



# SERABI GOLD

**SERABI GOLD PLC**

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS  
(Stated in US Dollars)**

**FOR THE THREE MONTHS ENDED  
31 MARCH 2013**

## **INDEPENDENT REVIEW REPORT TO SERABI GOLD PLC**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements for the three months ended 31 March 2013 which comprises the condensed consolidated statements of comprehensive income, the condensed consolidated balance sheets, the condensed consolidated statements of changes in shareholders' equity, the condensed consolidated cash flow statements and the related notes.

### **Directors' responsibilities**

The condensed set of financial statements is the responsibility of and has been approved by the directors. The directors are responsible for preparing the condensed set of financial statements in accordance with TSX Exchange Policies and International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements based on our review.

Our report has been prepared in accordance with the terms of our engagement and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements for the three months ended 31 March 2013 is not prepared, in all material respects, in accordance with TSX Exchange Policies and International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union.

### **Emphasis of matter - going concern**

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

Signed "BDO LLP"

*BDO LLP  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
May 14, 2013*

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

**SERABI GOLD PLC**  
**Condensed Consolidated Statements of Comprehensive Income**

(expressed in US\$)	Notes	For the three months ended 31 March	
		<b>2013</b> <b>(unaudited)</b>	2012 (unaudited)
<b>CONTINUING OPERATIONS</b>			
<b>Revenue</b>		—	—
Operating expenses		—	(117,694)
<b>Gross loss</b>		—	(117,694)
Administration expenses		<b>(908,753)</b>	(810,786)
Share based payments		<b>(47,846)</b>	(29,150)
Depreciation of plant and equipment		<b>(107,667)</b>	(426,637)
<b>Operating loss</b>		<b>(1,064,266)</b>	(1,384,267)
Foreign exchange (loss)/gain		<b>(255,218)</b>	87,190
Finance expense		<b>(42,499)</b>	(19,228)
Finance income		<b>2,757</b>	1,179
<b>Loss before taxation</b>		<b>(1,359,226)</b>	(1,315,126)
Income tax expense		—	—
<b>Loss for the period from continuing operations</b> <sup>(1) (2)</sup>		<b>(1,359,226)</b>	(1,315,126)
<b>Other comprehensive income (net of tax)</b>			
Exchange differences on translating foreign operations		<b>609,475</b>	1,166,852
<b>Total comprehensive loss for the period</b> <sup>(2)</sup>		<b>(749,751)</b>	(148,274)
<hr/>			
Loss per ordinary share (basic and diluted) <sup>(1)</sup>	3	<b>(0.43c)</b>	(1.56c)

(1) All revenue and expenses arise from continuing operations.

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

**SERABI GOLD PLC**  
**Condensed Consolidated Balance Sheets**

(expressed in US\$)	Notes	As at 31 March 2013 (unaudited)	As at 31 March 2012 (unaudited)	As at 31 December 2012 (audited)
<b>Non-current assets</b>				
Development and deferred exploration costs	5	17,696,480	17,998,296	17,360,805
Property, plant and equipment	6	29,187,365	28,690,108	26,848,991
<b>Total non-current assets</b>		<b>46,883,845</b>	46,688,404	44,209,796
<b>Current assets</b>				
Inventories		795,485	1,140,908	722,868
Trade and other receivables		182,018	107,047	85,509
Prepayments and accrued income		681,188	661,105	603,005
Cash and cash equivalents		20,222,386	3,382,198	2,582,046
<b>Total current assets</b>		<b>21,881,077</b>	5,291,258	3,993,428
<b>Current liabilities</b>				
Trade and other payables		2,295,152	2,186,333	2,001,683
Interest bearing liabilities		—	—	4,580,745
Accruals		408,540	115,214	171,102
<b>Total current liabilities</b>		<b>2,703,692</b>	2,301,547	6,753,530
<b>Net current assets / (liabilities)</b>		<b>19,177,385</b>	2,989,711	(2,760,102)
<b>Total assets less current liabilities</b>		<b>66,061,230</b>	49,678,115	41,449,694
<b>Non-current liabilities</b>				
Trade and other payables		131,230	510,506	211,939
Provisions		1,635,873	1,460,029	1,612,098
Interest bearing liabilities		386,729	319,020	364,656
<b>Total non-current liabilities</b>		<b>2,153,832</b>	2,289,555	2,188,693
<b>Net assets</b>		<b>63,907,398</b>	47,388,560	39,261,001
<b>Equity</b>				
Share capital	10	52,773,993	31,416,993	31,416,993
Share premium reserve		54,083,565	50,306,920	50,182,624
Option reserve		2,069,189	1,990,465	2,019,782
Other reserves		427,615	780,028	780,028
Translation reserve		(3,996,836)	91,685	(4,606,311)
Accumulated losses		(41,450,128)	(37,197,531)	(40,532,115)
<b>Equity shareholders' funds</b>		<b>63,907,398</b>	47,388,560	39,261,001

The interim financial information has not been audited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. Whilst the financial information included in this announcement has been compiled in accordance with International Financial Reporting Standards ("IFRS") this announcement itself does not contain sufficient financial information to comply with IFRS. The Group statutory accounts for the year ended 31 December 2012 prepared under IFRS as adopted in the EU and with IFRS and their interpretations adopted by the International Accounting Standards Board will be filed with the Registrar of Companies following their adoption by shareholders at the next Annual General Meeting. The auditor's report on these accounts was unqualified but did contain an Emphasis of Matter with respect to the Company and the Group regarding Going Concern and the future availability of project finance. The auditor's report did not contain a statement under Section 498 (2) or 498 (3) of the Companies Act 2006.

**SERABI GOLD PLC**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity**

(expressed in US\$)							
(unaudited)	Share capital	Share premium	Share option reserve	Other reserves	Translation reserve	Accumulated losses	Total equity
<b>Equity shareholders' funds at 31 December 2011</b>	<b>29,291,551</b>	<b>48,292,057</b>	<b>1,956,349</b>	<b>702,095</b>	<b>(1,075,167)</b>	<b>(35,882,405)</b>	<b>43,284,480</b>
Foreign currency adjustments	—	—	—	—	1,166,852	—	1,166,852
Loss for the period	—	—	—	—	—	(1,315,126)	(1,315,126)
Total comprehensive income for the period	—	—	—	—	1,166,852	(1,315,126)	(148,274)
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	—	(32,646)	—	—	—	—	(32,646)
Share option expense	—	—	34,116	—	—	—	34,116
<b>Equity shareholders' funds at 31 March 2012</b>	<b>31,416,993</b>	<b>50,306,920</b>	<b>1,990,465</b>	<b>780,028</b>	<b>91,685</b>	<b>(37,197,531)</b>	<b>47,388,560</b>
Foreign currency adjustments	—	—	—	—	(4,697,996)	—	(4,697,996)
Loss for the period	—	—	—	—	—	(3,421,860)	(3,421,860)
Total comprehensive income for the period	—	—	—	—	(4,697,996)	(3,421,860)	(8,119,856)
Costs associated with issue of new ordinary shares for cash	—	(124,296)	—	—	—	—	(124,296)
Share options lapsed	—	—	(87,276)	—	—	87,276	—
Share option expense	—	—	116,593	—	—	—	116,593
<b>Equity shareholders' funds at 31 December 2012</b>	<b>31,416,993</b>	<b>50,182,624</b>	<b>2,019,782</b>	<b>780,028</b>	<b>(4,606,311)</b>	<b>(40,532,115)</b>	<b>39,261,001</b>
Foreign currency adjustments	—	—	—	—	609,475	—	609,475
Loss for the period	—	—	—	—	—	(1,359,226)	(1,359,226)
Total comprehensive income for the period	—	—	—	—	609,475	(1,359,226)	(749,751)
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	—	(281,659)	—	—	—	—	(281,659)
Warrants lapsed in period	—	—	—	(441,213)	—	441,213	—
Share option expense	—	—	49,407	—	—	—	49,407
<b>Equity shareholders' funds at 31 March 2013</b>	<b>52,773,993</b>	<b>54,083,565</b>	<b>2,069,189</b>	<b>427,615</b>	<b>(3,996,836)</b>	<b>(41,450,128)</b>	<b>63,907,398</b>

**SERABI GOLD PLC**  
**Condensed Consolidated Cash Flow Statements**

(expressed in US\$)	For the three months ended 31 March	
	<b>2013</b>	2012
	<b>(unaudited)</b>	(unaudited)
<b>Operating activities</b>		
Operating loss	<b>(1,064,266)</b>	(1,384,267)
Depreciation – plant, equipment and mining properties	<b>107,667</b>	426,637
Option costs	<b>47,846</b>	29,150
Interest paid	<b>(107,605)</b>	(5,301)
Foreign exchange	<b>(305,314)</b>	55,616
<b>Changes in working capital</b>		
Increase in inventories	<b>(61,587)</b>	(6,379)
Increase in receivables, prepayments and accrued income	<b>(166,936)</b>	(42,208)
Increase/(decrease) in payables, accruals and provisions	<b>423,347</b>	(480,318)
<b>Net cash outflow from operations</b>	<b>(1,126,848)</b>	(1,309,896)
<b>Investing activities</b>		
Purchase of property, plant and equipment and projects in construction	<b>(2,079,391)</b>	(51,910)
Exploration and development expenditure	<b>(111,137)</b>	(931,607)
Interest received	<b>2,757</b>	1,179
<b>Net cash outflow on investing activities</b>	<b>(2,187,771)</b>	(982,338)
<b>Financing activities</b>		
Issue of ordinary share capital	<b>25,628,400</b>	4,250,883
Repayment of short-term loan	<b>(4,500,000)</b>	—
Payment of share issue costs	<b>(281,659)</b>	(32,645)
<b>Net cash inflow from financing activities</b>	<b>20,846,741</b>	4,218,238
<b>Net increase in cash and cash equivalents</b>	<b>17,532,122</b>	1,926,004
<b>Cash and cash equivalents at beginning of period</b>	<b>2,582,046</b>	1,406,458
Exchange difference on cash	<b>108,218</b>	49,736
<b>Cash and cash equivalents at end of period</b>	<b>20,222,386</b>	3,382,198

**SERABI GOLD PLC**  
**Report and condensed consolidated financial statements for the three month period ended 31 March 2013**

**Notes to the Condensed Consolidated Financial Statements**

**1. Basis of preparation**

These interim accounts are for the three month period ended 31 March 2013. Comparative information has been provided for the unaudited three month period ended 31 March 2012 and, where applicable, the audited twelve month period from 1 January 2012 to 31 December 2012.

The accounts for the periods have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2012 and those envisaged for the financial statements for the year ending 31 December 2013. The Group has not adopted any standards or interpretation in advance of the required implementation dates. 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.

The condensed set of financial statements for the three month period ended 31 March 2013 has been reviewed by the auditors as set out in their report.

**(i) Going concern and availability of project finance**

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

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

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

**(ii) Impairment**

The Directors have undertaken a review of the carrying value of the mining and exploration assets of the Group and given particular consideration to the results of the PEA, the current operational status of Palito and the potential risks and implications of starting up a past producing gold mine. As part of this review they have assessed the value of the existing Palito Mine asset on the basis of the projected value in use that could be expected should the Company follow the re-development, start-up and future mining plans proposed in the PEA. The carrying values of assets have not been adjusted to reflect a failure to raise sufficient funds, not achieving the projected levels of operation or that, if a sale transaction were undertaken, the proceeds may not realise the value as stated in the accounts.



### **(iii) Inventories**

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

### **(iv) Property, plant and equipment**

Property, plant and equipment are depreciated over their estimated useful lives.

### **(v) Mining property and assets in construction**

The Group commenced commercial production at the Palito mine effective 1 October 2006. Prior to this date all revenues and operating costs were capitalised as part of the development costs of the mine. Effective from 1 October 2006 the accumulated development costs of the mine were re-classified as Mining Property costs and such cost will be amortised over the anticipated life of the mine on a unit of production basis. As the underground mine is currently on care and maintenance and there is no depletion of the reserves and resources attributable to the mine, no amortization charge has been recorded in the period.

Costs related to work on the remediation, rehabilitation and development of the Palito mine, the process plant and other site infrastructure are being capitalised together with a portion of general administration costs incurred in Brazil as Assets in Construction. Upon the successful commencement of commercial production, these costs will be transferred to Mining Assets and amortised on a unit of production basis.

### **(vi) 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. Any unsold production and in particular concentrate is held as inventory and valued at production cost until sold.

### **(vii) Currencies**

The condensed financial statements are presented in United States dollars (US\$ or "\$"). Other currencies referred to in these condensed financial statements are GB pounds ("GB£"), Canadian dollars ("C\$") and Brazilian Reals ("BrR\$").

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.

### **(viii) 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.

## **2. Taxation**

No deferred tax asset arising from carried forward losses has been recognised in the financial statements because of uncertainty as to the time period over which this asset may be recovered.

## **3. Earnings per share**

	<b>3 months ended 31 March 2013 (unaudited)</b>	3 months ended 31 March 2012 (unaudited)
	\$	\$
Loss attributable to ordinary shareholders (US\$)	<b>1,359,226</b>	1,315,126
Weighted average ordinary shares in issue	<b>313,268,529</b>	84,368,529
Basic and diluted loss per share (US cents)	<b>0.43</b>	1.56

#### 4. 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 three month period by management segment is as follows:

	3 months ended 31 March 2013 (unaudited)			3 months ended 31 March 2012 (unaudited)		
	Brazil \$	Unallocated \$	Total \$	Brazil \$	Unallocated \$	Total \$
Revenue	—	—	—	—	—	—
Operating expenses	—	—	—	(117,694)	—	(117,694)
Operating loss	—	—	—	(117,694)	—	(117,694)
Administration expenses	(220,421)	(688,332)	(908,753)	(381,390)	(429,396)	(810,786)
Share based payments	—	(47,846)	(47,846)	—	(29,150)	(29,150)
Provisions, depreciation and loss on asset disposals	(107,170)	(497)	(107,667)	(407,633)	(19,004)	(426,637)
Operating loss	(327,591)	(736,675)	(1,064,266)	(906,717)	(477,550)	(1,384,267)
Foreign exchange gain/(loss)	—	(255,218)	(255,218)	320	86,870	87,190
Interest (expense)/income	(230)	(39,512)	(39,742)	(5,301)	(12,748)	(18,049)
Loss before taxation	(327,821)	(1,031,405)	(1,359,226)	(911,698)	(403,428)	(1,315,126)

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

	31 March 2013 (unaudited) \$	Total non-current assets	
		31 March 2012 (unaudited) \$	31 December 2012 (audited) \$
Brazil – operations	29,185,040	28,674,596	26,846,170
Brazil – exploration	17,696,480	17,998,296	17,360,805
Other	2,325	15,512	2,821
	<b>46,883,845</b>	<b>46,688,404</b>	<b>44,209,796</b>

An analysis of total assets by location is as follows:

	31 March 2013 (unaudited) \$	Total assets	
		31 March 2012 (unaudited) \$	31 December 2012 (audited) \$
Brazil	49,207,707	48,493,985	45,776,276
Other	19,557,215	3,485,677	2,426,948
	<b>68,764,922</b>	<b>51,979,662</b>	<b>48,203,224</b>

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

	<b>For the 3 month period ended 31 March 2013 (unaudited) \$</b>	For the 3 month period ended 31 March 2012 (unaudited) \$	For the year ended 31 December 2012 (audited) \$
Brazil	112,697	936,573	2,272,894
Other	—	—	—
	<b>112,697</b>	<b>936,573</b>	<b>2,272,894</b>

#### 5. Development and deferred exploration costs

	<b>31 March 2013 (unaudited)</b>	31 March 2012 (unaudited)	31 December 2012 (audited)
<b>Cost</b>			
Balance at beginning of period	17,360,805	16,648,884	16,648,884
Exploration and development expenditure	111,137	931,607	2,251,067
Share option charges	1,561	4,966	21,827
Write-off of past exploration costs	—	—	(267,703)
Foreign exchange movements	222,977	412,839	(1,293,270)
<b>Balance at end of period</b>	<b>17,696,480</b>	<b>17,998,296</b>	<b>17,360,805</b>

#### 6. Property, plant and equipment including mining assets and projects in construction

	<b>31 March 2012 (unaudited)</b>	31 March 2012 (unaudited)	31 December 2012 (audited)
<b>Cost</b>			
Balance at beginning of period	42,364,175	44,020,699	44,020,699
Additions	2,079,391	51,910	1,769,951
Foreign exchange movements	544,960	1,149,819	(3,339,336)
Disposals	—	—	(87,139)
<b>Balance at end of period</b>	<b>44,988,526</b>	<b>45,222,428</b>	<b>42,364,175</b>
<b>Accumulated depreciation</b>			
Balance at beginning of period	15,515,184	15,754,607	15,754,607
Charge for period	107,665	426,637	891,101
Foreign exchange movements	178,312	351,076	(1,044,653)
Eliminated on sale of asset	—	—	(85,871)
<b>Balance at end of period</b>	<b>15,801,161</b>	<b>16,532,320</b>	<b>15,515,184</b>
<b>Net book value at end of period</b>	<b>29,187,365</b>	<b>28,690,108</b>	<b>26,848,991</b>

## 7. Contractual commitments

The following table sets out the maturity profile of the Group's contractual commitments excluding trade liabilities as at 31 March 2013 and commitments under operating leases.

	Payments due by period				
	Total \$	Less than 1 year \$	1-3 years \$	4-5 years \$	After 5 years \$
Long term debt	386,729	—	386,729	—	—
Capital lease obligations	—	—	—	—	—
Operating leases	206,650	123,318	83,332	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
<b>Total contractual obligations</b>	<b>593,379</b>	<b>123,318</b>	<b>470,061</b>	—	—

## 8. Contingencies

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

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

## 9. Related party transactions

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

As a result of the subscription by Fratelli, Fratelli has a direct interest of 51.1% in the share capital of the Company and has become a controlling party.

## 10. Share capital

### a) Ordinary and deferred shares

Ordinary shares	31 March 2013 (unaudited)		31 March 2012 (unaudited)		31 December 2012 (audited)	
	Number	\$	Number	\$	Number	\$
<b>Balance at beginning of period</b>	91,268,529	7,395,598	63,968,529	5,270,156	63,968,529	5,270,156
Issue of shares for cash	270,000,000	21,357,000	27,300,000	2,125,442	27,300,000	2,125,442
<b>Balance at end of period</b>	<b>361,268,529</b>	<b>28,752,598</b>	<b>91,268,529</b>	<b>7,395,598</b>	<b>91,268,529</b>	<b>7,395,598</b>

  

Deferred shares	31 March 2013 (unaudited)		31 March 2012 (unaudited)		31 December 2012 (audited)	
	Number	\$	Number	\$	Number	\$
<b>Balance at beginning and end of period</b>	140,139,065	24,021,395	140,139,065	24,021,395	140,139,065	24,021,395

The following issue of ordinary shares has occurred during the 3 month period ended 31 March 2013:

17 January 2013 Issue of 270,000,000 new ordinary shares at a price of UK£0.06 per ordinary share. The issue was underwritten by Fratelli Investment Limited who received 8,135,035 warrants exercisable at GBP£0.10 for a period of 2 years ending 16 January 2015

The deferred shares carry no voting or dividend rights or any right to participate in the profits or assets of the Company and all the deferred shares may be purchased by the Company, in accordance with the Companies Act 2006, at any time for no consideration. In the event of a return of capital, after the holders of the Ordinary shares have received in aggregate the amount paid up thereon plus £100 per ordinary share, there shall be distributed amongst the holders of deferred shares an amount equal to the nominal value of the deferred shares and thereafter any further surplus shall be distributed amongst the holders of ordinary shares.

### (b) Warrants

As at 31 March 2013 the following warrants remain outstanding:

	Number	Exercise Price	Expiry
Non-tradable warrants - 2012 <sup>(1)</sup>	4,549,998	UK£0.15	23 January 2014
Non-tradable warrants - 2013 <sup>(2)</sup>	8,135,035	UK£0.10	16 January 2015
Other warrants	155,000	UK£0.15	8 November 2013
	<u>12,840,033</u>		

(1) The Company has calculated the value of each of the share purchase warrants as UK£0.011 and accordingly has established a warrant reserve in relation to that portion of the proceeds received from the sale of 27,300,000 units on 24 January 2012 that relates to the warrants that formed part of these units

(2) The company has calculated the value of each of the share purchase warrants as UK£0.0069 and accordingly has established a warrant reserve in relation to the deemed value ascribed to these warrants.

### (c) Stock option reserve

#### Contributed surplus

	US\$
Balance at beginning of period	2,019,782
Option costs for period	49,407
<b>Balance at end of period</b>	<b>2,069,189</b>

Under the Company's Stock Option Plan (the "2011 Plan"), stock options may be granted only to directors, officers, employees and consultants of the Company or to their permitted assignees and may be granted for a term not exceeding ten years. The Ordinary Shares to be purchased upon exercise of each option must be paid for in full by the grantee at the time of exercise. Unless otherwise directed by the Board of Directors at the date of the grant, each award shall vest as to one third on the date of grant, one third on the first anniversary of grant and the balance vesting on the second anniversary of the date of grant. The board of directors shall also be entitled to establish performance criteria, which may affect the vesting of the options or the rights of the holder to exercise the options. The 2011 Plan reserves for issuance, pursuant to its terms, up to 10% of the number of Ordinary Shares issued or issuable and outstanding from time to time.

The Company has operated other plans which have now been discontinued but certain options granted to individuals no longer employed by the Company continue to be outstanding under these plans.

The following summarises the outstanding options in issue under the various plans that have been operated by the Company:

Issue date	Options outstanding	Options vested	Exercise price	Expiry
26 January 2013	14,750,000	4,916,670	UK£0.061	25 January 2017
21 May 2012	500,000	166,667	UK£0.15	20 May 2015
31 May 2011	1,600,000	1,066,670	C\$0.60	30 May 2014
28 January 2011	1,285,000	1,285,000	UK£0.41	27 January 2021
28 January 2011	450,000	450,000	UK£0.37	27 January 2021
21 December 2009	1,700,000	1,700,000	UK£0.15	20 December 2019
01 April 2006	278,360	278,360	UK£1.50	01 April 2016
01 April 2006	274,925	274,925	UK£3.00	01 April 2016
15 November 2007	25,000	25,000	UK£2.64	14 November 2017
	<u>20,863,285</u>	<u>10,163,292</u>		

The approximate weighted average exercise price is UK£0.18

During the three months ended 31 March 2013, the following stock options were issued and valued using the Black-Scholes option pricing model parameters listed below (in each case with no dividends):

Grant Date	Number of Options	Exercise Price	Grant Date Share price	Black Scholes Pricing Parameters		
				Risk Free Interest Rate	Expected Life	Volatility Factor
26 January 2013	14,750,000	UK£0.061	UK£0.0588	1%	3 years	50%

## 11. Impairment

For the purposes of the preparation of the annual audited financial statements for the year ended 31 December 2012, management undertook an impairment review of the Group's exploration, development and production assets.

The carrying value of the assets relating to the Palito Mine at that time (after taking into account existing impairment provisions) was US\$25,224,076. As at 31 March 2013 the carrying value of the assets relating to the Palito Mine (after taking into account existing impairment provisions) is US\$25,476,605 the increase primarily arising as a result of exchange rate variations resulting from a strengthening of the Brazilian Real which have offset depreciation charges made during the period.

As at 31 December 2012, management made an estimate of the of the value in use attributable to the Palito Mine and the major assumptions underlying this estimate are detailed in note 18 to the Company's Annual Report and Financial Statements for the year ended 31 December 2012. Management do not consider that any events have occurred during the period since the preparation of that estimate which would lead them to vary any of the assumptions underlying the estimate of the value in use which supports the amended carrying value as at 31

March 2013. Accordingly no adjustment has been made to the impairment provision carried in the books of the group. The matter will continue to be reviewed in future periods.

## **12. Post Balance Sheet Events**

On 6 May, 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 will acquire all the issued and outstanding common shares of Kenai (“Kenai Shares”) by way of a Plan of Arrangement (“the Arrangement”).

The acquisition of Kenai shares under the Arrangement will result in Kenai shareholders receiving 0.85 of one Serabi Share in exchange for each Kenai Share held (the “Exchange Ratio”). The Arrangement will provide for the issuance by Serabi of replacement warrants to holders of 17,288,500 outstanding Kenai warrants on similar terms as adjusted by the Exchange Ratio. The Arrangement also provides for the issuance of replacement options to holders of 2,980,000 outstanding Kenai options as adjusted by the Exchange Ratio with expiry on similar terms or 12 months from the date from which the holder is no longer involved with the Company. The completion of the Arrangement will be subject to usual terms and conditions, including the following:

- a) Approval of the Arrangement by special resolution of Kenai’s shareholders requiring two-thirds of the votes cast to be in favour of the resolution;
- b) Court approval of the Arrangement;
- c) Receipt of any required third party approvals and consents;
- d) Receipt of all required regulatory approvals, including acceptance by the TSX Venture Exchange; and
- e) Admission of the new Serabi Shares to trading on AIM.

Key provisions of the Agreement include a non-solicitation covenant on the part of Kenai, the right in favour of Serabi to match any superior proposal and the payment of a termination fee of \$500,000 to Serabi in certain circumstances including if Kenai accepts a superior proposal.

In aggregate it is currently anticipated that 90,020,724 new Serabi Shares will be issued to Kenai shareholders to acquire the 105,906,734 Kenai Shares currently in issue. In the event that any of the existing warrants or options to acquire Kenai Shares is exercised prior to completion additional Serabi Shares will be required to be issued. In addition and pursuant to a Share Purchase Agreement between Kenai and Gold Anomaly Limited (“GAL”) whereby Kenai acquired the Sao Chico project, Serabi will issue to GAL 5,100,000 new Serabi Shares in satisfaction of additional consideration commitments made by Kenai to GAL under this Share Purchase Agreement. The new shares being issued pursuant to the Transaction will, on issue, rank pari passu with the existing ordinary shares of Serabi in issue and application will be made for the new Serabi Shares to be admitted to trading on AIM and listed on the TSX.

Concurrently with the execution of the Agreement, Serabi and Kenai have entered into a secured loan agreement pursuant to which Serabi will make available a facility of up to US\$2,750,000 (the “Principal”) to Kenai. The loan will be used by Kenai to finance the commencement of an estimated 6,000 metre diamond drilling programme at the Sao Chico project and for general working capital purposes. The Principal shall be payable in full following the termination of the Acquisition Agreement by either party thereto in accordance with the provisions of the Agreement (the “Repayment Date”). Up to the Repayment Date, interest shall be calculated on the Principal outstanding at the rate of 12% per annum and upon and after the Repayment Date and until the Principal is repaid in full, interest shall be calculated on the Principal outstanding at the rate of 18% per annum. Unless the Agreement is terminated earlier the Repayment Date is 31 August 2013.

## **13. Approval of the interim condensed consolidated financial statements**

These unaudited interim condensed consolidated financial statements for the three month period ended 31 March 2013 were approved by the board of directors on 14 May 2013.