SERABI GOLD

SERABI GOLD PLC

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

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2013

NOTICE

These unaudited interim condensed consolidated financial statements have been prepared by management and have not been subject to review by the Company's independent auditor.

SERABI GOLD PLC
Condensed Consolidated Statements of Comprehensive Income

		For the three months ended 30 September		For the nine months ended 30 September	
(expressed in US$)	Notes	**2013 (unaudited)**	2012 (unaudited)	**2013 (unaudited)**	2012 (unaudited)
CONTINUING OPERATIONS					
Revenue		—	—	—	—
Operating expenses		—	—	—	(178,119)
Gross loss		—	—	—	(178,119)
Administration expenses		**(1,080,137)**	(450,047)	**(2,794,523)**	(1,834,000)
Share based payments		**(47,846)**	(33,244)	**(143,538)**	(95,638)
Gain on asset disposals		—	—	—	8,355
Depreciation of plant and equipment		**(127,850)**	(223,150)	**(348,491)**	(807,991)
Operating loss		**(1,255,833)**	(706,441)	**(3,286,552)**	(2,907,393)
Foreign exchange gain/(loss)		**98,078**	9,434	**(133,740)**	73,940
Finance expense		**(51,601)**	(19,806)	**(114,853)**	(57,450)
Investment income		**7,427**	1,265	**16,475**	6,129
Loss before taxation		**(1,201,929)**	(715,548)	**(3,518,670)**	(2,884,774)
Income tax expense		—	—	—	—
Loss for the period from continuing operations (1) (2)		**(1,201,929)**	(715,548)	**(3,518,670)**	(2,884,774)
Other comprehensive income (net of tax)					
Exchange differences on translating foreign operations		**(183,758)**	(199,904)	**(3,598,944)**	(3,268,882)
Total comprehensive loss for the period (2)		**(1,385,687)**	(915,452)	**(7,117,614)**	(6,153,656)
Loss per ordinary share (basic and diluted) (1)	3	**(0.27c)**	(0.78c)	**(0.95c)**	(3.24c)

(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 30 September 2013 (unaudited)**	As at 30 September 2012 (unaudited)	As at 31 December 2012 (audited)
Non-current assets				
Development and deferred exploration costs	5	**25,950,041**	18,249,489	17,360,805
Property, plant and equipment	6	**36,603,692**	25,514,742	26,848,991
Total non-current assets		**62,553,733**	43,764,231	44,209,796
Current assets				
Inventories		**991,800**	980,832	722,868
Trade and other receivables		**98,045**	87,449	85,509
Prepayments and accrued income		**1,099,336**	577,310	603,005
Cash and cash equivalents		**7,945,203**	408,708	2,582,046
Total current assets		**10,134,384**	2,054,299	3,993,428
Current liabilities				
Trade and other payables		**3,656,063**	2,114,143	2,001,683
Interest bearing liabilities	7	**568,671**	—	4,580,745
Accruals		**238,329**	114,659	171,102
Total current liabilities		**4,463,063**	2,228,802	6,753,530
Net current assets/(liabilities)		**5,671,321**	(174,503)	(2,760,102)
Total assets less current liabilities		**68,225,054**	43,589,728	41,449,694
Non-current liabilities				
Trade and other payables		**185,429**	233,825	211,939
Provisions		**1,477,671**	1,546,176	1,612,098
Interest bearing liabilities	7	**1,378,553**	350,127	364,656
Total non-current liabilities		**3,041,653**	2,130,128	2,188,693
Net assets		**65,183,401**	41,459,600	39,261,001
Equity				
Share capital	10	**60,003,212**	31,416,993	31,416,993
Share premium		**54,399,399**	50,306,920	50,182,624
Option reserve		**2,168,002**	1,979,610	2,019,782
Other reserves		**868,828**	780,028	780,028
Translation reserve		**(8,205,255)**	(4,344,049)	(4,606,311)
Accumulated loss		**(44,050,785)**	(38,679,902)	(40,532,115)
Equity shareholders' funds		**65,183,401**	41,459,600	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 by the EU and with IFRS and their interpretations adopted by the International Accounting Standards Board have been filed with the Registrar of Companies following their adoption by shareholders at the last 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 loss	Total equity
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	—	—	—	—	(3,268,882)	—	(3,268,882)
Loss for the period	—	—	—	—	—	(2,884,774)	(2,884,774)
Total comprehensive income for the period	—	—	—	—	(3,268,882)	(2,884,774)	(6,153,656)
Issue of new ordinary shares for cash	2,125,442	2,047,508	—	77,933	—	—	4,250,883
Costs associated with issue of new ordinary shares for cash	—	(32,645)	—	—	—	—	(32,645)
Share option expense	—	—	23,261	—	—	87,277	110,538
Equity shareholders' funds at 30 September 2012	**31,416,993**	**50,306,920**	**1,979,610**	**780,028**	**(4,344,049)**	**(38,679,902)**	**41,459,600**
Foreign currency adjustments	—	—	—	—	(262,262)	—	(262,262)
Loss for the period	—	—	—	—	—	(1,939,489)	(1,939,489)
Total comprehensive income for the period	—	—	—	—	(262,262)	(1,939,489)	(2,201,751)
Costs associated with issue of new ordinary shares for cash	—	(124,296)	—	—	—	—	(124,296)
Share options lapsed	—	—	(87,276)	—	—	87,276	—
Share option expense	—	—	127,448	—	—	—	127,448
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	—	—	—	—	(3,598,944)	—	(3,598,944)
Loss for the period	—	—	—	—	—	(3,518,670)	(3,518,670)
Total comprehensive income for the period	—	—	—	—	(3,598,944)	(3,518,670)	(7,117,614)
Issue of new ordinary shares for cash	21,357,000	4,183,400	—	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 ordinary shares	7,229,219	361,461	—	—	—	—	7,590,680
Share option expense	—	—	148,220	—	—	—	148,220
Equity shareholders' funds at 30 September 2013	**60,003,212**	**54,399,399**	**2,168,002**	**427,615**	**(8,205,255)**	**(43,609,572)**	**65,183,401**

SERABI GOLD PLC
Condensed Consolidated Cash Flow Statements

(expressed in US$)	For the three months ended 30 September 2013 (unaudited)	For the three months ended 30 September 2012 (unaudited)	For the nine months ended 30 September 2013 (unaudited)	For the nine months ended 30 September 2012 (unaudited)
Operating activities				
Operating loss	**(1,255,833)**	(706,441)	**(3,286,552)**	(2,907,393)
Depreciation – plant, equipment and mining properties	**127,850**	223,150	**348,491**	807,991
Gain on asset disposals	**—**	—	**—**	(8,355)
Option costs	**47,846**	33,244	**143,538**	95,638
Interest paid	**(33,024)**	(4,954)	**(145,729)**	(15,277)
Foreign exchange gain/(loss)	**432,372**	(17,210)	**66,528**	(111,113)
Changes in working capital				
(Increase)/ decrease in inventories	**(218,228)**	(937)	**(346,016)**	51,383
Decrease/(increase) in receivables, prepayments and accrued income	**2,022,705**	(50,205)	**(360,917)**	78,217
Decrease/(increase) in payables, accruals and provisions	**(588,288)**	136,710	**545,711**	(321,751)
Net cash flow from operations	**535,400**	(386,643)	**(3,034,946)**	(2,330,660)
Investing activities				
Proceeds from sale of fixed assets	**—**	—	**—**	9,647
Purchase of property, plant and equipment and projects in construction	**(4,482,422)**	(5,425)	**(10,266,889)**	(57,377)
Exploration and development expenditure	**(1,478,164)**	(914,305)	**(1,682,097)**	(2,863,261)
Interest received	**7,427**	1,265	**16,475**	6,129
Net cash outflow on investing activities	**(5,953,159)**	(918,465)	**(11,932,511)**	(2,904,862)
Financing activities				
Issue of ordinary share capital	—	—	**25,628,400**	4,250,883
Repayment of short term loan	**—**	—	**(4,500,000)**	—
Payment of finance lease liabilities	**(676,137)**	—	**(676,137)**	—
Acquisition of subsidiary – cash acquired	**222,211**	—	**222,211**	—
Payment of share issue costs	**—**	—	**(327,286)**	(32,645)
Net cash (outflow)/ inflow from financing activities	**(453,926)**	—	**20,347,188**	4,218,238
Net (decrease)/ increase in cash and cash equivalents	**(5,871,685)**	(1,305,108)	**5,379,731**	(1,017,284)
Cash and cash equivalents at beginning of period	**13,993,629**	1,697,434	**2,582,046**	1,406,458
Exchange difference on cash	**(176,741)**	16,382	**(16,574)**	19,534
Cash and cash equivalents at end of period	**7,945,203**	408,708	**7,945,203**	408,708

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation

These interim accounts are for the three and nine month periods ended 30 September 2013. Comparative information has been provided for the unaudited three and nine month periods ended 30 September 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.

(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 GB£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.

In July 2013 the Company completed the acquisition of Kenai Resources Ltd. Whilst this acquisition has necessitated additional expenditures which were not foreseen, management considers that the Company holds and can access adequate capital to be able to complete the necessary mine development and process plant and infrastructure rehabilitation works that are required at Palito in order to be able to commence commissioning of its gold process plant before the end of 2013. From the time that production operations commence at planned rates management anticipate 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 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 amortisation 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 Reais ("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

	3 months ended 30 September 2013	3 months ended 30 September 2012	**9 months ended 30 September 2013**	9 months ended 30 September 2012	12 months ended 31 December 2012
Loss attributable to ordinary shareholders (US$)	**1,201,929**	715,548	**3,518,670**	2,884,774	4,736,986
Weighted average ordinary shares in issue	**437,778,638**	91,268,529	**371,227,980**	88,976,923	89,552,955
Basic and diluted loss per share (US cents)	**0.27**	0.78	**0.95**	3.24	5.29

No diluted earnings per share is presented as the effect of the exercise of share options and warrants would be to decrease the loss per share.

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 30 September 2013 (unaudited)			3 months ended 30 September 2012 (unaudited)		
	Brazil $	**Unallocated $**	**Total $**	Brazil $	Unallocated $	Total $
Revenue	—	—	—	—	—	—
Operating expenses	—	—	—	—	—	—
Operating loss	—	—	—	—	—	—
Administration expenses	**(325,854)**	**(754,283)**	**(1,080,137)**	(176,594)	(273,453)	(450,047)
Share based payments	—	**(47,846)**	**(47,846)**	—	(33,244)	(33,244)
Provisions, depreciation and (loss)/gain on asset disposals	**(29,921)**	**(97,929)**	**(127,850)**	(218,794)	(4,356)	(223,150)
Operating loss	**(355,775)**	**(900,058)**	**(1,255,833)**	(395,388)	(311,053)	(706,441)
Foreign exchange (loss)/gain	**(1,053)**	**99,131**	**98,078**	3,565	5,869	9,434
Interest income/(expense)	**6,688**	**(50,862)**	**(44,174)**	(4,953)	(13,588)	(18,541)
Loss before taxation	**(350,140)**	**(851,789)**	**(1,201,929)**	(396,776)	(318,772)	(715,548)

An analysis of the results for the nine month period by management segment is as follows:

	9 months ended 30 September 2013 (unaudited)			9 months ended 30 September 2012 (unaudited)		
	Brazil $	**Unallocated $**	**Total $**	Brazil $	Unallocated $	Total $
Revenue	—	—	—	—	—	—
Operating expenses	—	—	—	(178,119)	—	(178,119)
Operating loss	—	—	—	(178,119)	—	(178,119)
Administration expenses	**(912,808)**	**(1,881,715)**	**(2,794,523)**	(759,862)	(1,074,138)	(1,834,000)
Share based payments	—	**(143,538)**	**(143,538)**	—	(95,638)	(95,638)
Depreciation and (loss)/gain on asset disposals	**(243,648)**	**(104,843)**	**(348,491)**	(762,948)	(36,688)	(799,636)
Operating loss	**(1,156,456)**	**(2,130,096)**	**(3,286,552)**	(1,700,929)	(1,206,464)	(2,907,393)
Foreign exchange (loss)/gain	**(1,560)**	**(132,180)**	**(133,740)**	531	73,409	73,940
Interest income/(expense)	**9,701**	**(108,079)**	**(98,378)**	(15,277)	(36,044)	(51,321)
Loss before taxation	**(1,148,315)**	**(2,370,355)**	**(3,518,670)**	(1,715,675)	(1,169,099)	(2,884,774)

An analysis of non-current assets by division of capital expenditure is as follows:

	Total non-current assets		
	30 September 2013 (unaudited) $	30 September 2012 (unaudited) $	31 December 2012 (audited) $
Brazil – operations	**36,596,033**	25,507,702	26,846,170
Brazil – exploration	**25,950,041**	18,249,489	17,360,805
Other	**7,659**	7,040	2,821
	62,553,733	43,764,231	44,209,796

An analysis of total assets by location is as follows:

	Total assets		
	30 September 2013 (unaudited)	30 September 2012 (unaudited)	31 December 2012 (audited) $
Brazil	**65,991,170**	45,292,075	45,776,276
Other	**6,696,947**	526,455	2,426,948
	72,688,117	45,818,530	48,203,224

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

	For the 6 month period ended 30 September 2013 (unaudited) $	For the 6 month period ended 30 September 2012 (unaudited) $	For the year ended 31 December 2012 (audited) $
Brazil	**1,686,780**	2,878,160	2,272,894

5. Development expenditure and deferred exploration costs

	30 September 2013 (unaudited)	30 September 2012 (unaudited)	31 December 2012 (audited)
Cost			
Opening balance	**17,360,805**	16,648,884	16,648,884
Exploration and development expenditure	**1,682,097**	2,863,261	2,251,067
Share option charges	**4,683**	14,899	21,827
Additions on acquisition of subsidiary	**8,187,839**	—	—
Write-off of past exploration costs	—	—	(267,703)
Foreign exchange movements	**(1,285,383)**	(1,277,555)	(1,293,270)
Balance at end of period	**25,950,041**	18,249,489	17,360,805

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

	30 September 2013 (unaudited)	30 September 2012 (unaudited)	31 December 2012 (audited)
Cost			
Balance at beginning of period	**42,364,175**	44,020,699	44,020,699
Additions	**12,476,245**	57,377	1,769,951
Addition on acquisition of subsidiary	**356,254**	—	—
Disposals	—	(45,288)	(3,339,336)
Foreign exchange movements	**(3,689,189)**	(2,978,808)	(87,139)
Balance at end of period	**51,507,485**	41,053,980	42,364,175
Accumulated depreciation			
Balance at beginning of period	**15,515,184**	15,754,607	15,754,607
Charge for period	**348,491**	807,991	891,101
Balance on acquisition of subsidiary	**66,812**	—	—
Eliminated on sale of asset	—	(43,996)	(1,044,653)
Foreign exchange movements	**(1,026,694)**	(979,364)	(85,871)
Balance at end of period	**14,903,793**	15,539,238	15,515,184
Net book value at end of period	**36,603,692**	25,514,742	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 was US$2,113,222 at the period end.

7. Interest bearing liabilities and contractual commitments

Interest bearing liabilities

	30 September 2013 (unaudited)	30 September 2012 (unaudited)	31 December 2012 (audited)
Shareholder loan	—	—	4,580,745
Obligations under finance leases	568,671	—	—
Due in less than one year	**568,671**	**—**	**4,580,745**
Convertible loan stock	414,005	350,127	364,656
Obligations under finance leases	964,548	—	—
Due in more than one year	**1,378,553**	**351,127**	**364,656**

The following table sets out the maturity profile of the Group's contractual commitments excluding trade liabilities as at 30 September 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	414,005	—	414,005	—	—
Capital lease obligations	1,533,219	568,671	964,548	—	—
Operating leases	127,379	104,342	23,037	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	**2,074,603**	**673,013**	**1,401,590**	—	—

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 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 notified to SMSA by the Receita Federal 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 installments 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 acquired a direct interest of 51.1% in the share capital of the Company and became a controlling party. Following the acquisition of Kenai Resources Limited in July 2013, as a result of which a further 95,120,675 new Ordinary Shares were issued, the direct interest of Fratelli in the share capital of the Company was reduced to 40.5%.

10. Share capital

(a) Ordinary and deferred shares

	30 September 2013 (unaudited)		30 September 2012 (unaudited)		31 December 2012 (audited)	
Ordinary shares	Number	$	Number	$	Number	$
Opening balance	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

	30 September 2013 (unaudited)		30 September 2012 (unaudited)		31 December 2012 (audited)	
Issue of shares on acquisition	95,120,676	7,229,219	—	—	—	—
Balance at end of period	456,389,205	35,981,817	91,268,529	7,395,598	91,268,529	7,395,598

	30 September 2013 (unaudited)		30 September 2012 (unaudited)		31 December 2012 (audited)	
Deferred shares	Number	$	Number	$	Number	$
Opening balance and balance at end of period	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 9 month period ended 30 September 2013:

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 shares 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.

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 30 September 2013 the following warrants remain outstanding:

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

(1) The Company has calculated the value of each of the share purchase warrants as GB£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 GB£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	148,220
Balance at end of period	2,168,002

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
18 July 2013	960,500	960,500	C$0.31176	1 October 2015
18 July 2013	1,572,500	1,572,500	C$0.29411	7 June 2016
26 January 2013	14,750,000	4,916,670	GB£0.061	25 January 2017
21 May 2012	500,000	333,334	GB£0.15	20 May 2015
31 May 2011	1,600,000	1,600,000	C$0.60	30 May 2014
28 January 2011	1,285,000	1,285,000	GB£0.41	27 January 2021
28 January 2011	450,000	450,000	GB£0.37	27 January 2021
21 December 2009	1,700,000	1,700,000	GB£0.15	20 December 2019
15 November 2007	25,000	25,000	GB£2.64	14 November 2017
01 April 2006	278,360	278,360	GB£1.50	01 April 2016
01 April 2006	274,925	274,925	GB£3.00	01 April 2016
	23,396,285	13,396,289		

The approximate weighted average exercise price is GB£0.18

During the nine months ended 30 September 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):

				Black Scholes Pricing Parameters		
Grant Date	Number of Options	Exercise Price	Grant Date Share price	Risk Free Interest Rate	Expected Life	Volatility Factor
26 January 2013	14,750,000	GB£0.061	GB£0.0588	1%	3 years	50%
18 July 2013	960,500	C$0.31176	GB£0.0525	1%	2 years	50%
18 July 2013	1,572,500	C$0.29411	GB£0.0525	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 30 September 2013 the carrying value of the assets relating to the Palito Mine (after taking into account existing impairment provisions) is US$23,381,877 the reduction primarily arising as a result of exchange rate variations resulting from a weakening of the Brazilian Real..

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 30 September 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. 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 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 Serabi 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.

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**

	Fair value US$
Consideration paid and costs incurred	
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 95,120,676 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 30 September 2013, the acquired business has contributed US$nil to group revenue and US$167,000 to the loss before tax.

Acquisition related costs, which have been included in operating costs, amounted to $280,000.

13. Approval of the interim condensed consolidated financial statements

These unaudited interim condensed consolidated financial statements for the six month period ended 30 September 2013 were approved by the Board of Directors on 13 November 2013.