



SERABI GOLD

SERABI GOLD PLC

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

**FOR THE THREE MONTHS AND SIX MONTHS ENDED
30 JUNE 2014**

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

(expressed in US\$)	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
CONTINUING OPERATIONS					
Revenue		—	—	—	—
Operating expenses		—	—	—	—
Gross loss		—	—	—	—
Administration expenses		(1,482,040)	(805,633)	(2,394,018)	(1,714,386)
Share based payments		(43,840)	(47,846)	(73,428)	(95,692)
Depreciation of plant and equipment		(140,322)	(112,974)	(266,305)	(220,641)
Operating loss		(1,666,202)	(966,453)	(2,733,751)	(2,030,719)
Foreign exchange gain/(loss)		18,794	23,400	8,876	(231,818)
Finance expense		(25,802)	(20,753)	(205,956)	(63,252)
Investment income		4,473	6,291	4,473	9,048
Loss before taxation		(1,668,737)	(957,515)	(2,926,358)	(2,316,741)
Income tax expense		—	—	—	—
Loss for the period from continuing operations ^{(1) (2)}		(1,668,737)	(957,515)	(2,926,358)	(2,316,741)
Other comprehensive income (net of tax)					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		1,797,215	(4,024,661)	3,717,965	(3,415,186)
Total comprehensive income/(loss) for the period ⁽²⁾		128,478	(4,982,176)	791,607	(5,731,927)
Loss per ordinary share (basic and diluted) ⁽¹⁾	3	(0.25c)	(0.27c)	(0.50c)	(0.69c)

(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 June 2014 (unaudited)	As at 30 June 2013 (unaudited)	As at 31 December 2013 (audited)
Non-current assets				
Deferred exploration costs	5	26,508,924	16,375,076	24,659,003
Property, plant and equipment	6	43,412,368	30,228,704	36,008,318
Total non-current assets		69,921,292	46,603,780	60,667,321
Current assets				
Inventories		4,482,101	784,844	3,890,880
Trade and other receivables		5,278,884	1,541,830	75,977
Prepayments and accrued income		2,358,282	1,437,737	1,264,654
Cash and cash equivalents		5,920,963	13,993,628	3,789,263
Total current assets		18,040,230	17,758,039	9,020,774
Current liabilities				
Trade and other payables		3,675,731	2,823,871	2,871,546
Interest bearing liabilities		4,241,523	--	3,790,363
Accruals		137,739	628,328	266,924
Total current liabilities		8,054,993	3,452,199	6,928,833
Net current assets		9,985,237	14,305,840	2,091,941
Total assets less current liabilities		79,906,529	60,909,620	62,759,262
Non-current liabilities				
Trade and other payables		456,979	119,309	410,330
Provisions		1,574,875	1,487,279	1,480,665
Interest bearing liabilities		527,168	374,030	833,560
Total non-current liabilities		2,559,022	1,980,618	2,724,555
Net assets		77,347,507	58,929,002	60,034,707
Equity				
Share capital	11	61,668,212	52,773,993	60,003,212
Share premium		69,119,848	54,479,151	54,479,151
Option reserve		2,214,909	2,118,596	2,330,789
Other reserves		931,144	427,615	789,076
Translation reserve		(7,053,208)	(8,021,497)	(10,771,173)
Accumulated loss		(49,533,398)	(42,848,856)	(46,796,348)
Equity shareholders' funds		77,347,507	58,929,002	60,034,707

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 2013 prepared under IFRS as adopted in 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's dependency on its ability to successfully re-commission and commence commercial gold production at the Palito Mine in order to continue as a going concern. 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 ⁽¹⁾	Translation reserve	Accumulated loss	Total equity	
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	—	—	—	—	(3,415,186)	—	(3,415,186)	
Loss for the period	—	—	—	—	—	(2,316,741)	(2,316,741)	
Total comprehensive income for the period	—	—	—	—	(3,415,186)	(2,316,741)	(5,731,927)	
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)	—	—	—	
Share option expense	—	—	98,814	—	—	—	98,814	
Equity shareholders' funds at 30 June 2013	52,773,993	54,479,151	2,118,596	427,615	(8,021,497)	(42,848,856)	58,929,002	
Foreign currency adjustments	—	—	—	—	(2,749,676)	—	(2,749,676)	
Loss for the period	—	—	—	—	—	(3,947,492)	(3,947,492)	
Total comprehensive income for the period	—	—	—	—	(2,749,676)	(3,947,492)	(6,697,166)	
Issue of new ordinary shares for acquisition	7,229,219	—	—	361,461	—	—	7,590,680	
Costs associated with issue of new ordinary shares for cash	—	—	—	—	—	—	—	
Share option expense	—	—	212,193	—	—	—	212,193	
Equity shareholders' funds at 30 December 2013	60,003,212	54,479,151	2,330,789	789,076	(10,771,173)	(46,796,348)	60,034,707	
Foreign currency adjustments	—	—	—	—	3,717,965	—	3,717,965	
Loss for the period	—	—	—	—	—	(2,926,358)	(2,926,358)	
Total comprehensive income for the period	—	—	—	—	3,717,965	(2,926,358)	791,607	
Issue of new ordinary shares for cash	1,665,000	14,765,000	—	220,000	—	—	16,650,000	
Costs associated with issue of new ordinary shares for cash	—	(202,235)	—	—	—	—	(202,235)	
Warrants lapsed in period	—	77,932	—	(77,932)	—	—	—	
Share options lapsed in period	—	—	(189,308)	—	—	189,308	—	
Share option expense	—	—	73,428	—	—	—	73,428	
Equity shareholders' funds at 30 June 2014	61,668,212	69,119,848	2,214,909	931,144	(7,053,208)	(49,533,398)	77,347,507	

(1) Other reserves comprise a merger reserve of US\$361,461 (2013: US\$ 361,461), a warrant reserve of US\$308,801 (December 2013: US\$166,733) and the initial fair value for the equity component of the convertible loan stock of US\$260,882 (2013: US\$ 260,882).

SERABI GOLD PLC
Condensed Consolidated Cash Flow Statements

(expressed in US\$)	For the three months ended 30 June		For the six months ended 30 June	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Operating activities				
Operating loss	(1,668,737)	(957,515)	(2,926,358)	(2,316,741)
Depreciation – plant, and equipment	140,322	112,974	266,305	220,641
Net financial expense	2,535	(8,938)	192,607	286,022
Option costs	43,840	47,846	73,428	95,692
Interest paid	5,155	(5,100)	(154,753)	(112,705)
Foreign exchange loss	(148,423)	(60,528)	4,022	(365,844)
Changes in working capital				
(Increase)/ decrease in inventories	1,426,974	(66,201)	(330,233)	(127,788)
(Increase) /decrease in receivables, prepayments and accrued income	(5,106,354)	(2,216,686)	(6,164,899)	(2,383,622)
Increase/(decrease) in payables, accruals and provisions	442,743	710,652	495,381	1,133,999
Net cash flow from operations	(4,861,947)	(2,443,496)	(8,544,500)	(3,570,346)
Investing activities				
Sales revenues recognised to date	4,566,868	—	5,220,713	—
Capitalised pre-operating costs	(6,619,822)	—	(8,132,926)	—
Purchase of property, plant and equipment and projects in construction	(1,531,155)	(3,705,076)	(2,291,845)	(5,784,467)
Other development expenditures	(24,207)	—	(38,160)	—
Exploration and development expenditure	(349,549)	(92,796)	(724,508)	(203,933)
Interest received	—	6,291	—	9,048
Net cash outflow on investing activities	(3,957,865)	(3,791,581)	(5,966,726)	(5,979,352)
Financing activities				
Issue of ordinary share capital	—	—	16,650,000	25,628,400
Payment of share issue costs	—	(45,627)	(202,235)	(327,286)
Repayment of short term loan facility	—	—	(5,500,000)	(4,500,000)
Drawdown of short term loan facility	—	—	2,750,000	—
Receipts from trade finance facility	3,188,178	—	3,188,178	—
Payment of finance lease liabilities	(109,350)	—	(255,150)	—
Net cash inflow/(outflow) from financing activities	3,078,828	(45,627)	16,630,793	20,801,114
Net (decrease)/ increase in cash and cash equivalents	(5,740,984)	(6,280,704)	2,119,567	11,251,416
Cash and cash equivalents at beginning of period	11,616,469	20,222,386	3,789,263	2,582,046
Exchange difference on cash	45,478	51,946	12,133	160,166
Cash and cash equivalents at end of period	5,920,963	13,993,628	5,920,963	13,993,628

SERABI GOLD PLC
Report and condensed consolidated financial statements for the 3 month and 6 month periods ended 30 June 2014

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation

These interim accounts are for the three and six month periods ended 30 June 2014. Comparative information has been provided for the unaudited three and six month periods ended 30 June 2013 and, where applicable, the audited twelve month period from 1 January 2013 to 31 December 2013.

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 2013 and those envisaged for the financial statements for the year ending 31 December 2014. 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

The Company commenced gold production operations at the Palito Mine at the start of 2014 having completed the first phase construction of the gold recovery plant in December 2013. The operations during the first six months of 2014 have been in a re-commissioning and ramp-up phase. On 23 July 2014 the Company announced that with effect from 1 July 2014 the Palito mine had achieved Commercial Production. 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.

(ii) 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, NI 43-101 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.

(iii) Inventories

Inventories are valued at the lower of cost and net realisable value. Inventory of mined ore, material that is in process and unsold inventory of gold and other materials awaiting sale are valued on the basis of the direct costs involved in bringing the inventory to its current form and as the company considers appropriate, attributable site overhead costs.

(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 initial Commercial Production at the Palito mine on 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 with this cost being amortised over the anticipated life of the mine on a unit of production basis. During December 2008 the underground mine was placed on care and maintenance and with no depletion of the reserves and resources attributable to the mine, no amortisation charge has been recorded since that date.

During June 2012 it was decided to re-commence gold production operations at the Palito mine. Costs incurred since October 2012 in relation to work on the remediation, rehabilitation and development of the Palito mine, the process plant and other site infrastructure have been capitalised together with a portion of general administration costs incurred in Brazil and these costs classified as Assets in Construction.

For the six months ended 30 June 2014 the mine has been in a commissioning and ramp-up phase and accordingly all production costs and revenues generated have continued to be capitalised.

On 23 July 2014, the Company announced that Commercial Production had been achieved with effect from 1 July 2014. On 1 July 2014 capitalised pre-operating costs that are currently included as Assets under Construction will be transferred to Mining Property and the total value will be amortised on a unit of production basis.

(vi) Revenue

Revenue is recognised only at the time that the significant risks and rewards of ownership have transferred, the Company retains neither continuing managerial involvement in ownership or effective control, when the value of the sale can be reliably measured and when it is probable that the economic benefits associated with the transaction will flow to the company. If at the date of the sale being recognised, pricing and/or quantities of metal being delivered are still subject to change, revenue will be recognised based on the best estimates at the time and any variation arising when final pricing under the contract is determined or metal quantities agreed will be recognised in a future period. Any unsold production and in particular concentrate is held as inventory and valued at production cost, including attributable overhead, until sold.

For the six months ended 30 June 2014 the mine has been in a commissioning and ramp-up phase. Accordingly any revenue recognised in the six months ended 30 June 2014 has been capitalised and reduces the book value of the Assets in Construction.

(vii) Currencies

The condensed financial statements are presented in United States dollars (US\$ or "\$"). Other currencies referred to in these condensed financial statements are UK pounds ("UK£"), 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

	3 months ended 30 June 2014	3 months ended 30 June 2013	6 months ended 30 June 2014	6 months ended 30 June 2013	12 months ended 31 Dec 2013
Loss attributable to ordinary shareholders (US\$)	1,668,737	957,515	2,926,258	2,316,741	6,264,233
Weighted average ordinary shares in issue	656,389,204	361,268,529	588,985,889	337,401,126	392,693,275
Basic and diluted loss per share (US cents)	0.25	0.27	0.50	0.69	1.60

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 June 2014 (unaudited)			3 months ended 30 June 2013 (unaudited)		
	Brazil	Unallocated	Total	Brazil	Unallocated	Total
	\$	\$	\$	\$	\$	\$
Revenue	—	—	—	—	—	—
Operating expenses	—	—	—	—	—	—
Operating loss	—	—	—	—	—	—
Administration expenses	(458,091)	(1,023,949)	(1,482,040)	(366,533)	(439,100)	(805,633)
Share based payments	—	(43,840)	(43,840)	—	(47,846)	(47,846)
Depreciation	(139,249)	(1,073)	(140,322)	(106,556)	(6,418)	(112,974)
Operating loss	(597,340)	(1,068,862)	(1,666,202)	(473,089)	(493,364)	(966,453)
Foreign exchange gain/(loss)	—	18,794	18,794	(507)	23,907	23,400
Interest (expense)/income	—	(21,329)	(21,329)	3,243	(17,705)	(14,462)
Loss before taxation	(597,340)	(1,071,397)	(1,668,737)	(470,353)	(487,162)	(957,515)

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

	6 months ended 30 June 2014 (unaudited)			6 months ended 30 June 2013 (unaudited)		
	Brazil \$	Unallocated \$	Total \$	Brazil \$	Unallocated \$	Total \$
Revenue	—	—	—	—	—	—
Operating expenses	—	—	—	—	—	—
Operating loss	—	—	—	—	—	—
Administration expenses	(829,396)	(1,564,623)	(2,394,019)	(586,953)	(1,127,433)	(1,714,386)
Share based payments	—	(73,427)	(73,427)	—	(95,692)	(95,692)
Depreciation	(264,157)	(2,148)	(266,305)	(213,727)	(6,914)	(220,641)
Operating loss	(1,093,553)	(1,640,198)	(2,733,751)	(800,680)	(1,230,039)	(2,030,719)
Foreign exchange gain/(loss)	—	8,876	8,876	(507)	(231,311)	(231,818)
Interest (expense)/income	—	(201,483)	(201,483)	3,013	(57,217)	(54,204)
Loss before taxation	(1,093,553)	(1,832,805)	(2,926,358)	(798,174)	(1,518,567)	(2,316,741)

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

	Total non-current assets		
	30 June 2014 (unaudited) \$	30 June 2013 (unaudited) \$	31 December 2013 (audited) \$
Brazil – operations	43,407,931	30,222,001	36,001,733
Brazil – exploration	26,508,924	16,375,076	24,659,003
Other	4,437	6,703	6,585
	69,921,292	46,603,780	60,667,321

An analysis of total assets by location is as follows:

	Total assets		
	30 June 2014 (unaudited) \$	30 June 2013 (unaudited) \$	31 December 2013 (audited) \$
Brazil	77,597,209	49,513,016	66,096,282
Other	10,364,313	14,848,803	3,591,813
	87,961,522	64,361,819	69,688,095

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

	For the 6 month period ended 30 June 2014 (unaudited) \$	For the 6 month period ended 30 June 2013 (unaudited) \$	For the year ended 31 December 2013 (audited) \$
Brazil	619,332	207,055	10,626,954

5. Deferred exploration costs

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	31 December 2013 (audited)
Cost			
Opening balance	24,659,003	17,360,805	17,360,805
Exploration and development expenditure	619,332	203,933	2,432,871
Share option charges	—	3,122	6,244
Additions on acquisition of subsidiary	—	—	8,187,839
Write-off of past exploration costs	—	—	(1,007,233)
Foreign exchange movements	1,230,589	(1,192,784)	(2,321,523)
Balance at end of period	26,508,924	16,375,076	24,659,003

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

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	31 December 2013 (audited)
Cost			
Balance at beginning of period	50,761,593	42,364,175	42,364,175
Additions ⁽¹⁾	5,575,746	6,035,631	13,713,894
Additions on acquisition of subsidiary	—	—	321,674
Foreign exchange movements	3,060,017	(3,384,407)	(5,638,150)
Balance at end of period	59,397,356	45,015,399	50,761,593
Accumulated depreciation			
Balance at beginning of period	14,753,275	15,515,184	15,515,184
Charge for period	516,823	220,641	750,807
Balance on acquisition of subsidiary	—	—	66,812
Foreign exchange movements	714,890	(949,130)	(1,579,528)
Balance at end of period	15,984,988	14,786,695	14,753,275
Net book value at end of period	43,412,368	30,228,704	36,008,318

(1) Additions include capitalised operational costs for the period net of any revenues recognised in the period.

7. Inventories

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	31 December 2013 (audited)
Consumables	1,120,779	784,844	891,969
Ore stockpiles and other work in progress	1,729,322	—	2,998,911
Finished goods	1,632,000	—	—
Balance at end of period	4,482,101	784,844	3,890,880

8. Contractual commitments

The following table sets out the maturity profile of the Group's contractual commitments excluding trade liabilities as at 30 June 2014 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	495,728	495,728	—	—	—
Capital lease obligations	1,332,285	632,617	699,668	—	—
Operating leases	40,501	40,501	—	—	—
Purchase obligations	—	—	—	—	—
Other long term obligations	—	—	—	—	—
Total contractual obligations	1,868,514	1,168,846	699,668	—	—

9. 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 period-end is equivalent to US\$681,000.

10. Related party transactions

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 per cent 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.

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 comprised 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 their subscription Fratelli acquired a direct interest of 51.37% in the share capital of the Company and became a controlling party. Fratelli has subsequently acquired a further 6,417,519 ordinary shares increasing their interest to 52.35% of the share capital of the company.

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.

11. Share capital

a) Ordinary and deferred shares

Ordinary shares	30 June 2014 (unaudited)		30 June 2013 (unaudited)		31 December 2013 (audited)	
	Number	\$	Number	\$	Number	\$
Balance at beginning of period	456,389,204	35,981,817	91,268,529	7,395,598	91,268,529	7,395,598
Issue of shares for cash	200,000,000	1,665,000	270,000,000	21,357,000	270,000,000	21,357,000
Issue of shares on acquisition of subsidiary	—	—	—	—	95,120,675	7,229,219
Transfer to deferred shares	—	(32,383,635)	—	—	—	—
Balance at end of period	656,389,204	5,263,182	361,268,529	28,752,598	456,389,204	35,981,817

Deferred shares	30 June 2014 (unaudited)		30 June 2013 (unaudited)		31 December 2013 (audited)	
	Number	\$	Number	\$	Number	\$
Balance at beginning and end of period	140,139,065	24,021,395	140,139,065	24,021,395	140,139,065	24,021,395
Shares created in period	456,389,204	32,383,635	—	—	—	—
Balance at end of period	596,528,269	56,405,030	140,139,065	24,021,395	140,139,065	24,021,395

Total Share Capital	61,668,212	52,773,993	60,003,212
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The following issue of ordinary shares has occurred during the 6 month period ended 30 June 2014:

3 March 2014 Issue of 200,000,000 new units at a unit price of UK£0.05 per unit. Each unit comprised 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 UK£0.06 for a period ending 2 March 2016.

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.

(b) Warrants

As at 30 June 2014 the following warrants remain outstanding:

	Number	Exercise Price	Expiry
Non-tradable warrants - 2013 ⁽¹⁾	8,135,035	UK£0.10	16 January 2015
Non-tradable warrants - 2014 ⁽²⁾	100,000,000	UK£0.06	2 March 2016
	<u>108,135,035</u>		

(1) 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.

(2) The Company has calculated the value of each of these share purchase warrants as UK£0.0022 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	2,330,789
Options lapsed in period	(189,308)
Option costs for period	73,428
Balance at end of period	<u>2,214,909</u>

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 at 30 June 2014 under the various plans that have been operated by the Company:

Issue date	Options outstanding	Options vested	Exercise price	Expiry
7 April 2014	13,600,000	4,533,336	UK£0.050	6 April 2017
7 April 2014	250,000	250,000	UK£0.06665	6 April 2017
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	13,800,000	9,200,002	UK£0.061	25 January 2016
26 January 2013	950,000	950,000	UK£0.0813	25 January 2016
21 May 2012	500,000	500,000	UK£0.15	20 May 2015
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

Issue date	Options outstanding	Options vested	Exercise price	Expiry
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	1 April 2016
01 April 2006	274,925	274,925	UK£3.00	1 April 2016
15 November 2007	25,000	25,000	UK£2.64	14 November 2017
	<u>35,646,285</u>	<u>21,979,623</u>		

The approximate weighted average exercise price is UK£0.122

During the six months ended 30 June 2014, 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
7 April 2014	13,600,000	UK£0.05000	UK£0.04620	0.75%	3 years	20%
7 April 2014	250,000	UK£0.06665	UK£0.04620	0.75%	3 years	20%

12. Impairment

For the purposes of the preparation of the annual audited financial statements for the year ended 31 December 2013, 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\$36.0 million. As at 30 June 2014 the carrying value of the assets relating to the Palito Mine (after taking into account existing impairment provisions) is US\$43.4 million the increase primarily represented by:

- (1) additional capital expenditure incurred during the period;
- (2) operational costs for the quarter which have been capitalised net of revenues recognised in the period for gold and other metals sold; and
- (3) Exchange rate movements affecting the conversion of costs carried in local currencies when converted to the reporting currency of US dollars.

As at 31 December 2013, management made an estimate of the value in use attributable to the Palito Mine and the major assumptions underlying this estimate are detailed in note 19 to the Company's Annual Report and Financial Statements for the year ended 31 December 2013. 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 June 2014. 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.

13. Post Balance Sheet Events

Between the end of the financial period and the date that the financial statements were approved by the board of directors 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 company, the results of these operations, or the state of affairs of the company in future financial periods.

14. Approval of the interim condensed consolidated financial statements

These unaudited interim condensed consolidated financial statements for the three and six month periods ended 30 June 2014 were approved by the board of directors on 13 August 2014.