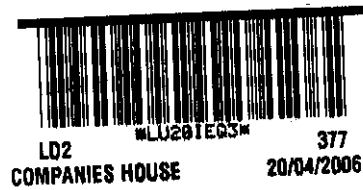


Company number: 5131528

Serabi Mining plc
Annual report and accounts 2005



Serabi Mining plc is a gold mining and exploration company currently focused on the Tapajos geological province of northern Brazil. The Tapajos region is a major, under-explored mineral province from which artisanal miners ("Garimpeiros") are thought to have extracted some 30 million ounces of gold, mostly from alluvial and weathered bedrock deposits since the early 1970's. The Company has established the first significant hard-rock mining operation in the region at the 100% owned Palito Gold Mine. In addition, Serabi has amassed a sizeable land position in the Tapajos where advanced exploration and drilling is currently underway. Serabi's goal is to become a low-cost, long-life, multi-mine producer, using the experience at Palito as the guide for further mining developments.

Highlights of Fiscal Year 2005

74% increase in resources to 825,900 ounces gold equivalent

Improved resource quality as Indicated Resources comprise 90% of total resource

Continuing mine development and operating improvements with an initial 17,261 ounces of gold equivalent production achieved

Process plant upgrade completed, leading to average gold recoveries of between 90% and 95% by year end

Plans initiated to achieve higher mining and process rates in 2006

Successful completion of the Company's initial public offering on London's AIM market

Contents

01	Highlights
02	Chairman's Statement
04	Chief Executive's Statement
09	Financial Review
10	Board of Directors
12	The Community, Health, Safety and the Environment
13	Directors' Report
19	Independent Auditors' Report
20	Profit and Loss Account
	Statement of Total Recognised Gains and Losses
21	Balance Sheets
22	Consolidated Cash Flow Statement
23	Reconciliation of Operating Loss to Net Cash Flow from Operating Activities
	Reconciliation of Cash to Net Funds
24	Notes to the Financial Statements
38	Notice of Annual General Meeting
40	Corporate Directory

Chairman's Statement

2005 was a year of significant accomplishment for Serabi as the Company made tangible progress towards its goal of becoming a mid-tier gold producer. Serabi's admission to London's AIM market on 10 May, 2005 was the culmination of more than five years of private development by the Company's founders, institutional and private investors and employees. The benefits of becoming a public company combined with growing cash flow from the Palito mine now provide a strong foundation for continued success.

Operationally, 2005 was characterised as a year of continuous improvement at the Palito mine and preparation for the start of regional project evaluation. As an operation still under development, production at Palito showed significant improvements over the year, resulting in output of 17,261 ounces of gold equivalent. Building on last year's success and with preparations for the coming year, I expect the full potential of Serabi will become more evident during 2006, with the following goals:

- further expansion of the mineral resource at Palito;
- increase Palito annual mine production to 45,000 ounces gold equivalent with a targeted year end cash cost of US\$200 per ounce;
- establish resources on other Jardim do Ouro projects;
- review expansion potential and complete long-term Palito mine plan;
- step up exploration across the Tapajos project portfolio; and
- establish resource and initiate preliminary planning for a new Tapajos project.

2005 was also a solid year for gold and copper prices, our main products. Since the start of 2005, the price of gold rose from US\$436 per ounce to US\$513 per ounce at the year end, an increase of 18%. Similarly, the price of copper increased from US\$1.42 per pound to US\$2.08 per pound over the same period, an increase of 46%. Copper is a significant by-product at Palito and currently represents approximately 12% of total revenue. The full impact of these prices was partly offset by a surprisingly

strong Brazilian real, which appreciated by 14% over the same time period. Nevertheless, we anticipate enhanced benefits to revenue during 2006 with metal prices remaining strong and limited potential for further currency strengthening.

PALITO GOLD MINE

At our 100% owned Palito Gold Mine, a significant amount of funds were invested in projects designed to expand the rate of production, improve efficiencies and increase the overall resource. By the end of 2005, these investments were beginning to bear fruit, with daily underground mining production regularly achieving above 250 tonnes, compared with less than 100 tonnes at the beginning of the year; more recently this has risen to approximately 400 tonnes per day. In addition, total resources at the Palito Main Zone increased by 74% to 825,900 ounces of gold equivalent. This substantial increase in the resource base will now be assessed to determine the implications for long-term mine planning in order to realise the full potential of the Palito Gold Mine.

Following an assessment of various alternatives during the second half of 2005, the Board of Directors decided to introduce mechanised mining techniques into the operation, specifically longhole stoping with decline access. The first phase of the decline has been completed down to the 192 mRL and is expected to be developed further in line with production scheduling and cash flow generation. The introduction of longhole stoping is a major change that will result in a safer and more efficient operation at Palito and secure our future. As a result of these initiatives we now anticipate Palito moving to commercial production in the third quarter of 2006.

EXPLORATION

Since 1999, the Company has established a dominant land position over attractive targets throughout the Tapajos region of Brazil of more than 100,000 hectares. Proceeds from the Company's IPO were used to purchase drill rigs, train drilling crews and begin testing projects throughout the Jardim do Ouro District and the broader Tapajos region. Results from this work programme are expected to become an important feature of the Company's development potential during 2006.

“The Directors believe there is considerable potential to discover and exploit additional resources at the Company’s exploration projects throughout the Tapajos.”

Evaluation of soil geochemistry results, geophysics and geology by the Company’s exploration team resulted in the initiation of drilling at two targets within the Jardim do Ouro District late in 2005, namely Palito West and Bill’s Pipe. Initial results are encouraging and Serabi plans to continue work at these and other projects within the Jardim do Ouro portfolio during 2006. Work will be focused on developing resources at various satellite orebodies with a view to incorporating these into the Palito mine plan where possible.

Step-out drilling from the Palito Main Zone during 2005 has already resulted in the important new discovery of a series of high-grade gold veins, collectively termed the Compressor Lode. The significance of this discovery is two-fold. Firstly, it illustrates the potential for additional satellite orebodies parallel to the Palito Main Zone, within close proximity to the existing operation. Secondly, the Compressor Lode demonstrates the positive impact of being able to quickly bring such mineralisation into production. In the span of only five months, Serabi has discovered, evaluated, planned and begun mining at the Compressor Lode. The potential to incorporate other similar orebodies into the mine plan is considered to be good, with positive benefits on the overall project economics of Palito.

The Company was also active in the broader Tapajos region. In October 2005 Serabi purchased an option to acquire 100% of the Pombo gold project in the southern area of the Tapajos. Drilling has recently commenced and we expect to report results in due course. Drilling is also planned at other Tapajos projects during 2006.

STRATEGY GOING FORWARD

It has been six years since Serabi was established in Brazil. Over this period, the Company has built the only operating mine in the Tapajos, built an exciting portfolio of exploration projects, built an experienced team and a positive reputation, which has resulted in important strategic and operating advantages for the Company. As a result, we believe we have the ability to leverage our existing assets and develop new projects quickly. Furthermore, there is immense geological potential in the Tapajos region, from which

we are now well positioned to build shareholder value. Our criteria for evaluating projects are:

1. mineable resource potential of at least 500,000 ounces gold equivalent;
2. annual production potential of between 50,000 to 100,000 ounces gold equivalent; and
3. projected life of mine total cash costs of less than US\$250 per ounce.

Serabi will continue to pursue its development programme guided by this set of evaluation criteria, with a goal of becoming a significant multi-mine, low-cost gold producer.

ACKNOWLEDGEMENTS

The accomplishments in 2005 could not have been realised without the efforts and determination of Serabi’s employees toward the goal of becoming a successful mid-tier gold producer. I thank those that have contributed to our success to date and welcome those that have recently joined.

I would also like to welcome Richard Robinson and Roger Davey to the Board of Directors of the Company. Their counsel and experience will be an invaluable asset to Serabi as the Company pursues its growth strategy going forward.

A final acknowledgement goes to our shareholders for their continued support of Serabi. We all look forward to an exciting and rewarding future as Serabi continues to grow in 2006 and beyond.

Graham Roberts
Chairman
30 March 2006

Chief Executive's Statement

Let me begin by congratulating all our employees on successfully expanding production at the Palito Gold Mine during 2005. We believe that the Palito Gold Mine forms the template for developing additional projects for Serabi in Brazil, a country with vast gold mining potential.

PALITO GOLD MINE

Overview

The Palito Gold Mine performed well during 2005, achieving total production of 17,261 ounces of gold equivalent. A total of 59,387 tonnes of ore from the Palito Main Zone was mined during 2005, of which 54,993 tonnes was development and shrinkage stope ore from underground and 4,394 tonnes from surface material. The ore head grade during the year averaged 9.2 g/t and gold recovery averaged 89.4%. An analysis

of the operating performance of the mine on a quarterly basis illustrates the dramatic improvements made at the operation throughout the year.

Mining

During the second quarter of 2005, Serabi reported to shareholders that the rate of mining was becoming a bottleneck in terms of our ability to increase production. Indeed, the impact of this was evident in the quarterly decrease in tonnes mined during the third quarter as compared to the second quarter. Following a detailed assessment of potential solutions, it was decided to introduce mechanised longhole stoping as a new mining technique and to initiate decline access to the lower sections of the Palito Main Zone.

Table 1: Palito Gold Mine operating summary for 2005

		Q1	Q2	Q3	Q4	Year ended December 2005
Mining rate:						
Underground (per day)	tonnes	9,964 (110)	13,589 (150)	12,381 (135)	19,059 (207)	54,993 (151)
Open cut ¹ (per day)	tonnes				4,394 (48)	4,394 (48)
Total mined (per day)	tonnes	9,964 (110)	13,589 (150)	12,381 (135)	23,453 (255)	59,387 (163)
Milling rate:						
Milled (per day)	tonnes	8,222 (92)	14,006 (154)	14,315 (156)	21,415 (233)	57,958 (159)
Head grade	grams/tonnes	9.3	8.6	12.1	7.7	9.2
Recovery	%	84.2	88.2	90.2	91.8	89.4
Production:						
Gold	ounces	2,077	3,427	5,005	4,837	15,345
Copper	tonnes	22.4	38.2	81.0	74.7	216.2
Gold equivalent	ounces	2,262	3,747	5,724	5,528	17,261

¹ November and December only; includes Compressor Lode oxide material and other surface ore from Palito North

“Longhole stoping will enable us to increase production levels from the mine, reduce our operating costs on a per tonne basis and improve safety and working conditions for our employees.”

The decline will allow Serabi to move away from the generally labour intensive mining method of shrinkage stoping in favour of the more productive longhole stoping mining method. The decline was well advanced by year end and equipment required to undertake longhole stoping is expected to arrive at Palito during the first quarter of 2006. We expect to begin to see the benefits of the new mining method in the second quarter of 2006. Specifically, longhole stoping will enable us to increase production levels from the mine, reduce operating costs on a per tonne basis and improve safety and working conditions for our employees.

Notwithstanding, other shorter-term initiatives were undertaken leading to a noticeable increase in mining output in the fourth quarter. This reflected much improved rates of development, inevitably affecting grades in the short-term but laying the foundations for improved production scheduling and grades during 2006.

Plant

The process plant performed exceptionally well during the year, with gold recovery rates showing a steady quarterly improvement, ending the year averaging 91.8% in the fourth quarter. Plant capacity also increased throughout the year according to a three phase improvement plan.

The first Debottlenecking Phase was completed relatively quickly and at minimal cost. This optimisation of the Palito plant resulted in improved throughput to just above 150 tonnes per day during the second and third quarters, accompanied by increased gold recovery rates.

The second Upgrade Phase was initiated later in the year and the benefits of this phase became evident during the fourth quarter. The upgrade involved the addition of a few key items, most notably a third ball mill which will reduce downtime and provide a sustainable capacity of between 300 to 350 tonnes per day.

We await the outcome of a new long-term mine plan before beginning a third and final Expansion Phase of the plant. If results support further expansion, we would expect daily Palito capacity could be increased further through modular expansion of the existing plant with potential to establish a regional processing centre for satellite projects in the Jardim do Ouro District.

Palito Main Zone Resource Estimate

Serabi employs its own drill crews and completed a total of 18,235 metres of core drilling from surface during 2005, considerably greater than the Company's target of 12,000 metres. Most of this drilling was

Chief Executive's Statement continued

Palito crushing circuit

undertaken on and around the Palito Main Zone in order to assist with mine planning and expand the quality and quantity of the resource base. It is noteworthy that the drilling programme also led to the discovery of the Compressor Lode, located within 25 metres of the Palito Main Zone. The Compressor Lode has turned out to be a series of at least four, high-grade veins that have been incorporated into the mine plan for 2006.

Based on this drilling and extensive underground sampling, a new JORC resource estimate for the Palito Main Zone was carried out at year end by independent consultants *Hellman and Schofield Pty.* As a result of the review, total resources increased by 74% to 825,900 gold equivalent ounces compared with the previous December 2004 estimate. The quality of the resource also improved, with a substantial move from the Inferred Resource

Concentrate being loaded for shipping

category to the Indicated Resource category; Indicated Resources now comprise 90% of the total resource ounces at the Palito Main Zone.

In addition, the strike length of the resource on the Palito Main Zone increased from 900 metres to 1,050 metres and the current maximum depth of the resource increased by 100 metres to the 0 mRL elevation, or 200 metres below the bottom of the existing main shaft. These results provide confidence that the Palito Gold Mine has the potential to grow into a long-life, low-cost gold producer for Serabi. The resource remains open in all directions.

An important economic measure for an underground gold mine is the number of ounces per vertical metre. It is therefore noteworthy that the new resource estimate has added approximately 50% more gold equivalent ounces per vertical metre on the Palito

Table 2: Palito main zone resources^{1,2} (December 2005)

Cut-off grade (g/t)	Category	Tonnes	Gold grade (g/t)	Copper grade (%)	Contained Au (ozs)	Contained Cu (tonnes)	Contained AuEq (ozs)
0.0	Indicated	3,857,000	5.27	0.25	653,100	9,560	739,200
	Inferred	779,000	3.20	0.08	81,000	620	86,700
	Total	4,636,000	4.93	0.22	734,100	10,180	825,900
2.0	Indicated	2,081,000	9.08	0.39	607,300	8,200	681,200
	Inferred	187,000	12.00	0.16	72,300	290	74,900
	Total	2,268,000	9.32	0.37	679,600	8,490	756,100
5.0	Indicated	1,089,000	14.41	0.59	504,700	6,400	562,400
	Inferred	108,000	18.50	0.16	64,300	170	65,900
	Total	1,197,000	14.79	0.55	569,000	6,570	628,300

¹ Gold equivalent ounces are based on US\$550 per ounce gold and US\$2.25 per pound copper; figures have been rounded.

² Resource has been depleted for mining activity from commencement, comprising 81,053 tonnes for 21,843 ounces of gold and 693,600 pounds of copper.

Mineralisation on 200 mRL

Main Zone, to an average of 5,500 gold equivalent ounces. The potential economic impact of such an increase is significant, as more gold can be accessible from each level of mine development.

Our objective for 2006 is to continue to expand the resource at the Palito Main Zone along strike and at depth. We also expect to increase further the quality of this resource as an increased rate of underground drilling will enhance our understanding of the ore body.

2006 outlook for Palito Gold Mine

With the shift to mechanised mining techniques at Palito, Serabi is forecasting an increase in gold equivalent production for 2006 to 45,000 ounces. Total cash costs are targeted to reach approximately US\$200 per ounce by the year end. Based on the new resource, the geological potential and further drilling of the Palito Main Zone, we also intend to complete a revised long-term mine plan during the year, in order to assess the full potential of the mine and conclude upon the optimal production rate for the operation.

JARDIM DO OURO DISTRICT EXPLORATION

Overview

The Jardim do Ouro District concessions include eight identified targets that lie within five kilometres of the Palito Gold Mine. Serabi's objective for the Jardim do Ouro projects is to establish resource ounces and to

assess the potential to develop these resources into satellite orebodies that could be processed at the nearby Palito plant.

Initial work during 2005 focused on the Palito West and Bill's Pipe targets in the Jardim do Ouro District.

Palito West

Located approximately 250 metres to the southwest of the Palito Main Zone, Palito West is interpreted as a system of high-grade vein structures. A small exploration adit was driven into the Palito West structure and extensive channel samples were taken which yielded encouraging results. Late in 2005, a preliminary drill programme of four shallow diamond drill holes was completed at Palito West, with results of 0.8 metres grading 20.3 g/t gold and 0.6 metres at 79.5 g/t gold. Mineralisation at Palito West remains open to the south and at depth. We plan to test further the extent of mineralisation at this prospect during 2006.

Bill's Pipe

The Bill's Pipe target lies approximately 1,000 metres to the north of the Palito Gold Mine and is the location of a large gold-in-soil geochemical anomaly. A series of trenches were completed at Bill's Pipe during the year, yielding promising results of 2.0 metres grading 17.6 g/t gold, 1.5 metres at 10.8 g/t gold and 1.0 metre at 2.5 g/t gold. The trenching programme was

Table 3: Jardim do Ouro District exploration targets

PROPERTY	DESCRIPTION
Palito West	High grade vein open to the south and at depth
Chico do Santo	Good drill results over 200m and soil geochemistry along strike
Bill's Pipe	Good drill results with extensive anomalous soil geochemistry and coincident IP anomaly
Ruari's Ridge	Major geochemical, geophysical anomaly
Copper Hill	Magnetic high anomaly with extensive sulphides and magnetite
Pele and Buriti	Strong soil geochemistry correlated with a major regional structure
Tatu	Extensive garimpeiro workings similar to Palito
Rio Novo South	Coincident strong gold geochemistry and associated magnetic anomaly

Chief Executive's Statement continued

Table 4: Tapajos Region exploration targets

Property	Description
Jutai	Large tonnage, low-grade gold system with mineralisation identified over 1,600 metres of strike length
Castanheira	Located 150 kilometres southwest of Palito with extensive garimpeiro workings but no systematic exploration to date
Sao Chico	Narrow, high-grade gold vein mineralisation with extensive garimpeiro workings
Sucuba	Similar to Sao Chico, narrow high-grade vein system hosted within granite
Pizon	Gold stockwork system with drill intercepts including 32 metres at 5.3g/t
Igarape Salustiano	Located directly along strike of the Palito mine
Ornifel Sucuba	Land package also located directly along strike of the Palito mine
Modelo	Significant garimpeiro workings but no modern systematic exploration to date

followed up with a diamond drilling programme which intersected high-grade mineralisation contained within structures similar to those found on the Palito Main Zone and coincident with the gold-in-soil geochemical anomaly. Drill results included 0.5 metres at 27.0 g/t gold and 1.0 metre at 20.7 g/t gold. Further drilling on the Bill's Pipe prospect is planned for 2006.

Work programme for 2006

Serabi's objective for 2006 is to establish a resource on at least one of the Jardim do Ouro District projects. Keeping this goal in mind, drilling will continue to follow up the encouraging results from Palito West and Bill's Pipe, in addition to other areas.

TAPAJOS REGIONAL EXPLORATION

Serabi has built an extensive exploration portfolio throughout the Tapajos Region of Brazil. Our concessions total approximately 100,000 hectares and we are only just beginning to evaluate these prospective targets. Due to late delivery of new surface drill rigs, work in 2005 was limited to soil geochemistry analysis, geophysics and geology on a small number of projects. However, the groundwork laid in 2005 provides the foundation for Serabi to advance these projects during 2006 and initiate drilling.

Pombo Gold Project

In October 2005, Serabi announced that it had purchased an option to acquire 100% of the Pombo Gold Project. Copper-gold mineralisation is found within a major northeast-southwest trending fracture zone structure. This structure has been mapped in detail along a strike length of 3.9 kilometres and mineralisation has so far been identified along 700 metres of strike length.

Channel sampling from old garimpeiro workings returned six metres at 12 g/t, two metres at 37 g/t, two metres at 22 g/t, two metres at 15 g/t and three metres at 15 g/t. Geophysical analysis suggests that the mineralisation at Pombo may actually expand at depth.

The similarities between Serabi's Palito Gold Mine and the Pombo Gold Project are striking. Both have similar types of mineralisation, namely gold associated with pyrite and chalcopyrite.

Work programme for 2006

A high priority for Serabi during the first half of 2006 is to drill on the Pombo and Sucuba projects in the Tapajos. The Company's goal is to develop an initial resource on at least one Tapajos regional project and, if warranted, to begin work on a scoping study to assess the possibility of bringing at least one of these projects into production.

CONCLUSIONS

These are exciting times for Serabi. 2005 was an important transitional year as we moved from a private to public company and increased output at the Palito Gold Mine towards full commercial production. 2006 is expected to be a year of continued growth for the Company as we expand production further at the Palito Gold Mine and advance our exploration projects in the Jardim do Ouro District and the Tapajos Region.

Bill Clough
Chief Executive
30 March 2006

Financial Review

These financial statements have been prepared for a short three month period to allow the Company to report, in the future, its financial results on a calendar year basis. The Company was required to adopt a long initial accounting period and the Board was keen to standardise the Group's financial reporting at the earliest possible opportunity. Thus, whilst unusual, we believe that the action we have taken will ensure readers of the accounts are well placed going forward to properly analyse and compare our results. Such action also brings our Group reporting dates in line with Brazilian fiscal requirements as well as being consistent with many of our peer group.

With Palito still in its development phase the Group continues to capitalise the majority of costs relating to the mine. All revenues received from gold production are set against the costs incurred. The remaining costs are expensed as they are incurred, including administrative expenses incurred in Brazil. Although depreciation is being charged on the plant and equipment that is in use, we will only begin to amortise the accumulated development costs once commercial production at Palito has been declared. We are confident that this stage of the mine's development will be reached early in the third quarter of 2006.

The consolidated net loss for the period after taxation amounted to \$1,467,860, resulting in a loss per share of 1.42 cents.

On 10 May 2005, the Company's shares were admitted to trading on AIM and concurrently the Company raised some £6.9 million net of expenses through the placing of 26.67 million shares at 30 pence. Whilst the net assets of the Group have reduced by \$1.0 million over the three month reporting period, in part reflecting the loss incurred, it should be noted that since 31 January 2005 they have increased by \$14.7 million.

Over this same period the carrying value of our exploration and development assets have increased by \$7.7 million whilst the value of plant and equipment acquired has increased by some \$3.4 million.

Much of this value is directly attributable to the work being undertaken at Palito both expanding the plant, the development of the mine and exploration work on the Palito Main Zone and nearby satellite deposits.

The Company has, in keeping with best practice, adopted the provisions of FRS 20 which reflect the requirements of IFRS in respect of share based payments. Accordingly it has valued options issued to certain employees prior to the IPO and the loss for the period reflects the amortisation of a portion of this notional value. As this value has to be amortised prior to first vesting dates the full charge will have been taken prior to commercial production being declared and will then not have any future detrimental effect on earnings.

The Board is considering, in conjunction with its advisors, how the provisions of IFRS may affect the future results of the Company and will be keeping shareholders abreast of the implications and its timetable for adopting the provisions of IFRS.

Clive Line
Finance Director
30 March 2006

Board of Directors

**GRAHAM ROBERTS, BSc
C.Eng, FIMMM, 55
(Executive Chairman)**

Graham has over 30 years of international experience in the mining industry and related financial markets, recently working mostly in cross-border finance activities.

Prior to joining Serabi in 2003, Graham worked in financial services for over 19 years, most recently as managing director and group head of investment and corporate banking for BMO Nesbitt Burns in London, a wholly-owned investment banking subsidiary of the Bank of Montreal.

Previously, Graham worked as senior research analyst, then as director and head of Mining Research for WI Carr UK Ltd. Subsequently from 1994 to 1996, he headed up the mining business at the UK merchant bank Hambros, where he was executive director of Hambros Equities UK Ltd and, as a director of the bank, provided a full range of cross-border capital markets and advisory services, working with mining companies across the globe.

Before entering the financial services sector, Graham worked at a senior level for 13 years at Consolidated Gold Fields and its subsidiaries in the UK and Africa, in corporate finance, mining and exploration, across a wide range of base metal and precious metal projects and mines.

He has a BSc in Geology and Geography from London University, is a Fellow of the Institute of Materials, Minerals and Mining, a Chartered Engineer and is a member of the London Association of Mining Analysts.

**BILL CLOUGH, BSc(GEOL), BCom(Hons), 45
(Chief Executive)**

Bill was the founding investor of Serabi Mineração Ltda and has been active in Brazil since 1999.

He assembled a portfolio of exploration interests in the Tapajos Region which culminated in the establishment of Serabi Mineração Ltda in 2001.

Bill is also non-executive Chairman of Brazilian-based nickel resources company, Mirabela Nickel Limited. He also has significant interests in a number of other ASX and AIM listed and unlisted international exploration and mining companies including Exco Resources Ltd, Sally Malay Mining Ltd and Albidon Ltd.

In 1984, Bill joined his family's engineering construction company, Clough Engineering Group, as business development manager. Bill was appointed to the Clough Limited board as a non-executive director in 1994 until December 2002. Clough Limited was listed on the Australian Stock Exchange in 1998.

**CLIVE LINE, BA, ACA, 44
(Finance Director and
Company Secretary)**

Clive is a Chartered Accountant and has been involved in mining and other natural resources companies since 1987, overseeing all of the financial and legal issues for a variety of exploration and development projects in Africa, Europe and the former Soviet Union.

Having worked with Price Waterhouse in both the UK and Australia, he joined Cluff Resources plc in 1987, where he was finance director prior to joining the privately owned Quest Petroleum Group in a similar position in 1993. Following the successful sale of this group he became involved with both Eurasia Mining plc and Northern Petroleum plc, both of which were admitted to trading on AIM in 1996. He has also worked within one of the world's largest marketing services groups operating as a divisional finance director.

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

**RICHARD ROBINSON, BSc (Hons)
MSc, 53
(Non-executive Director)**

Richard has 29 years of experience in the mining and smelting industry. He has had extensive involvement with the gold, base metal, platinum and coal mining and smelting industries, their international markets and national and industry organisations, such as the World Gold Council through various directorships and other executive positions held over the last 21 years. He is currently a director of companies in the base metals mining, smelting and recycling industry and in refining and advanced technologies in the precious metals industry. Richard was also previously the managing director of LaSource SAS in Paris.

Prior to moving to Europe in 1998, he was chief executive officer of Gold Fields Limited and previously an executive director of Gold Fields of South Africa Ltd, with responsibility for the group's gold operations. From 1993 he directed the international expansion of Gold Fields' exploration and operations.

Richard has an Honours degree in Computer Science, a Masters degree in Mineral Economics from Queen's University in Canada and has attended the Senior Executive Programs at The Management College at Henley-on-Thames, England and at INSEAD at Fontainebleau, France.

**ROGER DAVEY, ACSM, MSc.
C.Eng., Eur.Ing., MIMMM, 60
(Non-executive Director)**

Roger is a Chartered Mining Engineer with over thirty years of experience in the mining industry. He is presently an assistant director and the senior mining engineer at N M Rothschild (London) in the mining and metals project finance team. Prior to this his experience covered the financing, development and operation of both underground and surface mining operations in gold and base metals at senior management and director level in South America, Africa and the United Kingdom.

Previous positions held include director, vice president and general manager of Minorco/AngloGold subsidiaries in Argentina; operations director of Greenwich Resources plc in London; production manager for Blue Circle Industries in Chile; and various production management roles in Gold Fields of South Africa.

Roger is a graduate of the Camborne School of Mines, England, with a Master of Science degree in Mineral Production Management from Imperial College, London University. He is a Chartered Engineer (C.Eng.), a European Engineer (Eur. Ing.) and a Member of the Institute of Materials, Minerals and Mining (MIMMM).

The Community, Health, Safety and the Environment

The Company endeavours to carry out its operations in a manner which protects people and property and we require of our employees that all business be conducted in a socially responsible and ethical manner that promotes the preservation of the natural environment, the way of life of indigenous people and complies with all applicable legislation and standards.

The Jardim do Ouro community relied on the artisanal mining community for its economic well-being. The decline in these operations has created financial hardship for this small community. Serabi works closely with community delegates helping to highlight the region's needs and has supported the construction of a new school, the introduction of additional security and policing to Jardim do Ouro and through its on-site medical clinic has brought healthcare facilities to the community. Further, through Serabi's efforts and presence, the community has now had access to grid electricity since the start of 2006.

The Company is committed to providing high standards of safety and health for all employees and stakeholders associated with its activities. The Company seeks to:

- achieve continuous improvement by incorporating applicable evolving management systems, knowledge and technology, in conjunction with the utilisation of best practice procedures;
- manage risk through the introduction of a hazard identification and management programme underpinned by a continuous performance review process;
- ensure that all employees, including contractors, are fully instructed, trained and assessed in the tasks each will be required to perform and in the operation of all plant and equipment;
- communicate and consult with employees, including contractors, and where appropriate involve them in the development of practices and procedures focused on the improvement of occupational safety and health performance;
- ensure that all employees, including contractors' employees, are fully aware of their responsibilities to take reasonable care to ensure their own health and safety at work and to avoid adversely affecting the health or safety of others through any act or omission at work;
- co-operate with government and the community on occupational safety and health issues and contribute to the development of relevant occupational safety and health policy, legislation, standards and research; and
- comply with all appropriate legislation and standards as a minimum.

The Company is seeking to develop a culture where safety is a core value and every individual takes responsibility for their actions and works as part of a team with a shared vision and objective to eliminate all accidents from the workplace.

The Company believes that mining should be conducted in an environmentally responsible manner, and as such is committed to protecting the environment wherever the Company is exploring for new resources, developing, operating or reclaiming mines.

The Company's operations are conducted in compliance with all applicable environmental obligations. Further, the Company commits to continually improving environmental performance by integrating environmental considerations into project planning, exploration, operations, rehabilitation and decommissioning. Serabi also implements environmental controls and strategies to identify, minimise and, wherever possible, avoid environmental impacts arising from its operations.

The Company works to prevent pollution by minimising emissions and the generation of waste and disposing of waste in an environmentally responsible manner. We communicate openly with stakeholders and the community about environmental issues and expectations and endeavour to ensure that we provide sufficient training and resources for effective environmental management.

Directors' Report

for the period from 1 October 2005 to 31 December 2005

The Directors present their report together with the audited financial statements for the period 1 October 2005 to 31 December 2005.

RESULTS AND DIVIDENDS

The Group loss for the period after taxation and minority interests amounts to \$1,467,860 (prior period loss of \$3,893,593). The Directors do not recommend the payment of a dividend. The results for the period are set out on page 20 in the consolidated profit and loss account.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company was incorporated on 18 May 2004. The principal activity of the Company is that of a holding company, and a provider of support and management services to its operating subsidiary. Together with its subsidiaries (see note 10) it is involved in the development of gold and other metals mining projects in Brazil and the operation of the Palito Gold Mine in the Tapajos region of Brazil.

A detailed review of activities, business developments and the Company's projects is included in the Chairman's Statement and the Chief Executive's Statement on pages 2 to 8.

DIRECTORS AND THEIR INTERESTS

Ordinary shares and options

The Directors of the Company, who all held office throughout the three month period ended 31 December 2005, had the following interests in the ordinary shares of the Company according to the register of Director's interests.

	Share options held at 31 December 2005 and 30 September 2005	Option price	Exercise period	Shares held at at 31 December 2005 and 30 September 2005
Graham Roberts	1,373,222 915,481	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	612,501
Bill Clough	1,029,916 686,611	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	45,028,617
Clive Line	572,176 572,176	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	—
Richard Robinson	143,044 143,044	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	50,000
Roger Davey	143,044 143,044	15p 30p	30 November 2005 to 1 April 2016 1 April 2006 to 1 April 2016	—

As of the date of this report there have been no changes to these holdings.

During the three month period ended 31 December 2005 the Company's shares have traded between 27 pence and 28 pence. On 31 December 2005 the closing price was 27 pence.

Directors' Report

for the period from 1 October 2005 to 31 December 2005

DIRECTORS AND THEIR INTERESTS (CONTINUED)

Remuneration

Director	Salary \$	Pension \$	Other \$	Total \$	For the
					period from incorporation to 30 September 2005 \$
Graham Roberts	37,650	2,755	1,093	41,498	71,956
Bill Clough	39,358	3,542	1,093	43,993	83,509
Clive Line	37,172	3,345	1,093	41,610	78,509
Richard Robinson	5,248	—	—	5,248	10,147
Roger Davey	5,248	—	—	5,248	10,147
Total	124,676	9,642	3,279	137,597	254,743

Included in the remuneration report for the period since incorporation until 30 September 2005 are pension costs of \$18,304.

As disclosed at the time of the Company's Initial Public Offer, Graham Roberts, Bill Clough and Clive Line are each entitled to receive an amount equal to one year's salary payable in ordinary shares at the placing price of 30 pence. The Company intends that these shares be issued to personal pension plans held by the individuals during the 2nd quarter of 2006.

SUBSTANTIAL SHAREHOLDINGS

As at 29 March 2006 the Company was aware of the following holdings of 3% or more in the Company's issued share capital.

Name	Number of shares held	Percentage
McRae Investments Pty Ltd ¹	27,299,651	26.46%
WM Clough Pty Ltd ¹	17,461,536	16.93%
JPMF Natural Resources Fund	4,157,500	4.03%
Standard Bank plc	4,133,334	4.01%

¹ Bill Clough is a Director and is the sole shareholder of WM Clough Pty Ltd and is a Director and has a minority interest in McRae Investments Pty Ltd. Bill Clough is also the beneficial owner of Gigantic Resources Inc, which holds 267,430 ordinary shares representing 0.26% of the ordinary shares in total.

SHARE CAPITAL

Movements in share capital during the period are disclosed in note 15 to the financial statements.

At the Annual General Meeting held on 16 November 2005, the Company formally approved a Long-term Incentive Plan and a Cash and Deferred Share Bonus Scheme, for employees. To date no issues have been made under these plans.

CREDITOR PAYMENT POLICY

It is the Group's policy to settle all amounts due to creditors in accordance with agreed terms and conditions agreed between the Group and suppliers, provided that all trading terms and conditions have been complied with. As at 31 December 2005, the Group had an average of 25.9 days (prior period: 22.5 days) purchases outstanding in creditors.

GOING CONCERN

Following a review of the Company's financial position and its budgets and plans, the Directors have concluded that sufficient financial resources will be available to meet the Company's current and foreseeable working capital requirements. On this basis, they consider it appropriate to prepare the financial statements on the going concern basis.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

In preparing those financial statements the Directors are required to;

select suitable accounting policies and apply them consistently;

make judgments and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CORPORATE GOVERNANCE

The Directors believe that the Company complies with the principles set out in The Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council so far as they consider is appropriate, having regard to the size and nature of activities of the Group.

Board composition

The Directors have responsibility for the overall corporate governance of the Group and recognise the need for the highest standards of behaviour and accountability. The Directors are committed to the principles underlying best practice in corporate governance and intend to comply with the principles of the Combined Code in such respects as they consider appropriate for a company of its size and nature. The Board has a wide range of experience directly relevant to the Company and its activities and its structure ensures that no one individual or group dominates the decision making process.

Committees

The Company has established an Audit Committee, a Remuneration Committee and an Executive Committee.

Audit Committee

In the early stages of the Company's development the Board have considered it beneficial for the Finance Director to be a member of the Audit Committee. This is however a matter that will be kept under review as the Company develops.

The Audit Committee comprises two Non-executive Directors and the Finance Director. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, considering and setting appropriate accounting policies, and reviewing the auditors' report relating to accounts and internal control systems. The Audit Committee meets at least twice a year.

Directors' Report

for the period from 1 October 2005 to 31 December 2005

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Committee

The Remuneration Committee comprises two Non-executive Directors. It is responsible for determining and agreeing with the Board the framework for the remuneration of the Managing Director, all other Executive Directors, the Chairman of the Company (if an Executive Director), the Company Secretary and such other members of the executive management as it feels appropriate to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options. It also considers recommendations from the Executive Directors in respect of proposals for bonuses, incentive payments and share options to be awarded to senior managers within the Group and makes recommendations on the overall remuneration plans adopted by the Company. The remuneration of the Non-executive Directors is a matter that is dealt with by the Board as a whole.

Executive Committee

The Board has appointed an Executive Committee, to oversee and coordinate the day-to-day running of the Company. It is empowered to make decisions over a number of areas without reference to the full Board and specifically to deal with all matters relating to the daily operation of the Company.

The Executive Committee, comprising the Managing Director, Chairman and the Finance Director, is responsible for the daily operation of the Company, and for making recommendations to the Board regarding short- and medium-term budgets, targets and overall objectives and strategies for the Company.

Share dealing

The Company has adopted a share dealing code for Directors and relevant employees in accordance with the AIM Rules and will take proper steps to ensure compliance by the Directors and those employees.

Internal controls

The Directors acknowledge their responsibility for the Company's system of internal controls and procedures and for reviewing their effectiveness. Such controls and procedures are designed to safe-guard the Company's assets and ensure reliability of reporting information, financial and otherwise, for both internal use and external publication. Whilst conscious that no system can provide absolute assurance against material mis-statement, fraud, or loss, the Directors are satisfied that having regard to the Company's size and stage of development, the system of controls is currently adequate and effective.

MANAGEMENT OF FINANCIAL RISKS

The Board endeavours to balance the financial risks that the Company may have exposure to with the desire to maximise value and returns for shareholders.

The Group has not entered into any derivative transactions and it is not currently the Group's policy to undertake trading in financial instruments.

The main financial risks arising from the Group's activities are commodity prices, currency risk, liquidity and interest rate risk. The Board reviews and agrees policies for managing each of these risks and these are summarised below.

Commodity price risk

The Group is exposed to fluctuations in commodity prices and in particular the price of Gold and Copper. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts where appropriate in future.

Interest rate risk

The Group currently finances its operations through equity financing, and has a short-term trade finance facility.

There is considered not to be any material interest rate risk. The Group's policy is to retain surplus funds as short-term deposits at prevailing market rates.

The fair value of all financial instruments is approximately equal to book value due to their short-term nature.

Liquidity risk

To date the Group has relied on shareholder funding to finance its operation. The Group has no borrowings. The Consolidated entity maintains a credit line in Brazil through a bank agreement with a limit of Brazil real 200,000 that can be used for daily working capital. This credit line is not in use as of the date of the financial statements. As the Group has limited cash resources and steady income, the liquidity risk is not significant and is managed by control over expenditure.

Currency risk

Although the Group is incorporated in the United Kingdom its financial statements are denominated in US dollars.

Share issues have been priced solely in sterling. Expenditure is in US dollars, sterling, euros, Australian dollars and Brazilian real.

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

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

The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the year ended 31 December 2007, the Group will be required under European Union Law to prepare its consolidated accounts in accordance with International Financial Reporting Standards (IFRS). The accounts will include comparative information for the preceding period also prepared under IFRS.

The Board is currently considering the implications of IFRS for the Company and in conjunction with its advisers determining the appropriate time to adopt IFRS, given that certain of the standards are still subject to revision. The Board will keep shareholders apprised of the potential implications and its proposals for adoption.

POST BALANCE SHEET EVENTS

On 30 March 2006, the Company announced the placing of 6.5 million new ordinary shares of 10 pence each at a price of 40 pence per share raising approximately £2.46 million (net of expenses). The placing is conditional upon the shares being admitted to trading on AIM. Application for the shares to be admitted to trading was made on 30 March 2006. The Directors do not believe there to be any reason why the new ordinary shares will not be admitted to trading.

Directors' Report

for the period from 1 October 2005 to 31 December 2005

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as previously named), the Company Secretary, and all executive officers of the Company against liability incurred as such a Director, Company Secretary or executive officer to the extent permitted under legislation.

AUDITORS

PKF (UK) LLP has expressed their willingness to continue in office. A resolution to reappoint them as auditors will be put before the forthcoming Annual General Meeting.

As far as each of the Directors are aware, at the time this report was approved:

- a) there is no relevant available information of which the auditors are unaware; and
- b) they have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board



CM Line
Company Secretary
30 March 2006

Independent Auditors' Report

To the members of Serabi Mining plc

We have audited the Group and parent company financial statements ('the financial statements') of Serabi Mining plc for the period ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the Chairman's Statement, the Chief Executive's Statement and the Financial Review. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements:

give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2005 and of the Group's loss for the period then ended; and

have been properly prepared in accordance with the Companies Act 1985.

PKF (UK) LLP

PKF (UK) LLP
Registered Auditors
London UK
31 March 2006

Profit and Loss Account

for the period from 1 October 2005 to 31 December 2005

(expressed in US\$)

	Notes	Group	
		For the period from 1 October 2005 to 31 December 2005	For the period from incorporation to 30 September 2005
Turnover		—	343,064
Operating expenses		—	(255,913)
Profit from operations		—	87,151
Administration expenses	3	(1,383,272)	(3,865,896)
Loss on ordinary activities before interest and other income		(1,383,272)	(3,778,745)
Foreign exchange loss		(35,703)	(171,310)
Interest payable	4	(69,929)	(99,973)
Interest receivable	4	21,044	156,959
Loss on ordinary activities before taxation		(1,467,860)	(3,893,069)
Taxation	5	—	(524)
Loss on ordinary activities after taxation		(1,467,860)	(3,893,593)
Loss per ordinary share (basic and diluted)	7	(1.42c)	(6.51c)

Statement of Total Recognised Gains and Losses

for the period from 1 October 2005 to 31 December 2005

(expressed in US\$)

	Group	
	For the period from 1 October 2005 to 31 December 2005	For the period from incorporation to 30 September 2005
Loss for the period	(1,467,860)	(3,893,593)
Exchange loss on foreign currency net investment	(175,330)	(314,444)
Total recognised losses for the period	(1,643,190)	(4,208,037)

All transactions arise from continuing operations.

Balance Sheets

as at 31 December 2005

(expressed in US\$)

	Notes	Group		Holding company	
		31 December 2005	30 September 2005	31 December 2005	30 September 2005
Fixed assets					
Intangible assets					
Goodwill on acquisition	8	1,752,516	1,752,516	—	—
Tangible assets					
Property, plant and equipment	9	5,375,621	4,088,030	46,802	20,986
Exploration and development costs	9	15,831,875	14,609,905	1,073,225	789,001
Investments	10	—	—	17,339,256	17,339,256
Current assets					
Stock and work in progress	11	1,825,479	902,123	—	—
Debtors due within one year	12	2,818,551	1,162,271	425,362	292,759
Debtors due after more than one year	12	—	—	9,594,130	4,357,374
Cash at bank and in hand		2,152,452	7,557,138	1,552,048	7,238,688
		6,796,482	9,621,532	11,571,540	11,888,821
Creditors: amounts falling due within one year	13	(2,451,537)	(2,052,507)	(646,558)	(577,959)
Net current assets		4,344,945	7,569,025	10,924,982	11,310,862
Total assets less current liabilities		27,304,957	28,019,476	29,384,265	29,460,105
Creditors: amounts falling due after more than one year					
	13	(244,724)	—	—	—
Provisions for liabilities and charges	14	(428,944)	(451,528)	—	—
Net assets		26,631,289	27,567,948	29,384,265	29,460,105
Capital and reserves					
Called up share capital	15	17,974,336	17,974,336	17,974,336	17,974,336
Share premium reserve	16	11,818,128	11,818,128	11,818,128	11,818,128
Option reserve	15	2,690,052	1,983,521	2,690,052	1,983,521
Profit and loss account	17	(5,851,227)	(4,208,037)	(3,098,251)	(2,315,880)
Equity shareholders' funds	18	26,631,289	27,567,948	29,384,265	29,460,105

The financial statements were approved by the Board of Directors on 30 March 2006 and signed on its behalf by:



Clive Line
Finance Director
30 March 2006

Consolidated Cash Flow Statement

for the period from 1 October 2005 to 31 December 2005

(expressed in US\$)

	Group	
	For the period from 1 October 2005 to 31 December 2005	For the period from incorporation to 30 September 2005
Net cash flow from operations	(2,725,970)	(2,363,302)
Returns on investment and servicing of finance		
Interest received	21,044	156,959
Interest paid	(69,929)	(99,973)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(48,885)	56,986
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,627,113)	(2,603,143)
Exploration and development expenditure	(967,746)	(8,538,215)
Net cash outflow on capital expenditure and financial investment	(2,594,859)	(11,141,358)
Acquisitions and disposals		
Capital and loan investments to subsidiaries	—	—
Cash acquired with subsidiaries	—	—
Net cash outflow on acquisitions and disposals	—	—
Cash outflow before financing	(5,369,714)	(13,447,674)
Financing activities		
Issue of ordinary share capital	—	29,875,674
Repayment of shareholder loans	—	(8,174,336)
Net cash inflow from financing activities	—	21,701,338
(Decrease)/increase in cash at bank and in hand	(5,369,714)	8,253,664

Reconciliation of Operating Loss to Net Cash Flow from Operating Activities

for the period from 1 October 2005 to 31 December 2005
(expressed in US\$)

	Group	
	For the period from 1 October 2005 to 31 December 2005	For the period from incorporation to 30 September 2005
Operating loss	(1,383,272)	(3,778,745)
Depreciation	339,522	285,512
Write off of exploration and development costs	—	48,993
(Increase) in stocks	(1,003,810)	(740,257)
Option costs	422,298	1,194,520
(Increase) in debtors and prepayments	(1,754,743)	(545,030)
Increase in creditors and accruals	709,714	1,190,992
Foreign exchange	(55,679)	(19,287)
Net cash outflow from operating activities	(2,725,970)	(2,363,302)

Reconciliation of Cash to Net Funds

for the period from 1 October 2005 to 31 December 2005

(expressed in US\$)

	Group	
	For the period from 1 October 2005 to 31 December 2005	For the period from incorporation to 30 September 2005
Cash at bank and in hand at beginning of period	7,557,138	—
Cash flow	(5,369,714)	8,253,664
Exchange loss	(34,972)	(696,526)
Cash at bank and in hand at end of period	2,152,452	7,557,138

Notes to the Financial Statements

1. ACCOUNTING POLICIES

These accounts represent the financial statements of Serabi Mining plc for a three month period ended 31 December 2005.

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

(b) Basis of consolidation

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair value, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary are taken to the profit and loss account.

The consolidated profit and loss account and consolidated balance sheet include the financial statements of the company and its subsidiary undertakings up to 31 December 2005. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date on which control passes. Intra-group sales and profits are eliminated fully on consolidation.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented in respect of the Company.

Comparative financial information is provided for the period since incorporation on 18 May 2004 to 30 September 2005.

(c) Turnover

Turnover represents amounts receivable in respect of sales of gold, copper and other minerals and 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. Turnover is stated net of any applicable sales taxes.

Revenues are recognised only at the time of sale. Any unsold production and in particular concentrate is held as inventory and valued at production cost until sold.

In 2004, the Company generated gold sales from re-treatment of some old tailings. As the reprocessing of this material was not part of the long-term development of the mine this income and its associated costs has been taken directly to the profit and loss account.

The Company is currently undertaking mining from an area known as Palito Hill. Given the history of the development of the Palito mine and in particular the ability unlike many mines to generate cash flow at a very early stage of mine development through the availability of existing plant at the site, the Board has considered that the current activities represent development activity rather than commercial production. At this stage the operations have not reached the targets set by the Board for commercial production and accordingly all mine and plant costs have been capitalised as ongoing development costs. All sales revenue to date has been set off against the development costs.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired. As commercial production has not yet commenced and amortisation would be calculated on a unit of production basis, no amortisation charge has been recorded.

Provision is made for any impairment in the carrying value of goodwill to the extent that the asset's recoverable amount is reduced below its carrying value.

(e) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at the balance sheet date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

(f) Accounts payable

Trade accounts payable, amounts owing to related parties and other payables and accrued liabilities represent the principle amounts outstanding at the balance sheet date plus, where applicable any accrued interest.

(g) Deferred taxation

Deferred tax arises, in accordance with FRS 19, when items are recognised for tax purposes in periods that differ from the periods in which the items are recognised for accounting purposes. An asset is only recognised to the extent that its recovery is deemed probable. They should be regarded as recoverable to the extent that on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the period in which timing differences reverse, based on tax rates and laws substantially enacted at the balance sheet date.

(h) Foreign currencies

The Group has adopted the US dollar as its reporting currency as the bulk of its revenues are anticipated to be linked to the US dollar. Transactions in currencies other than US dollars are translated at the rates prevailing at the dates of the transactions. Assets and liabilities denominated in other currencies are translated at the rates ruling at the balance sheet date. Gains or losses are reflected in the profit and loss account.

On consolidation, exchange differences arising from the translation of the net investments in foreign subsidiaries are taken to reserves.

The US dollar/sterling exchange rate at 31 December 2005 was 1.7208. The US dollar/Brazilian real exchange rate at 31 December 2005 was 2.3313.

(i) Lease payments

Payments made under operating leases are charged to the profit and loss account as incurred. The Company does not have any finance leases.

(j) Pension costs

The Group does not operate any pension plan for its employees although it does make contributions to employee pension plans in accordance with instructions from those employees. The Company has no contractual commitment as to the ability of those funds to provide any minimum level of future benefit to the individual and is contracted only to make the contributions. Company contributions to such schemes are charged against profits as they fall due.

(k) Share options

In accordance with FRS 20 the entity measures the goods or services received at fair value in respect of equity-settled share-based payment transactions (such as share options). This cost is charged to the profit and loss account or included in costs of exploration and development assets. The Black-Scholes method has been used to calculate this fair value.

The Company measures the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received. The fair value is measured at the date of grant. Where the equity instruments granted do not vest immediately but after a specified period of time, the fair value is accounted for over the vesting period.

(l) Exploration of mineral properties

All costs related to the exploration of mineral properties are capitalised and deferred until either the properties are brought into commercial production, at which time they are depleted on a unit of production basis, or until the properties are sold, allowed to lapse or abandoned, at which time they are charged to the profit and loss account.

On an annual basis the carrying value attributed to each of the mineral properties is compared with the estimated future value that will be derived from that property. Any impairment is written off to the profit and loss account.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are allocated on an average basis and include direct material, labour, related transportation costs to the point of sale and other fixed and variable overhead costs directly related to mining activities. Net realisable value is the estimated selling price in the ordinary course of business, after deducting the costs of marketing, selling and distribution to customers.

Notes to the Financial Statements

1. ACCOUNTING POLICIES (CONTINUED)

(n) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of the assets over their useful lives as follows:

Mining assets

Processing plant	three – seven years
Other plant and assay equipment	two – ten years
Heavy vehicles	eight years
Light vehicles	three years
Land and buildings	ten – twenty years

Other assets

Furniture and fittings	five years
Office equipment	four years
Communications installations	five years
Computers	three years

(o) Land reclamation/environmental remediation costs

The cost of any approved decommissioning or restoration programmes, is capitalised at the time that it is incurred or provision is considered appropriate. The capitalised cost is amortised over the life of the operation.

(p) Investments

Non-current investments are carried at the lower of cost and recoverable amount.

(q) Employee benefits

Provision is made for benefits accruing to employees in respect of salary and wages, annual leave and long service leave where it is probable that settlement will be required and they are capable of measurement.

(r) Earnings per share

Basic earnings per share is determined by dividing the net profit attributable to the members, adjusted to exclude costs of servicing equity (other than dividends), by the weighted average number of ordinary shares in issue during the period.

2. SEGMENTAL ANALYSIS

The geographic analysis of turnover and profit before taxation and the analysis of net assets employed by geographical area and activity are:

	Group	
	For the period from 1 October 2005 to 31 December 2005 \$	For the period from incorporation to 30 September 2005 \$
Turnover		
Brazil – gold sales	–	343,064
Loss before interest and taxation		
United Kingdom	(803,376)	(2,472,838)
Australia	(86,839)	(808,120)
Brazil	(493,057)	(497,787)
Total	(1,383,272)	(3,778,745)
Net assets employed – analysed by geographical area		
United Kingdom	4,869,263	10,106,471
Australia	305,464	203,377
Brazil	21,456,562	17,258,100
Total	26,631,289	27,567,948

All assets are utilised in gold mining and exploration activities.

3. STATUTORY INFORMATION

The following amounts were charged to the profit and loss account and balance sheet during the period:

	Group	
	For the period from 1 October 2005 to 31 December 2005 \$	For the period from incorporation to 30 September 2005 \$
Audit fees – PKF	65,475	140,880
Auditors' remuneration in respect of non-audit assignments – PKF ¹	21,812	79,002
Auditors' remuneration in respect of non-audit assignments (charged to share premium reserve) – PKF ²	–	120,440
Write off of exploration and development costs	–	48,993
Depreciation (plant and equipment)	339,522	285,512
Operating lease charges	19,198	25,327

¹ Taxation \$8,507; (prior period: \$23,015) Accounting advice \$13,305 (prior period: \$55,987).

² Reporting Accountants to Placing and Admission.

Notes to the Financial Statements

4. INTEREST PAYABLE AND RECEIVABLE

	Group	
	For the period from 1 October 2005 to 31 December 2005 \$	For the period from incorporation to 30 September 2005 \$
Interest payable on short-term trade finance	(69,929)	(99,973)
Interest receivable on short-term deposits	21,044	156,959
Net interest	(48,885)	56,986

5. TAXATION

	Group	
	For the period from 1 October 2005 to 31 December 2005 \$	For the period from incorporation to 30 September 2005 \$
Current tax		
UK tax	—	524
Foreign tax	—	—
Deferred tax	—	—
Total	—	524

The tax provision for the current period varies from the standard rate of corporation tax in the UK of 30%.
The differences are explained as follows:

(Loss) on ordinary activities before tax	(1,467,860)	(3,893,069)
Tax thereon at UK corporate tax rate of 30%	(440,358)	(1,167,921)
Factors affecting the tax charge:		
Expenses not deductible for tax purposes	128,022	401,194
Tax losses carried forward	321,628	697,328
Lower tax rates overseas	(9,441)	69,891
Capital allowance in excess of depreciation	149	32
Current tax	—	524

There is a potential deferred tax asset of \$860,000 (prior period: \$400,000) relating primarily to carried forward tax losses. This asset has not been recognised in the financial statements because of uncertainty as to the time period over which the asset may be recovered.

6. EMPLOYEE INFORMATION

The average number of persons, including Executive Directors, employed by the Group during the period was:

	For the period from 1 October 2005 to 31 December 2005 Number	For the period from incorporation to 30 September 2005 Number
Management and administration	23	15
Exploration	57	43
Mine development	325	240
Total	405	298
	\$	\$
Staff costs		
Wages and salaries	1,105,166	3,353,727
Cost of incentive scheme shares vested	706,531	1,983,521
Social security costs	421,144	398,221
Pension contributions	93,488	207,129
Total	2,326,329	5,942,598

Details of the remuneration of the Directors is set out on page 14.

No company within the Group operates a pension plan for the Directors or the employees. For those Executive Directors and employees who have an entitlement to pension provision, the premiums are paid directly to the personal pension plans selected by the individuals. The Company obligation is limited to making fixed annual payments to these individual plans.

Serabi Mineração Ltda contributes via social security payments to the state pension scheme which operates in Brazil, and to which all its employees are entitled.

7. LOSS PER SHARE

The calculation of the basic loss per share of 1.42 cents (prior period loss per share: 6.51 cents) is based on the loss attributable to ordinary shareholders of \$1,467,860 (prior period loss: \$3,893,593) and on the weighted average number of ordinary shares of 102,991,636 (prior period: 59,807,973) in issue during the period.

In accordance with FRS 14, no diluted earnings per share is presented as the effect on the exercise of share options would be to decrease the loss per share.

Notes to the Financial Statements

8. INTANGIBLE ASSETS

Goodwill

	Group	
	31 December 2005 \$	30 September 2005 \$
Cost		
Opening balance	1,752,516	—
Acquired with subsidiary	—	1,752,516
Total as at 31 December 2005	1,752,516	1,752,516
	Goodwill \$	Total \$
Cost		
Balance at 30 September 2005	1,752,516	1,752,516
Additions	—	—
At 31 December 2005	1,752,516	1,752,516
Amortisation		
Balance at 30 September 2005	—	—
Charge for year	—	—
At 31 December 2005	—	—
Net book value at 31 December 2005	1,752,516	1,752,516

On 14 July 2004, Serabi Mining plc acquired the whole of the issued share capital of Moonlight Express Holdings Ltd ("MEHL") for a consideration of US\$1. Goodwill arising on this purchase amounted to \$1,752,516.

9. TANGIBLE ASSETS

Property, plant and equipment

	Group			Company	
	Land and buildings \$	Plant and equipment \$	Total \$	Plant and equipment \$	Total \$
Cost					
Balance at 30 September 2005	402,156	4,013,546	4,415,702	23,265	23,265
Additions	829,625	797,488	1,627,113	29,497	29,497
Disposals	—	—	—	—	—
At 30 December 2005	1,231,781	4,811,034	6,042,815	52,762	52,762
Depreciation					
Balance at 30 September 2005	(64,561)	(263,111)	(327,672)	(2,279)	(2,279)
Charge for period	(22,486)	(317,036)	(339,522)	(3,681)	(3,681)
At 31 December 2005	(87,047)	(580,147)	(667,194)	(5,960)	(5,960)
Net book value at 31 December 2005	1,144,734	4,230,887	5,375,621	46,802	46,802
Net book value at 30 September 2005	337,595	3,750,435	4,088,030	20,986	20,986

Exploration and development costs

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Cost				
Opening balance	14,609,905	—	789,001	—
Acquired with subsidiary	—	5,331,682	—	—
Net additions	1,221,970	9,327,216	284,224	789,001
Write down for impairment	—	(48,993)	—	—
Total as at 31 December 2005	15,831,875	14,609,905	1,073,225	789,001

10. INVESTMENTS HELD AS FIXED ASSETS

The Group consists of the following subsidiary undertakings:

Name	Incorporated	Activity	% holding
Serabi Mineração Ltda	Brazil	Gold mining and exploration	99.98%*
Moonlight Express Holdings Ltd	British Virgin Islands	Investment	100%
Serabi Mining Services Pty Ltd	Australia	Technical services	100%

* indirectly held

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

11. STOCKS

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Bullion and work in progress	424,950	74,778	—	—
Consumables	1,400,529	827,345	—	—
	1,825,479	902,123	—	—

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

12. DEBTORS

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Amounts falling due within one year:				
Trade debtors	1,195,590	569,841	—	—
Other debtors	542,884	219,700	114,861	198,555
Prepayments	1,054,457	321,710	284,881	43,184
Accrued income	25,620	51,020	25,620	51,020
	2,818,551	1,162,271	425,362	292,759
Amounts falling due after more than one year:				
Amounts owed by subsidiaries	—	—	9,594,130	4,357,374
	2,818,551	1,162,271	10,019,492	4,650,133

Notes to the Financial Statements

13. CREDITORS

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Amounts falling due within one year:				
Trade creditors	1,417,997	1,098,077	3,759	28,676
Other creditors	385,750	733,674	182,669	123,867
Accruals	131,432	50,000	95,300	50,000
Other taxes and social security	516,358	170,756	15,967	33,157
Amounts due to subsidiaries	—	—	348,863	342,259
	2,451,537	2,052,507	646,558	577,959
Amounts falling due after more than one year:				
Other taxes and social security	244,724	—	—	—
	244,724	—	—	—

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Opening balance	451,528	—	—	—
Acquired with subsidiary	—	155,752	—	—
Provided in period	—	219,551	—	—
Exchange	(22,584)	76,225	—	—
	428,944	451,528	—	—

The above provisions are to cover claims that might be brought against Serabi Mineração Ltda in relation to transactions and contracts entered into between 2002 and the end of 2004. The Company understands that dependent on their nature, claims must be registered within either two years or five years of the event. The Company will release the provision as the time period for bringing such claims expires if not already utilised.

15. SHARE CAPITAL

	Number	£
Authorised		
Ordinary shares of 10p each	200,000,000	20,000,000
	Number	\$
Allotted, called up and fully paid		
At 31 December 2005 and 30 September 2005	102,991,636	17,974,336

Movements in issued share capital

There have been no movements in share capital during the period.

Options to subscribe for ordinary shares

The following options were issued by the Company on 25 April 2005 to Directors and certain employees of the Group:

Exercise period	Price	Number
30 November 2005 to 1 April 2016	£0.15	6,382,621
1 April 2006 to 1 April 2016	£0.30	5,060,895
Total		11,443,516

Subsequent to the period end options were exercised at 15 pence per share over 171,653 shares.

In compliance with FRS 20 the Company has attributed a fair value to the issue of the options and has used the Black-Scholes calculation method to calculate this fair value. The fair value of these options is being charged to the profit and loss account or capitalised as an intangible asset as appropriate over the vesting period.

As at 31 December 2005

Option period	Exercise price	Grant date	Final exercise date	Options in issue at start of period	Options granted during period	Option exercised during period	Options lapsed during period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
30 Nov 2005 to 1 April 2016	£0.15	25 April 2005	1 April 2016	6,382,621	—	—	—	6,382,621	N/A	10.25
1 April 2006 to 1 April 2016	£0.30	25 April 2005	1 April 2016	5,060,895	—	—	—	5,060,895	N/A	10.25
Total				11,443,516	—	—	—	11,443,516	N/A	10.25

As at 30 September 2005

Option period	Exercise price	Grant date	Final exercise date	Options in issue at start of period	Options granted during period	Option exercised during period	Options lapsed during period	Options in issue at end of period	Weighted average share price on date of exercise	Weighted average remaining life of option (years)
30 Nov 2005 to 1 April 2016	£0.15	25 April 2005	1 April 2016	—	6,382,621	—	—	6,382,621	N/A	10.50
1 April 2006 to 1 April 2016	£0.30	25 April 2005	1 April 2016	—	5,060,895	—	—	5,060,895	N/A	10.50
Total				—	11,443,516	—	—	11,443,516	N/A	10.50

There are no vesting conditions attached to these options save that the holder should remain an employee of the Group as at 1 April 2006.

The following assumptions were made in the calculation of the fair value:

	15p option	30p option
Risk free rate	4.75%	4.75%
Strike price	15p	30p
Volatility (based on similar companies)	30%	30%
Share price on date of issue	30p	30p
Expected life of option (average)	3.07 years	3.86 years

Notes to the Financial Statements

15. SHARE CAPITAL (CONTINUED)

Ordinary share option plan

On the basis of the above the Company has calculated the fair value of 15 pence options and 30 pence options to be 17.152 pence and 9.174 pence respectively. During the period to 31 December 2005 a total charge of \$706,531 (prior period: \$1,983,521) has been recorded in these financial statements leaving a balance of \$246,075 to be charged in future periods.

Pursuant to the Company's Initial Public Offer on 10 May 2005, the Company granted to each of KBC Peel Hunt Ltd and Ambrian Partners Limited as joint brokers an option to subscribe for 266,667 new ordinary shares at a price of 33 pence. Each of these options may be exercised at any time from 10 May 2005 to 9 May 2010.

At the Company AGM, on 16 November 2005, shareholders approved the adoption of a Long-term Incentive Plan and a Cash and Deferred Share Bonus Scheme. No options have been issued under these plans as of the date of this report.

16. SHARE PREMIUM ACCOUNT

	Group and Company	
	31 December 2005 \$	30 September 2005 \$
Balance as at 1 October 2005	11,818,128	—
Issue of shares	—	13,789,687
Share issue expenses	—	(1,971,559)
As at 31 December 2005	11,818,128	11,818,128

17. PROFIT AND LOSS ACCOUNT

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Balance at 1 October 2005	(4,208,037)	—	(2,315,880)	—
Foreign currency translation adjustments	(175,330)	(314,444)	—	—
Loss for the period	(1,467,860)	(3,893,593)	(782,371)	(2,315,880)
Balance at 31 December 2005	(5,851,227)	(4,208,037)	(3,098,251)	(2,315,880)

A separate profit and loss account for Serabi Mining plc has not been prepared as permitted by the Section 230 of the Companies Act of 1985. The loss of the Company for the period was \$782,371 (prior period loss: \$2,315,880).

18. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Net shareholders' funds at 1 October 2005	27,567,948	—	29,460,105	—
Loss for the financial period	(1,467,860)	(3,893,593)	(782,371)	(2,315,880)
Foreign currency translation adjustments	(175,330)	(314,444)	—	—
Shares issued	—	17,974,336	—	17,974,336
Share option expense	706,531	1,983,521	706,531	1,983,521
Share premium on new share issues	—	13,789,687	—	13,789,687
Expenses on new share issues	—	(1,971,559)	—	(1,971,559)
Net shareholders' funds at 31 December 2005	26,631,289	27,567,948	29,384,265	29,460,105

19. COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group holds certain exploration prospects which require the Company to undertake certain minimum work requirements each year to retain the right to have access to and undertake exploration of these prospects. Failure to satisfactorily undertake these work requirements could result in forfeiture of the prospect(s).

Management estimates that the cost over the next twelve months of fulfilling the minimum contracted commitments on all the properties that the Group has an interest in, is Brazilian real 384,224.

Operating commitments

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

	Group		Company	
	31 December 2005 \$	30 September 2005 \$	31 December 2005 \$	30 September 2005 \$
Operating leases which expire:				
Within one year	15,803	25,928	—	5,816
Between one year and five years	26,483	—	26,483	—
Total	42,286	25,928	26,483	5,816

Contingencies

The consolidated entity maintains a credit line in Brazil, limited to Brazilian real 200,000 that can be used for daily working capital. This credit line is not in use at the date of these financial statements.

20. RELATED PARTY TRANSACTIONS

The Group had the following related party transactions during the financial period:

WM Clough Pty Ltd ("WMC")

WMC is a company of which Bill Clough is a Director and the sole shareholder.

During the financial period a total of \$11,596 was paid to WMC. WMC provides limited administrative support to the Group and in particular Serabi Mining Services Pty Ltd, with whom it shares office premises. All transactions with WMC were carried out on an arm's length basis.

The Group had the following related party transactions during the period from incorporation to 30 September 2005:

WM Clough Pty Ltd

On 14 July 2004 the Company entered into an agreement with WMC whereby WMC agreed to sell the only issued share in Moonlight Express Holding Ltd ("Moonlight") to the Company for a consideration of US\$1. As a result Moonlight became a wholly owned subsidiary of the Company as at this date.

At the date of acquisition of Moonlight, WMC had loaned a total of £1,606,843 to Moonlight. During the period following acquisition WMC advanced a further £86,949 to Moonlight for the purposes of providing working capital for Serabi Mineração Ltda. The total loan outstanding of £1,693,792 was converted into shares in the Company at a price of 10 pence.

The Company entered into a service agreement with WMC dated 13 April 2005 to provide administrative, accounting and other services to the Group. The financial statements include \$516,405 (included in expenses and deferred costs) for such services which represent the cost incurred by WMC in the provision of these services under this agreement.

The financial statements include \$1,581,444 (included in expenses and deferred costs) for services that were provided by WMC prior to the commencement of the agreement.

On 7 July 2005, the Company established its own wholly owned subsidiary, Serabi Mining Services Pty Ltd which took over the provision of the majority of the services envisaged under the agreement.

Notes to the Financial Statements

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Bill Clough

Prior to entering into a service contract with the Group, Bill Clough had an employment contract with WMC under which he was entitled to receive remuneration of A\$7,000 per month. Remuneration earned under this agreement totalled US\$121,243.

Bill Clough agreed to take settlement by the issue to WMC of 442,400 shares in the Company at a price of 10 pence. A further 267,430 shares were issued to Gigantic Resources Inc. (a company of which Bill Clough is the beneficial owner) also at a price of 10 pence.

Graham Roberts

Prior to entering into a service contract with the Group, Graham Roberts Limited, an entity related to Graham Roberts, entered into a contract with WMC whereby Graham Roberts Limited received settlement in cash of \$67,605 under this contract. By an agreement between Graham Roberts Limited, Graham Roberts, WMC and the Company, it was resolved that a further sum of US\$105,098 due under this contract was settled by the issue to Graham Roberts of 412,500 shares in the Company at a price of 10 pence and 100,000 shares at 15 pence.

McRae Investments Pty Ltd ("McRae")

Bill Clough has a minority interest in and is a director of McRae.

At the date of acquisition of Moonlight, McRae had loaned a total of £2,200,622 to Moonlight. During the period following acquisition McRae advanced a further £84,086 to Moonlight for the purpose of providing working capital for *Serabi Mineração Ltda*. The total loan outstanding of £2,284,708 was converted into shares in the Company at a price of 10 pence.

McRae also provided the Group with bridging finance totalling US\$1,176,380. The loan was repayable on demand and carried interest at LIBOR +2%. The loan was repaid in full on 12 April 2005.

21. FINANCIAL INSTRUMENTS

The Group's financial instruments at 31 December 2005 comprise cash balances and items such as trade debtors and creditors, which arise directly from trading operations. The main purpose of these financial instruments is to provide finance for the Group's operations. Short-term debtors and creditors have been excluded from the following disclosures.

The Group has not entered into any derivative transactions and it is not currently the Group's policy to undertake trading in financial instruments.

The main financial risks arising from the Group's activities are commodity prices, currency risk, liquidity and interest rate risk. The Board reviews and agrees policies for managing each of these risks and these are summarised below:

Commodity price risk

The Group is exposed to fluctuations in commodity prices and in particular the price of Gold and Copper. It is not currently the Group's intention to enter into any arrangements to protect itself from changes in the prices of these commodities. The Group does however closely monitor the prices of these commodities and will consider the use of hedging contracts where appropriate in future.

Interest rate risk

The Group currently finances its operations through equity financing, and has a short-term trade finance facility.

There is considered not to be any material interest rate risk. The Group's policy is to retain surplus funds as short-term deposits, usually of one week and four week duration, at prevailing market rates.

The fair value of all financial instruments is approximately equal to book value due to their short-term nature.

Liquidity risk

To date the Group has relied on shareholder funding to finance its operation. The Group has no borrowings. The Consolidated entity maintains a credit line in Brazil through a bank agreement with a limit of Brazil real 200,000 that can be used for daily working capital. This credit line is not in use to the date of the financial statements. As the Group has limited cash resources and steady income, the liquidity risk is not significant and is managed by control over expenditure.

Currency risk

Although the parent company is incorporated in the United Kingdom its financial statements are denominated in US dollars.

Share issues have been priced solely in sterling. Expenditure is in US dollars, sterling, euros, Australian dollars and Brazilian real.

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

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

The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates.

The Group considers book value to equal fair value.

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

Currency	Group	
	31 December 2005 \$	30 September 2005 \$
US dollar	557,694	—
Sterling	1,494,354	7,238,688
Brazilian real	33,167	278,807
Australian dollars	67,237	39,643
Total	2,152,452	7,557,138

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

22. SUBSEQUENT EVENTS

On 30 March 2006, the Company announced the placing of 6.5 million new ordinary shares of 10 pence each at a price of 40 pence per share raising approximately £2.46 million (net of expenses).

The placing is conditional upon the shares being admitted to trading on AIM. Application for the shares to be admitted to trading was made on 30 March 2006.

The Directors do not believe there to be any reason why the new ordinary shares will not be admitted to trading.

Serabi Mining plc

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of KBC Peel Hunt, 111 Old Broad Street, London EC2N 1PH on 1 June 2006 at 11.00am for the following purposes:

ORDINARY BUSINESS

To consider and if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. That the Directors' report and financial statements of the Company for the period since incorporation to 30 September 2005 be received and adopted.
2. That the Directors' report and financial statements of the Company for the period to 31 December 2005 be received and adopted.
3. To re-elect Graham Roberts as a Director. Graham Roberts retires by rotation in accordance with the Articles of Association.
4. To reappoint PKF (UK) LLP as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next Annual General Meeting at which accounts are laid before the Company and to authorise the Directors to fix the auditors' remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions, of which resolution 5 will be proposed as an ordinary resolution and resolution 6 will be proposed as a special resolution.

5. THAT the Directors of the Company be and they are generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot grant options over, deal with or dispose of any relevant securities (as defined by Section 80(2) of the Act) of the Company up to an aggregate nominal amount of £3,731,000 provided that this authority is for a period expiring at the conclusion of the next Annual General Meeting of the Company, except that the Company may before the expiry of the authority make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired and provided further that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 80 of the Act.
6. THAT subject to the passing of the previous resolution the Directors of the Company be and they are empowered pursuant to Section 95 of the Act and in accordance with the Articles of Association of the Company to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by the previous resolution as if Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:
 - (a) up to a maximum nominal amount of £1,430,000 in connection with an offer of such securities by way of rights (including without limitation, a rights issue, open offer or similar arrangements) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such equity securities, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with the problems under the law of any territory or requirements of any regulatory body or stock exchange in any territory or in connection with fractional entitlements or shares represented by depository receipts or otherwise; and

(b) otherwise than pursuant to sub-paragraph (a) above, to allotments of equity securities in the Company up to an aggregate nominal amount equal to £650,000

and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution except that the Company may before the expiry of the authority make an offer or agreement which would or might require equity securities to be allotted after the expiry of such period and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired and provided further that this authority shall be in substitution for all previous authorisations conferred upon the Directors pursuant to Section 95 of the Act.

By order of the Board

Clive Line

Company Secretary
66 Lincoln's Inn Fields
London WC2A 3LH
30 March 2006

NOTES:

1. A member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint a proxy (or proxies) to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company.
2. A form of proxy is enclosed. To be effective, it must be deposited at the office of the Company's registrars so as to be received not later than 48 hours before the time appointed for holding the Annual General Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
3. The register of interests of the Directors and their families in the share capital of the Company and copies of contracts of services of Directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.
4. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than close of business on 29 May 2006 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

Corporate Directory

COMPANY	Serabi Mining plc Cleary Court, 21–23 St Swithins Lane, London EC4N 8AD Tel: +44 (0)20 7220 9550 Fax: +44 (0)20 7220 9555 Email: contact@serabimining.com Web: www.serabimining.com
	Serabi Mineração Ltda Av Antonio de Pádua Gomes, no. 737 Jardim das Araras, Cidade Itaituba CEP 8180-120 Pará Brazil Tel: +55 93 3518 1558 Fax: +55 93 3518 1550
COMPANY NUMBER	5131528
BOARD OF DIRECTORS	Graham Roberts – Executive Chairman Bill Clough – Chief Executive Clive Line – Finance Director Richard Robinson – Non-executive Director Roger Davey – Non-executive Director
COMPANY SECRETARY	Clive Line
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