recognised in prior years and therefore no charge (2012: $Nil) is required to be recorded in these financial statements in respect of these options.

Notes to the Financial Statements
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17 Share capital (continued)

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 2013

Option period	Exercise price	Grant date	Options in issue at start of period	Options granted in period	Options lapsed in period	Options in issue at end of period	Weighted average remaining life of options (years)	Fair value
28 Jan 11 to 27 Jan 21	UK£0.41	28 Jan 2011	1,285,000	–	–	1,285,000	7.1	UK£0.085
28 Jan 11 to 27 Jan 21	UK£0.37	28 Jan 2011	450,000	–	–	450,000	7.1	UK£0.094
31 May 11 to 30 May 14	C$0.60	31 May 2011	1,600,000	–	–	1,600,000	0.4	C$0.117
21 May 12 to 20 May 15	UK£0.10	21 May 2012	500,000	–	–	500,000	1.4	UK£0.029
26 Jan 13 to 25 Jan 16	UK£0.061	26 Jan 2013	–	13,800,000	–	13,800,000	2.1	UK£0.0176
26 Jan 13 to 25 Jan 16	UK£0.0813	26 Jan 2013	–	950,000	–	950,000	2.1	UK£0.0127
18 July 13 to 1 Oct 15(1)	C$0.31176	18 Jul 2013	–	960,500	–	960,500	1.8	n/a
18 July 13 to 7 June 16(1)	C$0.29411	18 Jul 2013	–	1,572,500	–	1,572,500	2.4	n/a
As at 31 December 2013			**3,835,000**	**17,283,000**	**–**	**21,118,000**		
Weighted average exercise price			£0.36	£0.08	–	£0.13		

(1) These options were granted as replacement options to option holders of Kenai Resources Ltd following the acquisition of all of that Company's shares by Serabi on 18 July 2013. The fair value of the original grant had been recognised by Kenai Resources Ltd.

Year ended 31 December 2012

Option period	Exercise price	Grant date	Options in issue at start of period	Options granted in period	Options lapsed in period	Options in issue at end of period	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		

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$311,007 (2012: US$150,709) has been recorded in these financial statements in respect of these options of which US$6,244 (2012: 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$nil (2012: US$87,286) has been transferred from the Option Reserve to the Accumulated Losses Reserve.

19 Impairment

As detailed in the accounting policies the Directors are required to undertake a review for impairment at least annually 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 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. For the next three years the Group embarked 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 in January 2013 raising gross proceeds of UK£16.2 million which was be used to finance the start-up of gold production operations at the Palito Mine. Mining operations commenced during 2013 and the gold recovery process plant was completed and initial testing started in December 2013. Commissioning and the ramp-up of production have continued during the first quarter of 2014 although the Company has not at this time declared commercial production.

In July 2013 the Company acquired the entire share capital of Kenai Resources Ltd, a group which holds the exploration licence for the Sao Chico gold project. On 3 March 2014 the Group completed a share placement raising gross proceeds of UK£10.0 million which will be used to finance further evaluation of the Sao Chico project including initial mine development and further exploration drilling from both surface and underground and working capital during the start-up of Palito.

The Directors have considered each of the Group's exploration and development assets on a project-by-project basis. It has considered three potential 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;
- the Sao Chico gold project including its acquisition cost and exploration expenditures incurred since acquisition;
- exploration expenditures on areas within the Palito environs and the wider Jardim do Ouro tenement holdings, but which have not yet been exploited and do not form part of the current declared reserves and resources.

The above projects were assessed for impairment indicators in accordance with the accounting policy set out in note 1(h) and the directors are satisfied that there is no indication of impairment across these projects.

The Palito Mine

The Directors note that the carrying value of the assets relating to the Palito Mine is US$36 million compared with the value at 31 December 2012 of US$27 million. This change in valuation is primarily the result of the development works that have been undertaken during the year of some US$10.1 million and acquisition of plant and equipment of US$3.6 million, these increases being partially offset by exchange rate variations and depreciation charges incurred during the period. The current assessment has been based on an economic assessment of the Palito Mine project using management's current estimates of mining, processing and capital expenditure plans for a period starting in January 2014 and ending in December 2022. The resulting pre-tax Net Present Value of the project, in the opinion of management, supports the carrying value of US$36 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.

Notes to the Financial Statements
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19 Impairment (continued)

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	22,788,216	2,123,814	20,664,402
Projects in Construction	10,829,432	–	10,829,432
Plant and Equipment	4,974,617	466,718	4,507,899
	38,592,265	2,590,532	36,001,733

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.

This plan anticipates total Life of Mine ("LOM") production of 218,000 gold ounces compared with the Group's current inventory of Measured and Indicated mineral resources of 206,000 gold equivalent ounces and Inferred resources of 393,000 gold ounces as estimated at the end of March 2008.

The Net Present Value calculation used the following key assumptions:

Period of operations	1 January 2014 to 31 December 2022
Gold price	US$1,250 for each year of the plan
Exchange rate BrR$ to US$	2.25 for each year of the plan. This compares with the prevailing exchange rate at 31 December 2013 of BrR$2.3420. The rate on 27 March 2014 was BrR$2.2915: US$1.00.
Discount factor	10%
Cost estimates	Based on current estimates being used by management for budgetary purposes
Mine plan	An initial 3 month commissioning and ramp-up phase (January 2014 to March 2014) before longer term production rates are achieved
Average monthly LOM plant throughput rate	92,300 tonnes per annum
Average annual LOM gold production (2014 onwards)	24,250 gold ounces
Production period	9 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. No recognition has been taken of other mineral resources at Palito and no assessment has been made of the potential benefits that could be derived from merging the Palito Mine with the Sao Chico gold project into a single cash generating unit.

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

	Improvement US$m	Decline US$m
Change in gold price by $100	12.8	12.8
Variation of BrR$:US$ exchange rate by 10%	8.4	10.2
Variation in discount factor by 1% point	2.0	1.9
Variation in cost estimates by 10%	11.3	11.3

The other potential cash generating units being the Sao Chico gold project and exploration expenditures on areas within the Palito environs and the wider Jardim do Ouro tenement holdings, were assessed for impairment indicators in accordance with the accounting policy set out in note1(h) and the directors are satisfied that there is no indication of impairment across these projects.

20 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 2013 the Group raised finance through the issue of new shares and these funds were utilised to finance the development and start-up of underground mining operations at the Palito Mine. On 20 December 2013 the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") as part of an overall placement of shares and warrants to raise a minimum of UK£6.25 million and a maximum of UK£10.0 million. At the same time Fratelli agreed to provide a short term secured loan facility of US$7.5 million to provide working capital to the Company and to enable it to commence initial development works at the Sao Chico project. The placing of 200 million units with Fratelli and other subscribers was completed on 3 March 2014 and the Company repaid the loan funds which had been advanced as at that date of $7.5 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 for its immediate needs. Gold production operations at the Palito Mine commenced in January 2014 and the Company expects to have sufficient cash flow to finance its on-going operational requirements and to, at least in part, fund exploration and development activity on its other gold properties. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Company to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

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.

21 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 2013 was US$3,163,130 (2012: loss of US$2,076,407).

22 Commitments and contingencies

Capital commitments

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

Management estimates that the cost over the next twelve months of fulfilling the current contracted commitments on all the properties in which the Group has an interest is US$174,000 (US$154,122).

Operating lease commitments

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

	Group		Company	
	31 December 2013 US$	31 December 2012 US$	**31 December 2013 US$**	31 December 2012 US$
Commitments falling due:				
Within one year	**89,541**	72,261	**62,779**	7,690
Between one year and five years	**7,847**	48,429	**7,847**	–
Total	**97,388**	120,690	**70,626**	7,690

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 not accepting legal liability 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 BR$1.6 million, which at the year-end is equivalent to US$682,000.

Notes to the Financial Statements
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23 Related party transactions

During the period the Company has made loans to subsidiary entities totalling US$13,144,998 (2012: US$5,100,000) and subscribed for new capital issued by subsidiaries totalling US$4,100,000 (2012: US$ nil). Loans with a value of US$42,019,000 (2012: US$ nil) were converted into new shares issued by subsidiaries during the year.

The Company has loans receivable from subsidiaries totalling US$22,788,108 (2012: US$51,442,112) before any provision for the impairment of these loans (see note 12).

In November 2009 the Company entered into a convertible loan stock instrument for a facility of UK£300,000 (the "Convertible Loan") with Greenwood Investments Limited ("Greenwood") with interest accruing at 1%. per annum and compounded. The Convertible Loan is repayable on 31 October 2014 subject to the right of the holder at any time, to convert any of the outstanding amounts owed by the Company to Ordinary Shares at a price of UK£0.15 per share. On 26 January 2012, Greenwood assigned its interest in the Loan to Anker Holding AG a company of which Mr Christopher Kingsman is a director and is beneficially owned by Mrs Ana Kingsman, his spouse. Until 23 December 2013 Mr Kingsman served as a non-executive Director of the Company.

In 2012, the Company entered into a secured loan agreement for a total facility of US$6.0 million ("the 2012 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 2012 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. 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.

On 20 December 2013, the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") to provide working capital to the Company and to enable the Company to commence initial development works at the Sao Chico project and at the same time entered into a conditional subscription agreement with Fratelli as part of an overall placement of shares and warrants to raise a minimum of UK£6.25 million and a maximum of UK£10.0 million. At that time Fratelli held a 40.5% interest in the issued share capital of the Company. Under the 2013 Loan Agreement Fratelli agreed to provide up to US$7.5 million to be drawn down in three instalments commencing from the date of the agreement to provide working capital to the Company and the Group during the start-up phase of gold production at Palito and to finance the initial development at the Sao Chico project. The loan was to be repaid by the earlier of 30 April 2014 and the date falling seven days after the funds due from Fratelli under the conditional subscription were received 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 (i) the entire share capital of Serabi Mining Ltd, a subsidiary of Serabi Gold plc, and the 99.99% shareholder of Serabi Mineração SA, which is the licence holder for the Palito Mine and (ii) the entire share capital of Kenai Resource Ltd a subsidiary of Serabi Gold plc and the 100% shareholder of Gold Aura do Brasil Mineração Ltda, which is the licence holder for the Sao Chico project. 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 3 March 2014, 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 and country manager only. Their compensation is:

	For the year ended 31 December 2013 US$	For the year ended 31 December 2012 US$
Short-term employee benefits	**1,321,670**	1,081,970
Post employment benefits	**82,229**	105,000
Share-based payments	**300,896**	118,590
Total	**1,704,795**	1,305,560

24 Financial instruments

The Group's and the Company's financial assets at 31 December 2013 which comprise 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 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 the Group and the Company are exposed to fluctuations in commodity prices and in particular the price of gold and copper as these could affect its ability to raise further finance in the future, its future revenue levels and the viability of its projects. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts, where appropriate, in future.

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

Interest rate risk

The Group and Company currently finances its operations primarily through equity financing and has a convertible loan of UK£300,000 which bears interest at the rate of 1% per annum compounded and has a repayment date of October 2014. It has during the year taken out fixed rate finance leases for the acquisition of some equipment and in 2014 will utilise floating rate short term trade finance in respect of sales of its copper/gold concentrate production.

As at 31 December 2013 the Company had outstanding US$2.75 million plus accrued interest which formed part of a secured loan agreement for a total facility of US$7.5 million with Fratelli Investments Limited ("Fratelli"). The loan was to be repaid at the latest by 30 April 2014 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 3 March 2014, all amounts borrowed by the Company under the loan facility plus accrued interest were repaid to Fratelli and all security released.

Group

				Fixed interest maturity		
2013	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	0.06%	–	3,789,263	–	–	3,789,263
Receivables	–	1,112,647	–	–	–	1,112,647
Total		**1,112,647**	**3,789,263**	**–**	**–**	**4,901,910**
Financial liabilities						
Payables	–	3,281,876	–	–	–	3,281,876
Interest bearing liabilities	10.22%	–	–	3,790,363	833,560	4,623,923
Total		**3,281,876**	**–**	**3,790,363**	**833,560**	**7,905,799**

Notes to the Financial Statements
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24 Financial instruments (continued)

Interest rate risk (continued)

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%	–	2,582,046	–	–	2,582,046
Receivables	–	600,002	–	–	–	600,002
Total		600,002	2,582,046	–	–	3,182,048
Financial liabilities						
Payables	–	2,213,622	–	–	–	2,213,622
Interest bearing liabilities	12.43%	–	–	4,500,000	364,656	4,864,656
Total		2,213,622	–	4,500,000	364,656	7,078,278

Company

2013	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	0.06%	–	3,454,296	–	–	3,454,296
Receivables	–	11,100,424	–	–	–	11,100,424
Total		**11,100,424**	**3,454,296**	**–**	**–**	**14,554,720**
Financial liabilities						
Payables	–	879,882	–	–	–	879,882
Interest bearing liabilities	10.22%	–	–	3,790,363	833,560	4,623,923
Total		**879,882**	**–**	**3,790,363**	**833,560**	**5,503,805**

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	–	709,261	–	–	–	709,261
Interest bearing liabilities	12.43%	–	–	4,500,000	364,656	4,864,656
Total		709,261	–	4,500,000	364,656	5,573,917

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.

24 Financial instruments (continued)

Liquidity risk

To date the Group has relied primarily on funding raised from the issue of new shares to shareholders but has also received short term loans from its shareholders. It also uses floating rate short-term trade finance and fixed rate finance leases to finance its activities.

In 2009 the Group drew down on a convertible loan stock instrument for UK£300,000 (see note 16) which is repayable in October 2014. On 20 December 2013 the Company entered into a secured loan agreement for a total facility of US$7.5 million ("the 2013 Loan Agreement") with Fratelli Investments Limited ("Fratelli") and at the same time entered into a conditional subscription agreement with Fratelli for the placement of up to 200 million units, whereby Fratelli agreed to subscribe for a minimum of 125 million units and to subscribe for up to a further 37.5 million units by matching subscriptions received from third party investors. At that time Fratelli held a 40.5% interest in the issued share capital of the Company. On 3 March 2014 the Company completed the placement, raising gross proceeds of UK£10m and the outstanding loan and accrued interest was repaid to Fratelli and all security released.

As at 31 December 2013, in addition to the 2013 Loan Agreement, and the convertible loan stock, the Company had obligations under fixed rate finance leases amounting to US$1,433,839.

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. Gold production operations at the Palito Mine commenced at the start of 2014, although they remain in a commissioning and ramping up phase. The cash flow generated from gold production operations is expected to be sufficient to allow the Company to meet its on-going operational obligations as and when they fall due and to provide working capital to develop other exploration projects that the Company controls. The Company, where appropriate, will use fixed rate finance arrangements for the purchase of certain items of capital equipment and use short term trade finance particularly in respect of its projected sales of copper/gold concentrate. It will seek to raise debt finance where possible to finance further capital development of its projects taking due consideration of the ability of the Company to satisfy the obligations and undertakings that would be imposed in connection with such borrowings.

The following table sets out the maturity profile of the financial liabilities as at 31 December 2013:

	2013		2012	
	Group US$	**Company US$**	Group US$	Company US$
Due in less than one month	**4,017,563**	**2,750,000**	5,958,910	4,500,000
Due between one month and three months	**2,304,650**	**1,920,245**	410,455	289,724
Due between three months and one year	**339,696**	**–**	132,318	–
Total due within one year	**6,661,909**	**4,670,245**	6,501,683	4,789,724
Due more than one year	**1,243,890**	**833,560**	576,595	364,656
Total	**7,905,799**	**5,503,805**	7,078,278	5,154,380

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 as funding of activities of its subsidiaries is generally made in US Dollars and future remittances of dividends, loans or repayment of capital are expected to be received in US Dollars.

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.

Notes to the Financial Statements
continued

24 Financial instruments (continued)

Currency risk (continued)

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:

	2013		2012	
	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	**137,499**	**(137,499)**	176,190	(176,190)
10% weakening of the Brazilian Real against the US Dollar	**(112,499)**	**112,499**	(144,156)	144,156

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

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

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

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

The Group considers book value to equal fair value.

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

	Group	
	31 December 2013 US$	31 December 2012 US$
US Dollar	**2,577,709**	2,198,081
Canadian Dollar	**236,132**	27,090
Sterling	**579,904**	306,127
Australian Dollar	**7,554**	2,324
Euro	**62,686**	–
Brazilian Real	**325,278**	48,424
Total	**3,789,263**	2,582,046

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$3,865,240 (2012: US$2,667,555). It is the Group's policy to only deposit surplus cash with financial institutions that hold acceptable credit ratings. The Group seeks 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 and works with purchasers with good reputations within the industry and a good credit risk history and otherwise provides credit in respect of any other 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$14,554,720 (2012: US42,053,239). Of this amount US$11,037,398 (net of impairment charge) (2012: US$39,961,402) is due from subsidiary companies.

25 Acquisition of subsidiary

On 6 May 2013, the Boards of Directors of the Company and Kenai Resources Ltd ("Kenai") announced that they had entered into an acquisition agreement ("the Agreement"), subject to the approval of shareholders of Kenai and other conditions precedent, whereby Serabi the Company will acquire all the issued and outstanding common shares of Kenai ("Kenai Shares") by way of a Plan of Arrangement ("the Arrangement").

Following the approval of Kenai shareholders at a meeting held on 5 July 2013 and the subsequent approval of the Supreme Court of British Colombia, the Arrangement was completed on 18 July 2013, with the Company issuing a total of 95,120,675 new ordinary shares ("Serabi Shares") to acquire all of the issued shares of Kenai.

The acquisition of Kenai shares under the Arrangement has resulted in Kenai shareholders receiving 0.85 of one Serabi Share in exchange for each Kenai Share held (the "Exchange Ratio") and the issuance of 2,533,000 options to subscribe for Serabi Shares to replace 2,980,000 outstanding Kenai options. The exercise price of the Kenai options were adjusted by the Exchange Ratio and is either C$0.31176 or C$0.29411 with expiry on either of 1 October 2015 or 7 June 2016 respectively or, if earlier, 12 months from the date from which the holder is no longer involved with the Company.

The Kenai transaction has been accounted for using the acquisition method of accounting and Kenai's accounts have been consolidated within the Group financial statements from 18 July 2013, being the effective date of the acquisition.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group in respect of this acquisition:

	Kenai carrying value US$	Adjustments US$	Fair value US$
Deferred exploration and evaluation costs	7,759,723	428,116	8,187,839
Property, plant and equipment	254,862	–	254,862
Cash and cash equivalents	222,211	–	222,211
Trade and other receivables	111,402	–	111,402
Reclamation bonds	7,878	–	7,878
Trade and other payables	(394,124)	–	(394,124)
Loan repayable	(799,388)	–	(799,388)
Net assets acquired	7,162,564	428,116	7,590,680

Consideration paid and costs incurred	Fair value US$
Satisfied in shares	7,590,680
Total consideration incurred	7,590,680
Cash acquired	222,211
Total net cash inflow	222,211

The fair value of the purchase consideration arises from the issue of 95,120,675 ordinary shares at a price of GB£0.0525 per share being the market price of an ordinary share at the date of acquisition.

From the date of acquisition to 31 December 2013, the acquired business has contributed US$ nil to group revenue and US$279,075 to the loss before tax.

Acquisition related costs, which have been included in operating costs, amounted to approximately $270,000.

Notes to the Financial Statements
continued

26 Post balance sheet events

On 3 March 2014, the Company completed a placing of 200 million units at a price of UK£0.05 per unit raising gross proceeds of UK£10 million. The share placement was pursuant to a conditional subscription agreement entered into on 20 December 2013 between the Company and Fratelli Investments Limited ("Fratelli") to subscribe for a minimum of 125 million units and a maximum of 162.5 million units to finance initial development and underground drilling at the Sao Chico project and to provide further working capital to the business during the start-up phase of gold production at Palito. The final form of the investment by Fratelli comprised (a) a subscription for 125 million units at the Subscription Price of 5 pence per unit; and (b) a further subscription for 27.5 million units at a subscription price of 5 pence per unit. The company procured third party investment not deemed to be acting in concert with Fratelli for 47.5 million units.

Each unit comprises one new ordinary share and one half of a warrant. Each whole warrant entitles the holder to subscribe for one new ordinary share at a price of 6p for a period ending 2 March 2016.

As a result of the subscription by Fratelli, Fratelli has a direct interest of 51.37% in the share capital of the Company and has become a controlling party subsequent to the year ended 31 December 2013.

Following completion of the share placement the Group repaid a short-term loan facility of US$7.5 million plus accrued interest that had been provided to the Company by Fratelli.

On 3 March 2014, shareholders approved a capital reorganisation whereby the existing ordinary shares of 5 pence each were sub-divided and re-classified into one new ordinary share of 0.5 pence and one new deferred share of 4.5 pence. The rights attaching to the new ordinary shares are, save for the change in the nominal value and the entitlement of shareholders in respect of a return of capital or other distribution arising therefrom, identical in all respects to those of the existing ordinary shares.

The new deferred shares, in common with the existing deferred shares, have no voting or dividend rights and on a return of capital, the right only to receive the amount paid up thereon after the holders of the ordinary shares have received the aggregate amount paid up thereon plus UK£100 per ordinary share. Any further surplus shall be distributed only amongst the holders of ordinary shares.

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.

Notes

Glossary

"Ag"	means silver.
"Au"	means gold.
"assay"	in economic geology, means to analyse 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.
"Cu"	means copper.
"cut-off grade"	the lowest grade of mineralised material that qualifies as ore in a given deposit; rock of the lowest assay included in an ore estimate.
"deposit"	is a mineralised 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 polarisation 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 parametres, 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 polarisation, 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 parametres, 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.

"mineralisation"	the concentration of metals and their chemical compounds within a body of rock.
"mineralised"	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 fossilised 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 mineralised rock.
"tpd"	means tonnes per day.
"Vein"	is a generic term to describe an occurrence of mineralised rock within an area of non-mineralised 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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Daniel Kunz – Non-Executive Director
Eduardo Rosselot – Non-Executive Director
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