



Audited Results for the year ended 31 December 2012

Serabi (AIM:SRB, TSX:SBI), the Brazilian focused gold mining and exploration company, today releases its audited results for the year ended 31 December 2012.

Serabi's Directors Report and Financial Statements for the year ended 31 December 2012 together the Chairman's Statement and the Management Discussion and Analysis, will be available from the Company's website – www.serabigold.com and will be posted on SEDAR at www.sedar.com.

Corporate Highlights

- On 17 January 2013 the Company completed the placement of 270 million new ordinary shares to raise in aggregate UK£16.2 million to finance the development and start-up of underground mining operations at its Palito Mine. The placement of new shares was underwritten by Fratelli Investments Limited, one of the Company's major shareholders.
- NCL Ingenieria y Construccion SA ("NCL") completed an independent Preliminary Economic Assessment (the "PEA") into the viability of re-establishing mining operations at the Palito Mine in June 2012. The results were reported on 13 June 2012 and the completed NI 43-101 compliant Technical Report was filed on 29 June 2012.
- Highlights of the PEA were as follows
 - After-tax internal rate of return ("IRR") of 68% at a realised gold price of US\$1,400 per ounce;
 - Project payback within two years of first gold production;
 - Net after-tax cash flow generated over project life of US\$72.2 million at a realised gold price of US\$1,400 per ounce;
 - After-tax net present value ("NPV") of US\$38.2 million; based on a 10% discount rate and a realised gold price of US\$1,400 per ounce;
 - Average Life of Mine ("LOM") cash operating costs of US\$739 per ounce (gold equivalent) including royalties and refining costs;
 - Average annual free cash flow (after tax and sustaining capital expenditure) of US\$11.0 million;
 - Average gold grade of 8.98 g/t gold producing a total gold equivalent of 201,300 ounces;
 - Average annual production of 24,400 gold equivalent ounces over the initial 8 year period with a range of between 19,000 to 30,000 ounces gold equivalent per annum; and
 - Initial capital expenditures of US\$17.8 million prior to production start-up.
- The Operational Environmental Licence for the Palito Mine was renewed by Secretaria de Estado de Meio Ambiente ("SEMA"), the state Environmental Agency for the State of Para on 27 April 2012.
- The Company completed a placing of 27,300,000 units on 24 January 2012 raising gross proceeds of UK£2.73 million. Each of the 27,300,000 units were comprised of one ordinary share and one-sixth of one ordinary share purchase warrant of the Company, with each whole warrant being exercisable to acquire one ordinary share at an exercise price of UK£0.15 until 23 January 2014.

Post year end highlights

- De-watering of the mine was completed in January 2013;
- A new mine management and technical team commenced in mid-January 2013;
- The first items of mining equipment arrived at site on 15 February 2013;
- Initial contract mining personnel arrived at site on 15 February 2013;
- Remediation of the crushing and flotation sections of the process plant commenced early in 2013; and
- The contract for the detailed engineering design on the milling circuit and cyanidation plant has been awarded and work commenced.



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SERABI GOLD plc ("Serabi" or "the Company")



Mike Hodgson CEO said:

"Last year's PEA on the Palito Mine convinced us to put the mine back into production. The PEA had concluded that a small scale, high grade mining operation is viable at the site.

"Our objective now is to commence gold production in the coming months. Palito has a clearly defined timeline and the finance in place. We are already progressing with the project's initial development."

Enquiries

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Copies of this release are available from the Company's website at www.serabigold.com

Forward-looking statements

Certain statements in this announcement are, or may be deemed to be, forward looking statements. Forward looking statements are identified by their use of terms and phrases such as "believe", "could", "should", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These forward looking statements are not based on historical facts but rather on the Directors' current expectations and assumptions regarding the Company's future growth, results of operations, performance, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities. Such forward looking statements reflect the Directors' current beliefs and assumptions and are based on information currently available to the Directors. A number of factors could cause actual results to differ materially from the results discussed in the forward looking statements including risks associated with vulnerability to general economic and business conditions, competition, environmental and other regulatory changes, actions by governmental authorities, the availability of capital markets, reliance on key personnel, uninsured and underinsured losses and other factors, many of which are beyond the control of the Company. Although any forward looking statements contained in this announcement are based upon what the Directors believe to be

reasonable assumptions, the Company cannot assure investors that actual results will be consistent with such forward looking statements.

Qualified Persons Statement

The scientific and technical information contained within this announcement has been reviewed and approved by Michael Hodgson, a Director of the Company. Mr Hodgson is an Economic Geologist by training with over 25 years' experience in the mining industry. He holds a BSc (Hons) Geology, University of London, a MSc Mining Geology, University of Leicester and is a Fellow of the Institute of Materials, Minerals and Mining and a Chartered Engineer of the Engineering Council of UK, recognizing him as both a Qualified Person for the purposes of Canadian National Instrument 43-101 and by the AIM Guidance Note on Mining and Oil & Gas Companies dated June 2009.

Neither the Toronto Stock Exchange, nor any other securities regulatory authority, has approved or disapproved of the contents of this news release.

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The following information, comprising the Chairman's Statement, the Finance Review, the Income Statement, the Group Balance Sheet, Group Statement of Changes in Shareholders' Equity and Group Cash Flow, is extracted from these financial statements.

The Company will, in compliance with Canadian regulatory requirements, post its Management Discussion and Analysis for the year ended 31 December 2012 and its Annual Information Form on SEDAR at www.sedar.com. These documents will also be available from the Company's website – www.serabigold.com.

CHAIRMAN'S STATEMENT

2012 has been a transformational year for Serabi. During the year, and on the back of a successful exploration programme conducted in 2011, we progressed with the preparation of a PEA over the viability of small scale production at the Palito mine. The report was published in June 2012 and its conclusions supported our earlier internal studies, which had demonstrated the viability of a small scale, high grade operation using selective mining techniques. Our decision to consider putting the mine into production had been taken in the face of declining valuations for pure exploration companies, a reflection of the altered risk profiles adopted by investors in the wake of the continued uncertainties over world economies. Whilst Serabi has not been immune from the decline in the junior resource equity markets, its ability during 2012 to deliver a PEA supporting a low capital production start-up with the potential to generate cash flow sufficient for its on-going exploration sets it apart from many of its junior gold peers.

That the Company has then been able to obtain the financing to place the Palito Mine into production in such a difficult market is a testament to the project itself and the potential future growth opportunities that its successful implementation will have.

Whilst there are signs of recovery in some world markets, there remains a great deal of uncertainty in Europe and I believe that Investors still want to find high quality investment opportunities in the gold sector. There are many ways to assess this, but low capital requirements, early cash-flow and limited technical and environmental risk are all key metrics and on which I believe that the Palito mine delivers. Our objective is to use our future cash-flow to focus on improving the size and the sustainability of the project, by seeking to grow the resource base using the discoveries made to date, and if successful and viable, bringing these discoveries into production.

The support of Fratelli Investments Limited throughout the last 12 months cannot be under-estimated and the Board and management join me in extending thanks to them for the commitments they have made. In Fratelli we have a financially strong, long term investor that shares the Board's vision of developing and growing Serabi. They share our belief in the potential of the Tapajos region of Brazil and the objective of utilising the cash flow that initial gold production would generate to re-invest in exploration to build critical mass. Whilst last year we had offers of project debt financing to meet some of the Palito project construction and development costs, the requirements associated with such financing would in the Board's view have restricted the Company's expansion by re-directing free cash flow into supporting debt servicing and security arrangements for the lenders. We were nevertheless encouraged that a number of banks and other lenders were willing to provide indicative terms and we will continue to consider the use of debt to finance future production growth.

Over the remainder of the year, our objective is to deliver the project, and commence gold production on time and within budget and I look forward, in next year's Annual Report, to being able to confirm that this objective has been achieved.

The junior gold sector has suffered heavily over the past few years and equity funding for junior exploration companies is likely to remain challenging for some period to come and undoubtedly during this time there will be companies and projects that will no longer be able to find favour with investors. It is for this reason that we have been so keen to try to insulate Serabi in the future from the funding cycle of exploration companies that requires them to regularly return to the equity markets and in recent years this has, of course, been at ever decreasing share prices. Sector consolidation is probably overdue and should result in a smaller pool of companies but between them managing a higher quality asset base. With its potential production cash-flow our objective is that Serabi will be able to take advantage of opportunities that arise that can add value for its shareholders. With a smaller pool of companies satisfying the same size investor pool this should also increase demand and liquidity which we can hope will translate into seeing an improvement in valuations.

The remainder of 2013 presents a challenge to the Company but I firmly believe that we have the building blocks in place to meet this challenge. We have a robust project, the finance in place and a senior team with the credentials to manage and deliver. We are already well advanced in the initial development and rehabilitation work and the timeline to completions is clearly defined.

Finally, on behalf of the board of directors I would specifically like to thank Mike Hodgson, our CEO and Clive Line, our Finance Director, for their tireless work last year during which they spearheaded the change in corporate strategy and successfully managed the work on and completion of the PEA and then more importantly, the capital raise that now has put Serabi back on the path to production, and ultimately a rejuvenated Brazilian gold growth story.

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FINANCE REVIEW

The data included in the selected annual information table below is taken from the Company's annual audited financial statements which were prepared in accordance with International Financial Reporting Standards in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") and adopted for use within the European Union (IFRS) and with IFRS and their interpretations issued by the IASB. There are no material differences on application to the Group. The consolidated financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

	2012 US\$	2011 US\$	2010 US\$
Revenues	–	3,807	1,229,551
Net loss	(4,736,986)	(5,935,823)	(5,980,011)
Net loss per share (basic and diluted)	(5.29) cents	(10.01) cents	(15.21) cents
Total current assets	3,993,428	3,309,822	11,174,647
Development and deferred exploration costs	17,360,805	16,648,884	9,797,406
Property plant and equipment	26,848,991	28,266,092	33,951,140
Total assets	48,203,224	48,224,798	54,923,193
Total liabilities	8,942,223	4,940,318	10,571,375
Equity shareholders' funds	39,261,001	43,284,480	44,351,818

Results of Operations

Twelve month period ended 31 December 2012 compared to the twelve month period ended 31 December 2011

For the twelve month period ended 31 December 2012 the Company recorded a net loss of US\$4,736,986 (5.29 US cents per share) compared to a net loss of US\$5,935,823 (10.01 US cents per share) for the comparative period last year.

The loss from operations for the year to 31 December 2012 was reduced to US\$477,961 by comparison with the year to 31 December 2011 when the loss incurred was US\$567,705. It should be noted that the year to 31 December 2012 only includes plant maintenance costs related to the process plant up to 30 June 2012 after which time all related costs have been treated as part of the development expenditures of starting gold production operations at the Palito Mine and therefore capitalised. Expenditures for the year ended 31 December 2011 of US\$571,512 were for the full 12 month period and also reflect that, for this 12 month period, the crushing section of the plant was operational as the company was selling crushed mine waste material for road aggregate, an activity which has now ceased.

The company has, during the financial period ended 31 December 2012, made a provision of BrR\$546,436 (US\$280,080) in respect of obsolete spare parts or items it considers the Company will not use in the future operations.

Administration costs for the 12 month period to 31 December 2012 were US\$2,513,272 compared with US\$2,886,707 for the preceding financial year. The reduction of US\$373,435 is net of the income generated in 2011 of US\$506,575 from waste rock sales resulting in an actual year on year reduction of US\$880,010. Of this reduction US\$465,261 is the result of a reduced provision for the settlement of past employment related claim. A further US\$430,000 reduction is also attributable to activities in Brazil. The reduction in administration costs recorded in Brazilian Reals was BrR\$526,000 (US\$269,600) reflecting lower salary costs, reduced consulting fees and expiring equipment rental arrangements. In addition the Company made provision for additional taxes amounting to BrR\$237,900 (US\$142,430) in the period to 31 December 2011 and there has been no similar provision required for the year to 31 December 2012. The remainder is primarily the result of exchange rate effects following the weakening of the exchange rate between the US\$ and the BrR\$. For the 12 months to 31 December 2011 the average rate was 1.6703 whilst for the corresponding period to 31 December 2012 the average rate was 1.9510.

In the year ended 31 December 2011 the Company recorded a one-off charge relating to a provision against the recoverability of certain taxes from the State of Para amounting to BrR\$215,910 (US\$129,264) and received a one-off income in the form of a settlement of an outstanding charge with a supplier which reduced the liability that had been recorded by the company by an amount equivalent to US\$540,441. There have been no such corresponding events in the year ended 31 December 2012.



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SERABI GOLD plc ("Serabi" or "the Company")



The Company has written off all exploration costs relating to past exploration activity at the Modelo project amounting to US\$267,703. This follows the decision of management not to renew exploration licences that it held for this project.

Depreciation charges for the year ended 31 December 2012 were US\$891,101 a reduction of approximately US\$1.63 million. A significant portion of the assets held by the Company have now been fully depreciated.

The charge in respect of the fair value of share based payments has reduced from US\$263,861 for the year ended 31 December 2011 to US\$128,882 for the year ended 31 December 2012. Option awards are valued using the Black- Scholes valuation method. Recent awards have been made at lower exercise prices than in the past reflecting the prevailing share prices and consequently generate lower valuations for each option award.

Net interest expense for the year ended 31 December 2012 was US\$549,664 compared with US\$478,114 for the year ended 31 December 2011. An analysis of the composition of these charges is set out in the table below.

	2012 US\$	2011 US\$
Interest on short term loan	80,745	-
Fee for provision of short term loan	180,000	-
Interest expense on convertible loan stock	56,304	45,722
Finance element of adjustment to rehabilitation provision	170,913	334,636
Other interest and finance expenses	67,802	156,839
	<u>555,835</u>	<u>537,197</u>
Interest income	(6,171)	(59,083)
	<u>549,664</u>	<u>478,114</u>

Interest and fees on the short term loan relate to the provision by Fratelli Investments Limited ("Fratelli") of a US\$6.0 million facility which was entered into on 1 October 2012. Under the loan agreement a facility fee of 3% was payable to Fratelli and interest accrued at the rate of 12% per annum. The facility was repaid in January 2013 from the proceeds of a UK£16.2 million placement of new shares that was completed on 17 January 2013.

The rehabilitation provision relates to the estimated costs of the remediation of the Palito Mine site upon its eventual closure and uses costs estimates made by the Company and submitted in its reports to the DNPM. The provision represents the discounted present value of the costs estimates which are themselves subject to inflation adjustments. To the extent that the value of the provision is varied through changes in exchange rates or changes in inflation or interest rates such variations are treated as a foreign exchange cost or an interest cost. Accordingly the variation reflecting the reduced discount rate applied following reductions in the Brazilian SELIC rate at the end of 2012 as well as changes in inflation rates have been accounted for as interest charges.

Other interest and finance expenses are primarily related to the Brazilian operation and the reduction in the 12 months to 31 December 2012 compared with the 12 months to 31 December 2011 reflects reduced levels of settlements with long term creditors to which interest is being applied and also reduced levels of penalty from tax authorities for past adjustments of taxes due to be collected by the Company on behalf of both the Federal and State tax authorities.

Reduced levels of cash holdings explain the reduced level of interest income derived in the twelve months ended 31 December 2012 compared with the corresponding period of 2011 falling from US\$59,083 to US\$6,171.

Exchange differences on the currency translation of foreign operations reflect the revaluation of the assets and liabilities of those foreign operations. The Brazilian Real has fallen in value relative to the United States Dollar over the twelve month period ended 31 December 2012. The rate as at 31 December 2012 was 2.0435 Brazilian Real to one United States Dollar compared with a rate as at 31 December 2011 of 1.8758. This decline has resulted in a reduction in US Dollar terms of the book value of the assets of the Company's Brazilian subsidiary in particular the values attributable to the Palito Mine and the deferred exploration interests. Any appreciation in the Brazilian Real will result in a reversal of this exchange loss.

Summary of quarterly results

	Quarter ended 31 December 2012 US\$	Quarter ended 30 September 2012 US\$	Quarter ended 30 June 2012 US\$	Quarter ended 31 March 2012 US\$
Revenues	-	-	-	-
Operating expenses	(296,017)	-	(64,250)	(117,694)
Gross loss	(296,017)	-	(64,250)	(117,694)
Administration expenses	(679,272)	(450,047)	(573,167)	(810,786)
Provision for indirect taxes	-	-	-	-
Option costs	(33,244)	(33,244)	(33,244)	(29,150)
Write-off of past exploration	(267,703)	-	-	-

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	Quarter ended 31 December 2012 US\$	Quarter ended 30 September 2012 US\$	Quarter ended 30 June 2012 US\$	Quarter ended 31 March 2012 US\$
expenditures				
Gain on asset disposals	9,857	–	8,599	–
Depreciation of plant and equipment	(83,110)	(223,150)	(158,204)	(426,637)
Operating loss	(1,349,489)	(706,441)	(820,266)	(1,384,267)
Exchange	(4,380)	9,434	(19,103)	87,190
Finance costs	(498,343)	(18,541)	(14,731)	(18,049)
Loss before taxation	(1,852,212)	(715,548)	(854,100)	(1,315,126)
Loss per ordinary share (basic and diluted)	(2.03) cents	(0.78) cents	(0.94) cents	(1.56) cents
Development and deferred exploration costs	17,360,805	18,249,489	17,405,081	17,998,296
Property, plant and equipment	26,848,991	25,514,742	25,845,466	28,690,108
Total current assets	3,993,428	2,054,299	3,305,872	5,291,258
Total assets	48,203,224	45,818,530	46,556,419	51,979,662
Total liabilities	8,942,223	4,358,930	4,219,578	4,537,035
Shareholders' equity	39,261,001	41,459,600	42,336,841	47,442,627

	Quarter ended 31 December 2011 US\$	Quarter ended 30 September 2011 US\$	Quarter ended 30 June 2011 US\$	Quarter ended 31 March 2011 US\$
Revenues	(99)	2,843	1,063	–
Operating expenses	(103,429)	(152,001)	(132,260)	(183,822)
Gross loss	(103,528)	(149,158)	(131,197)	(183,822)
Administration expenses	(773,512)	(745,990)	(701,818)	(665,387)
Settlement of supplier claim	–	–	–	540,441
Provision for indirect taxes	(129,264)	–	–	–
Option costs	(77,151)	(92,399)	(63,740)	–
Write-off of past exploration expenditures	–	–	–	(30,571)
Gain / (loss) on asset disposals	38,803	(5,204)	11,178	(13,515)
Impairment	–	–	–	–
Depreciation of plant and equipment	(509,873)	(580,845)	(593,796)	(567,336)
Operating loss	(1,554,525)	(1,573,596)	(1,479,373)	(920,190)
Exchange	95,975	(168,309)	(44,988)	187,297
Finance (costs)/income	(432,312)	2,221	(38,274)	(9,749)
Loss before taxation	(1,890,862)	(1,739,684)	(1,562,635)	(742,642)
Loss per ordinary share (basic and diluted)	(2.96) cents	(2.72) cents	(2.44) cents	(1.65) cents
Development and deferred exploration costs	16,648,884	15,122,184	14,785,541	11,679,390
Property, plant and equipment	28,266,092	29,132,327	34,843,749	34,088,905
Total current assets	3,309,822	6,376,759	10,897,744	13,933,052
Total assets	48,224,798	50,631,270	60,527,034	59,701,347
Total liabilities	4,940,318	5,302,581	6,076,157	5,603,473
Shareholders' equity	43,284,480	45,328,689	54,450,877	54,097,874

Three month period ended 31 December 2012 compared to the three month period ended 31 December 2011



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The loss from operations increased from US\$103,528 for the 3 months ended 31 December 2011 to US\$299,842 for the 3 month period ended 31 December 2012. The Company has in the 3 months ended 31 December 2012 made provision of BrR\$546,436 (US\$280,280) in respect of spare parts that it considers are obsolete or will not otherwise be required by the Company in its planned gold production operations. This represents approximately 27% of the inventory held by the Company at 31 December 2012.

In the 3 months to 31 December 2011 all costs relating to the maintenance of the process plant were treated as an operating expense as they were incurred. For that 3 month period this costs was BrR\$192,411 (US\$103,429). Since the decision was taken by the Board, at the end of June 2012, to proceed with the commencement of mining activities the plant has been considered to be in a state of refurbishment and all costs related to the plant are being capitalised as part of the overall mine development costs and therefore there is no change to the income statement in the 3 month period to 31 December 2012.

Notwithstanding the increased loss from operations the loss on ordinary activities before interest has reduced from US\$1,554,525 to US\$1,349,489. Major contributors to the reduced level of loss are a reduction in administration costs from US\$773,512 to US\$679,272 and a reduction in depreciation charges from US\$509,873 to US\$83,110.

Administration costs for the 3 month period ended 31 December 2011 reflected income from the sale of crushed mined waste rock for road aggregate amounting to approximately US\$76,000. There has been no similar revenue in the 3 month period ended 31 December 2012. In Brazil administration costs have reduced by approximately US\$240,000. In the 3 month period ended 31 December 2011 the Company made a provision for additional taxes amounting to BrR\$237,900 (US\$142,430) for which there has been no corresponding transaction in the 3 month period ended 31 December 2012. Expenditure reductions between the corresponding periods have also been realised on travel and information technology and from the expiry of certain rental contracts for equipment. The level of claims made against the Company with respect to past employment disputes has also reduced from US\$88,000 in the 3 month period to 31 December 2011 to approximately US\$20,000 in the 3 month period to 31 December 2012.

The reduction in depreciation charges between the two periods reflects many of the Company's assets reaching the end of their original forecast lives for amortisation purposes and have therefore now been fully amortised.

During the period ended 31 December 2012, management took the decision not to renew certain exploration licences relating to the Modelo project. Accordingly accumulated exploration expenditures amounting to US\$267,703 have been written off.

The Company recorded a foreign exchange gain of US\$95,975 in the 3 month period to 31 December 2011 although US\$70,500 of this related to the reversal of a previous foreign exchange charge relating to the rehabilitation provision. Realised foreign exchange gains in the 3 month period to 31 December 2011 were therefore US\$26,000 compared with a loss of US\$799 for the 3 month period ended 31 December 2012.

Net interest charges for the 3 month period to 31 December 2012 were US\$498,343 compared with US\$432,312 for the corresponding period 3 month period to 31 December 2011. An analysis of the composition of these charges is set out in the table below.

	2012	2011
	US\$	US\$
Interest on short term loan	80,745	-
Fee for provision of short term loan	180,000	-
Interest expense on convertible loan stock	14,131	11,254
Finance element of adjustment to rehabilitation provision	170,913	305,136
Other interest and finance expenses	52,542	122,898
	<u>498,385</u>	<u>439,288</u>
Interest income	(42)	(6,976)
	<u>498,343</u>	<u>432,312</u>

Interest and fees on the short term loan relate to a US\$6.0 million facility provided by Fratelli Investments Limited ("Fratelli") entered into on 1 October 2012. Under the loan agreement a facility fee of 3% was payable to Fratelli and interest accrued at the rate of 12% per annum. The facility was repaid in January 2013 from the proceeds of a UK£16.2 million placement of new ordinary shares that was completed on 17 January 2013.

The rehabilitation provision relates to the estimated costs of the remediation of the Palito Mine site upon its eventual closure and uses cost estimates made by the Company previously submitted in reports to the DNPM. The provision represents the discounted present value of the cost estimates which are themselves subject to inflation adjustments. To the extent that the value of the provision is varied through changes in exchange rates or changes in inflation or interest rates such variations are treated as a foreign exchange cost or an interest cost. Accordingly the variation reflecting the reduced discount rate applied following reductions in the Brazilian SELIC rate at the end of 2012 as well as changes in inflation rates have been accounted for

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as interest charges. Whilst management had been reviewing the level of provision carried during prior quarters it had not recorded any adjustment to the level of provision in any of the earlier 3 month periods of 2012. Accordingly the movement in the provision for the 3 month period ended 31 December 2012 is the same as the movement in the provision for the 12 month period ended 31 December 2012.

Other interest and finance expenses are primarily related to the Brazilian operation and the reduction in the 3 months to 31 December 2012 compared with the 3 months to 31 December 2011 reflects reduced levels of settlements with long term creditors to which interest is being applied and also reduced levels of penalty from tax authorities for past adjustments of taxes due to be collected by the Company on behalf of both the Federal and State tax authorities.

Liquidity and Capital Resources

The Company had a working capital position of US\$(2,760,104), inclusive of a US\$4.5 million short term loan received from a major shareholder, at 31 December 2012 compared to US\$625,602 at 31 December 2011. On 2 October 2012, the Company announced that it had entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli"), one of its major shareholders, to subscribe for and underwrite a placement of new shares to raise in aggregate UK£16.2 million to finance the development and start-up of underground mining operations at its Palito gold mine. In addition, Fratelli agreed to provide an interim secured short term loan facility of US\$6.0 million to the Company to provide immediate working capital to enable it to commence the initial works at Palito. The Company made its first drawdown against this loan facility on 2 October 2012 and as at 31 December 2012 the total amount drawn down was US\$4,500,000. The working capital position at 31 December 2012 includes cash and cash equivalents of US\$2,582,046 (2011: US\$1,406,458) and the outstanding loan to Fratelli of US\$4.5 million, which was repaid in January 2013

The Company does not have any asset backed commercial paper investments. As the Company has no revenue and has in recent years supported its activities by the issue of further equity, the working capital position at any time reflects the timing of the most recent share placement completed by the Company.

During the twelve month period ended 31 December 2012, the Company issued 27,300,000 Ordinary Shares and 4,549,998 Warrants for gross cash proceeds of UK£2.7 million. The placement comprised the issue of 27,300,000 units where each unit consists of one Ordinary Share and one sixth of a Warrant whereby each whole Warrant entitles the holder to subscribe for one Ordinary Share at a price of UK£0.15 at any time until 23 January 2014.

The Company has, during the twelve month period ended 31 December 2012, incurred costs of US\$2,272,894 for development and exploration expenditures on its mineral properties, including the costs of the PEA undertaken by NCL, US\$71,977 on asset purchases, US\$1,697,975 on rehabilitation and development of the Palito Mine and used cash of US\$3,439,852 to support its operating activities. Further details of the exploration and development activities conducted during the year are set out elsewhere in this MD&A.

On 31 December 2012, the Company's total assets amounted to US\$48,203,224 which compares to the US\$48,224,798 reported at 31 December 2011. The Current Asset component has increased by some US\$0.60 million reflecting higher cash balances offset by the write off of inventory. Whilst some US\$4.0 million has been expended on non-current assets the devaluation of the Brazilian Real against the United States Dollar has resulted in exchange variations reducing the carrying value of exploration interests by US\$1.3 million and of mining property, plant and equipment by US\$2.3 million. The remaining reduction in value of some US\$0.9 million is attributable to depreciation charges raised during the period. Total assets are mostly comprised of property, plant and equipment, which as at 31 December 2012 totalled US\$26,848,991 (December 2011: US\$28,266,092), of which US\$1,622,093 relates to project development expenditure at the Palito Mine and deferred exploration and development cost which as at 31 December 2012 totalled US\$17,360,805 (December 2011: US\$16,648,884), of which US\$16,298,769 relates to capitalised exploration expenditures at, or in close proximity to, the Palito Mine. The Company's total assets also included cash holdings of US\$2,582,046 (December 2011: US\$1,406,458).

Receivables of US\$85,509 as at 31 December 2012 are at similar levels to 31 December 2011 when the receivables balance was US\$87,440. The receivables as of 31 December 2012 are primarily deposits paid by the Company. Prepayments as of 31 December 2012 were US\$603,005 compared with US\$701,669 as at 31 December 2011, a decrease of US\$98,666. The prepayments primarily represent prepaid taxes in Brazil amounting to US\$514,493, of which the majority is federal and state sales taxes which the Company expects to recover either through off-set against other federal tax liabilities or through recovery directly.

The Company's total liabilities at 31 December 2012 of US\$8,942,223 (December 2011: US\$4,940,318) included the short term loan payable to Fratelli Investments Limited which, including interest, amounted to US\$4,580,745 as well as accounts payable to suppliers and other accrued liabilities of US\$2,384,724 (December 2011: US\$3,192,900). The total liabilities include US\$364,656 including accrued interest (December 2011: US\$296,122) attributable to the £300,000 loan from a related party, which has a repayment date of 31 October 2014 subject to the right of the holder at any time, on one or more occasions, on or before the repayment date, to convert any of the outstanding amounts owed by the Company to Ordinary Shares at a price of



PRESS RELEASE 28 MARCH 2013
SERABI GOLD plc ("Serabi" or "the Company")



15 pence per Ordinary Share. It also includes the amount of US\$1,612,098 (December 2011: US\$1,451,296) in respect of provisions including US\$1,223,392 (December 2011: US\$1,155,000) for the cost of remediation of the current Palito Mine site at the conclusion of operational activity.

During the early part of 2012 the Company commissioned a Preliminary Economic Assessment ("PEA") of the viability of re-commencing mining operations at the Palito Mine. The report which was completed and published in June 2012 was positive and the Company entered into a conditional subscription agreement with Fratelli Investments Limited ("Fratelli") on 2 October 2012 to subscribe for and underwrite a placement of new shares to finance the development and start-up of underground mining activities at the Palito gold mine. In addition Fratelli agreed to provide an interim secured loan facility of US\$6.0 million to provide additional working capital to the Company and to enable it to commence the initial works at Palito. The placing of 270 million new Ordinary Shares with Fratelli and other subscribers was completed on 17 January 2013, raising gross proceeds of UK£16.2 million. The Company has repaid out of the proceeds the amount of the loan facility that had been drawn down, which at that time was US\$4.5 million plus accrued interest. Management considers that the Company has adequate access to capital to be able to complete the necessary mine development and process plant and infrastructure rehabilitation works that are required in order to be able to commence gold production before the end of 2013. From the time that production operations commence at planned rates management anticipates that the Company will have sufficient cash flow to be able to meet all its obligations as and when they fall due and to, at least in part, finance the exploration and development activities that it would like to undertake on its other exploration projects.

There are, however, risks associated with the commencement of any new mining and processing operation whereby unforeseen technical and logistical events result in additional time being required for commissioning or additional costs needing to be incurred, giving rise to the possibility that additional working capital may be required to fund these delays or additional capital requirements. Should additional working capital be required the Directors consider that further sources of finance could be secured within the required timescale.



PRESS RELEASE 28 MARCH 2013

SERABI GOLD plc ("Serabi" or "the Company")



Statement of Comprehensive Income

For the year ended 31 December 2012

	Group	
	For the year ended 31 December 2012 US\$	For the year ended 31 December 2011 US\$
CONTINUING OPERATIONS		
Revenue	–	3,807
Operating expenses	(477,961)	(571,512)
Gross loss	(477,961)	(567,705)
Administration expenses	(2,513,272)	(2,886,707)
Provision for indirect taxes	–	(129,264)
Share-based payments	(128,882)	(263,861)
Write-off of past exploration costs	(267,703)	–
Settlement of supplier claim	–	540,441
Gain on asset disposals	18,456	31,262
Depreciation of plant and equipment	(891,101)	(2,251,850)
Operating loss	(4,260,463)	(5,527,684)
Foreign exchange gain	73,141	69,975
Finance expense	(555,835)	(537,197)
Finance income	6,171	59,083
Loss before taxation	(4,736,986)	(5,935,823)
Income tax expense	–	–
Loss for the period from continuing operations⁽¹⁾⁽²⁾	(4,736,986)	(5,935,823)
Other comprehensive income (net of tax)		
Exchange differences on translating foreign operations	(3,531,144)	(4,957,335)
Total comprehensive loss for the period⁽²⁾	(8,268,130)	(10,893,158)
Loss per ordinary share (basic and diluted)	(5.29c)	(10.01c)

(1) All revenue and expenses arise from continuing operations

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

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PRESS RELEASE 28 MARCH 2013

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Balance Sheets

	Group 2012 US\$	2011 US\$
Non-current assets		
Development and deferred exploration costs	17,360,805	16,648,884
Property, plant and equipment	26,848,991	28,266,092
Investments in subsidiaries	–	–
Other receivables	–	–
Total non-current assets	44,209,796	44,914,976
Current assets		
Inventories	722,868	1,114,255
Trade and other receivables	85,509	87,440
Prepayments	603,005	701,669
Cash and cash equivalents	2,582,046	1,406,458
Total current assets	3,993,428	3,309,822
Current liabilities		
Trade and other payables	2,001,683	2,538,055
Interest bearing liabilities	4,580,745	–
Accruals	171,102	146,165
Total current liabilities	6,753,530	2,684,220
Net current (liabilities)/assets	(2,760,102)	625,602
Total assets less current liabilities	41,449,694	45,540,578
Non-current liabilities		
Trade and other payables	211,939	508,680
Provisions	1,612,098	1,451,296
Interest bearing liabilities	364,656	296,122
Total non-current liabilities	2,188,693	2,256,098
Net assets	39,261,001	43,284,480
Equity		
Share capital	31,416,993	29,291,551
Share premium reserve	50,182,624	48,292,057
Option reserve	2,019,782	1,956,349
Other reserves	780,028	702,095
Translation reserve	(4,606,311)	(1,075,167)
Accumulated losses	(40,532,115)	(35,882,405)
Equity shareholders' funds attributable to owners of the parent	39,261,001	43,284,480



PRESS RELEASE 28 MARCH 2013

SERABI GOLD plc ("Serabi" or "the Company")



Statements of Changes in Shareholders' Equity

For the year ended 31 December 2012

Group	Share capital US\$	Share premium US\$	Share option reserve US\$	Other reserves US\$	Translation reserve US\$	Accumulated losses US\$	Total equity US\$
Equity shareholders' funds at 31 December 2010	27,752,834	40,754,032	1,648,484	260,882	3,882,168	(29,946,582)	44,351,818
Foreign currency adjustments	–	–	–	–	(4,957,335)	–	(4,957,335)
Loss for year	–	–	–	–	–	(5,935,823)	(5,935,823)
Total comprehensive income for the year	–	–	–	–	(4,957,335)	(5,935,823)	(10,893,158)
Issue of new ordinary shares for cash	731,412	4,229,767	–	208,229	–	–	5,169,408
Issue of new ordinary shares on exercise of special warrants	807,305	4,004,807	–	232,984	–	–	5,045,096
Costs associated with issue of new ordinary shares for cash	–	(696,549)	–	–	–	–	(696,549)
Share option expense	–	–	307,865	–	–	–	307,865
Equity shareholders' funds at 31 December 2011	29,291,551	48,292,057	1,956,349	702,095	(1,075,167)	(35,882,405)	43,284,480
Foreign currency adjustments	–	–	–	–	(3,531,144)	–	(3,531,144)
Loss for year	–	–	–	–	–	(4,736,986)	(4,736,986)
Total comprehensive income for the year	–	–	–	–	(3,531,144)	(4,736,986)	(8,268,130)
Issue of new ordinary shares for cash	2,125,442	2,047,509	–	77,933	–	–	4,250,884
Costs associated with issue of new ordinary shares for cash	–	(156,942)	–	–	–	–	(156,942)
Share options lapsed	–	–	(87,276)	–	–	87,276	–
Share option expense	–	–	150,709	–	–	–	150,709
Equity shareholders' funds at 31 December 2012	31,416,993	50,182,624	2,019,782	780,028	(4,606,311)	(40,532,115)	39,261,001

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SERABI GOLD plc ("Serabi" or "the Company")



Cash Flow Statements

For the year ended 31 December 2012

Group

	For the year ended 31 December 2012 US\$	For the year ended 31 December 2011 US\$
Cash outflows from operating activities		
Operating loss	(4,260,463)	(5,527,684)
Depreciation – plant, equipment and mining properties	891,101	2,251,850
(Gain)/loss on sale of assets	(18,456)	(31,262)
Deferred asset write-off	267,703	–
Option costs	128,882	263,861
Interest paid	(247,802)	(156,838)
Foreign exchange	(261,974)	(174,367)
Changes in working capital		
Decrease/(increase) in inventories	313,248	162,979
Decrease/(increase) in receivables, prepayments and accrued income	47,982	267,985
(Decrease)/increase in payables, accruals and provisions	(300,072)	(269,289)
Net cash flow from operations	(3,439,851)	(3,212,765)
Investing activities		
Proceeds of sale of fixed assets	19,724	212,887
Purchase of property, plant, equipment and projects in construction	(1,769,951)	(119,974)
Exploration and development expenditure	(2,251,067)	(8,663,471)
Capital and loan investments in subsidiaries	–	–
Interest received	6,171	59,083
Net cash outflow on investing activities	(3,995,122)	(8,511,475)
Financing activities		
Issue of ordinary share capital	4,250,883	4,961,180
Issue of special warrants	–	208,229
Short term secured loan	4,500,000	–
Payment of share issue costs	(156,942)	(696,549)
Payment of special warrant issue costs	–	(14,900)
Net cash inflow from financing activities	8,593,941	4,457,960
Net increase/(decrease) in cash and cash equivalents	1,158,968	(7,266,280)
Cash and cash equivalents at beginning of period	1,406,458	8,598,755
Exchange difference on cash	16,620	73,983
Cash and cash equivalents at end of period	2,582,046	1,406,458



Notes

1. General Information

The financial information set out above for the years ended 31 December 2012 and 31 December 2011 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, but is derived from those accounts. Whilst the financial information included in this announcement has been compiled in accordance with International Financial Reporting Standards ("IFRS") this announcement itself does not contain sufficient financial information to comply with IFRS. A copy of the statutory accounts for 2011 has been delivered to the Registrar of Companies and those for 2012 will be posted to shareholders. The full audited financial statements for the years end 31 December 2012 and 31 December 2011 do comply with IFRS.

2. Auditor's Opinion

The auditor has issued an unqualified opinion in respect of the financial statements which does not contain any statements under the Companies Act 2006, Section 498(2) or Section 498(3). The auditor has raised an Emphasis of Matter in relation to going concern and the availability of project finance as follows:

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

NB : The reference to note 1(a) in the above is a reference to the Basis of preparation note contained within the Financial Statements from which the extracts reproduced below referring to Going concern and Impairment are taken.

3. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in force at the reporting date and their interpretations issued by the International Accounting Standards Board ("IASB") as adopted for use within the European Union and with IFRS and their interpretations issued by the IASB. The consolidated financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has not adopted any standards or interpretations in advance of the required implementation dates. There has been no significant measurement impact on the consolidated financial statements from new standards or interpretations effective in 2012.

It is not anticipated that the adoption in the future of the new or revised standards or interpretations that have been issued by the International Accounting Standards Board will have a material impact on the Group's earnings or shareholders' funds.

Attention is drawn to the detailed disclosures made in the audited Financial Statements regarding the Basis of Preparation and in particular the following disclosures extracted directly from the audited Financial Statements in respect of Going Concern and Impairment.

Going concern and availability of project finance

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



PRESS RELEASE 28 MARCH 2013

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

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

Impairment

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

4. Loss per share

The calculation of the basic loss per share of 5.29 cents (2011 loss per share: 10.01 cents) is based on the loss attributable to ordinary shareholders of US\$4,736,986 (2011: loss of US\$5,935,823) and on the weighted average number of ordinary shares of 89,552,955 (2011: 59,309,035) in issue during the period. Diluted loss per share is the same as the basic loss per share because the exercise of share options would be anti-dilutive.

5. Development and Deferred Exploration costs

	Group	
	31 December 2012 \$	31 December 2011 \$
Cost		
Opening balance	16,648,884	9,797,406
Exploration and development expenditure	2,251,067	8,663,471
Share option charges capitalised	21,827	44,005
Write-off of past exploration costs	(267,703)	–
Foreign exchange movements	(1,293,270)	(1,855,998)
Total as at end of period	17,360,805	16,648,884

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



PRESS RELEASE 28 MARCH 2013

SERABI GOLD plc ("Serabi" or "the Company")



6. Tangible Assets

Property, plant and equipment - Group

	Land and buildings – at cost \$	Mining property – at cost \$	Projects in construction – at cost \$	Plant and equipment – at cost \$	Total \$
2012					
Cost					
Balance at 31 December 2011	3,628,135	29,395,558	–	10,997,006	44,020,699
Additions	5,073	–	1,697,975	66,903	1,769,951
Foreign exchange movements	(297,973)	(2,115,419)	(75,882)	(850,062)	(3,339,336)
Disposals	–	–	–	(87,139)	(87,139)
At 31 December 2012	3,335,235	27,280,139	1,622,093	10,126,708	42,364,175
Depreciation					
Balance at 31 December 2011	(3,513,375)	(4,099,737)	–	(8,141,495)	(15,754,607)
Charge for period	(198,220)	–	–	(692,881)	(891,101)
Reclassification of impairment provision	86,130	(86,130)	–	–	–
Foreign exchange movements	290,230	146,123	–	608,300	1,044,653
Eliminated on sale of asset	–	–	–	85,871	85,871
At 31 December 2012	(3,335,235)	(4,039,744)	–	(8,140,205)	(15,515,184)
Net book value at 31 December 2012	–	23,240,395	1,622,093	1,986,503	26,848,991
Net book value at 31 December 2011	114,760	25,295,821	–	2,855,511	28,266,092

7. Impairment

The Directors have considered each of the Group's exploration and development assets on a project-by-project basis. It has considered three general cash generating units for the purpose of this assessment. These are:

- the Palito mine itself including the pre-operating cost, exploration expenditures on establishing the current declared reserve and resource base, land and buildings and plant and machinery associated with the mining operations
- exploration expenditures on areas within the Palito environs but which have not yet been exploited and do not form part of the current declared reserves and resources; and
- exploration expenditures on other tenements.

The Directors note that the carrying value of the assets relating to the Palito Mine (before impairments) has reduced to US\$27,814,608 compared with the value at 31 December 2011 of US\$30,838,229. This is primarily the result of exchange rates variations and depreciation charges made during the period, with the balance attributable to small levels of asset additions and disposals. In making their assessment of the value in use attributable to the Palito Mine the Directors have made certain revisions to the underlying assumptions compared with those used in making the calculation as of 31 December 2011. The current assessment has been based on the economic assessment of the Palito Mine project set out in the PEA and in particular the timing of the commencement of production, projected capital and operating costs and expected production levels. The Directors have based their estimates of gold price on consensus forecasts of a selection of analysts covering the gold sector. The resulting post-tax Net Present Value of the project still supports the carrying value of US\$25.2 million and therefore the Directors have not made any adjustment to the impairment provision currently carried in the books of the group.

In accordance with IAS 36 – Impairment of Assets, any impairment must first be applied against any goodwill allocated to the unit that is impaired and thereafter allocated to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

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PRESS RELEASE 28 MARCH 2013

SERABI GOLD plc ("Serabi" or "the Company")



Group

The carrying value for the Group of the Palito cash generating unit comprises:

	Carrying value before impairment \$	Impairment provision \$	Carrying value after impairment \$
Mining Property	25,364,208	2,123,814	23,240,394
Land and Buildings	–	–	–
Plant and Equipment	2,450,400	466,718	1,983,682
	<u>27,814,608</u>	<u>2,590,532</u>	<u>25,224,076</u>

An initial impairment provision against the carrying value of the Palito cash generating unit for the Group, was established in the financial year ended 31 December 2009. The provision was first applied against Goodwill of US\$1,752,516 and accordingly the value reported by the Group as Goodwill at that time was impaired in full.

No impairment provision has been made in respect of any of the other cash generating units.

Annual Report

The Annual Report is expected to be posted to shareholders before 30 April 2013. Additional copies will be available to the public, free of charge, from the Company's offices at 2nd floor, 30 – 32 Ludgate Hill, London, EC4M 7DR and will be available to download from the Company's website at www.serabigold.com.

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