



Conditional UK£16.2 million share subscription and underwriting Interim US\$6 million loan facility to finance start-up of gold production at Palito Appointment of new Director

Serabi Gold plc (AIM:SRB, TSX:SBI and SBI.WT), the Brazilian focused gold exploration and development company is pleased to announce that it has entered into a conditional subscription agreement ("**Subscription Agreement**") with Fratelli Investments Limited^{(1) (2)} ("**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 has provided an interim secured short term loan facility of US\$6 million (equivalent to UK£3.7 million) to the Company ("**Loan Agreement**") to provide additional working capital to the Company and to enable it to commence the initial works at Palito.

The Subscription Agreement is conditional, *inter alia*, on approval of the independent shareholders of the Company on a poll at a general meeting of the waiver of any obligations of Fratelli to make a general offer to shareholders pursuant to Rule 9 of the City Code on Takeovers and Mergers. Drawdown under the Loan Agreement is subject to a number of conditions precedent including the execution of the security agreements.

Mike Hodgson the CEO of Serabi stated that:

"The results of the Preliminary Economic Assessment in June of this year were a major milestone for Serabi. The PEA demonstrated that with the established infrastructure, year round access and permits, coupled with much improved gold prices and the adoption of selective mining techniques, the high-grade Palito deposit could produce a good cash flow stream to finance further exploration and development which, in time, could increase gold production volumes. In these current markets, equity funding for small companies remains challenging and it is a demonstration of the confidence Fratelli have in the project and the management team that they have agreed to make available the entire amount of the estimated funding required for the Palito redevelopment so the project can move forward in the shortest possible time-frame. We will immediately be implementing the mine re-development, placing orders for key long lead-time items, undertaking plant refurbishment work and finalising arrangements with key contractors. Production at Palito will place Serabi ahead of its peers in the region and enable it to take advantage of other potential development and growth opportunities, especially if the equity markets for exploration companies remain difficult."

1. Subscription Agreement

The Company has today entered into a conditional subscription agreement ("**Subscription Agreement**") with Fratelli Investments Limited ("**Fratelli**"), which is interested in 19.3 per cent. of the Company's issued share capital, to subscribe for and underwrite a placement of new shares to raise UK£16.2 million ("**Fratelli Subscription**") to finance the development and start-up of underground mining operations at its Palito gold mine ("**Placement**"). The investment by Fratelli will take the form of:

(a) A subscription for 90,403,000 new Ordinary Shares of UK£0.05 each in the Company ("**Shares**") at a subscription price of UK£0.06 per Share ("**Subscription Price**"), which will, in aggregate with Fratelli's existing shareholding, provide Fratelli with 29.9% of the enlarged equity share capital of the Company immediately on completion of the Placement ("**Enlarged Share Capital**"); and

(b) a further conditional subscription for up to 179,597,000 new Ordinary Shares at a subscription price of UK£0.06 per Share such number to be reduced by any subscriptions for new Shares from third party investors ("**Third Party Shares**").

The subscription price of UK£0.06 per Share represents a 25% discount to the 30 day VWAP as at 30 September 2012. In the event that there are no other subscribers for the new Shares, Fratelli's interest in the share capital of the Company would be 287,616,000 Shares representing 79.6% of the Enlarged Share Capital. The Subscription Agreement is conditional therefore, *inter alia*, on approval of the independent shareholders of the Company on a poll at a general meeting of the waiver of any obligations of Fratelli to make a general offer to shareholders pursuant to Rule 9 of the City Code on Takeovers and Mergers, such matters to be set out in a circular to shareholders (the "**Circular**"). Completion of the Fratelli Subscription is conditional upon:

- (a) The submission of the Circular by the Company to the Panel on Takeovers and Mergers ("**Panel**") on or before 16 November 2012 (or such later date as may be agreed between the Company and Fratelli);



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- (b) Approval of the independent shareholders of the Company on a poll at a general meeting of the waiver of any obligations of Fratelli to make a general offer to shareholders pursuant to Rule 9 of the City Code on Takeovers and Mergers; and
- (c) Admission of the New Ordinary Shares to AIM and the Toronto Stock Exchange (TSX).

Under the Subscription Agreement, Fratelli may notify Serabi that it wishes to terminate the Subscription Agreement with immediate effect in the event that:

- (a) Serabi notifies Fratelli that there is a material adverse change in the financial condition of the Company and/or any of its subsidiaries; or
- (b) If an event of default occurs under the Loan Agreement.

The Company has additionally provided a number of undertakings to Fratelli regarding the management of the Serabi Group prior to completion of the Fratelli Subscription, which are set out in the Appendix.

Immediately on completion of the Placement, Fratelli will receive an underwriting fee to be satisfied by the issue of warrants to subscribe for new Shares. The number of warrants will be issued on the basis of one warrant for every ten Third Party Shares subscribed for. The warrants will be exercisable at a subscription price of UK£0.10 per Ordinary Share for a period of two years from the date of completion of the Placement.

Serabi and Fratelli have agreed to use all reasonable endeavours to complete the Fratelli Subscription before 28 February 2013.

2. Loan Agreement

Fratelli has also provided an interim secured short term loan facility of US\$6 million (equivalent to UK£3.7 million) to the Company ("**Loan Agreement**") to provide additional working capital to the Company and to enable the Company to commence the necessary mine development and plant refurbishment works immediately. Drawdown under the Loan Agreement is subject to a number of conditions precedent including the execution of the security agreements. The Company intends that the loan will be repaid from the proceeds of the Placement. The Loan is for a period of six months and for a maximum of US\$6 million and will be drawn-down in up to 4 separate instalments. Interest is chargeable at the rate of 12% per annum and the facility will attract a 3% arrangement fee. In the event that the funds advanced under the Loan Agreement are repaid prior to the end of the loan period, a penalty will accrue equivalent to the lower of 3 months' interest or the remaining interest that would be chargeable to the end of the loan period. The Loan is to be secured against the entire share capital of Serabi Mining Limited a subsidiary of Serabi and the 99.99% shareholder of Serabi Mineração SA, which is the licence holder for the Palito Mine. In addition, the Company has also made a charge in favour of Fratelli over all current and future sums owed by Serabi Mineração SA to Serabi Gold plc.

3. Appointment of director

Fratelli, as part of the share subscription arrangements entered into with the Company in January 2012, were granted the right, whilst they maintained a shareholding of 15% or more in the company, to nominate a non-executive director to the Board of the Company ("**Board**"). The Company has agreed to appoint Mr. Eduardo Rosselot, a Chilean mining engineer, as a non-executive director of the Company as a representative of Fratelli.

Mr. Rosselot is a mining engineer with almost 20 years of experience. He has a Bachelor's Degree in Mining Engineering from the University of Chile and is a Chartered Engineer of the Engineering Council UK as well as a Member of the Institute of Materials, Minerals and Mining. Mr. Rosselot is also a member of Colegio de Ingenieros de Chile. Over the years Mr. Rosselot has worked for various mining, consulting and contracting companies and he has also held senior mining engineering positions with a number of gold and base metal mining companies. He has worked in South and Central America, Europe and Russia. Mr. Juan Eduardo Rosselot Risopatron, 51, has held the following directorships and /or partnerships in the last 5 years:

Current:

Past:

Andina Minerals Inc.

None

Mr. Rosselot does not own any shares in Serabi Gold. There is no further information on Mr. Rosselot required to be disclosed under Schedule Two, paragraph (g) (i)-(viii) of the AIM Rules for Companies.



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In addition, on completion of the Fratelli Subscription, Fratelli will be entitled to appoint one further non-executive director to the Board in the event that Fratelli's percentage of the Enlarged Share Capital ("**Enlarged Interest**") is 50 per cent. or less; or two further non-executive directors to the Board if Fratelli's Enlarged Interest is more than 50 per cent., subject to completion of all regulatory checks in accordance with the AIM Rules and the TSX.

4. Related Party Transactions

AIM

As Fratelli is currently interested in more than 10 per cent. of the issued ordinary share capital of the Company, the Subscription Agreement and the Loan Agreement are related party transactions for the purposes of Rule 13 of the AIM Rules. For the purposes of the AIM Rules, The Directors of Serabi consider, having consulted with the Company's nominated adviser, that the terms of the Subscription Agreement and the Loan Agreement are fair and reasonable insofar as Shareholders are concerned. The Directors have taken into account in particular that the Subscription Agreement conditionally provides the full funding of US\$18 million identified by the Preliminary Economic Assessment, issued on 29 June 2012, as being the capital required to re-open the Palito mine as well as additional working capital for the Company until such time as cash flow is generated from the Palito mine. Furthermore, the Company has a near-term requirement for additional funding for general working capital purposes which the Loan Agreement provides and the Directors believe that currently there are no other comparable or acceptable alternative sources of short term funding. The Directors believe that there is sufficient time to refinance the Loan Agreement through the Placement prior to its maturity pursuant to the Subscription Agreement, which is subject to Shareholder approval in due course.

TSX

As a result of Fratelli's shareholding interest in Serabi, both the Placement and the Loan Agreement are related party transactions for Serabi under Canadian securities laws pursuant to Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"). In accordance with MI 61-101, the Placement must be approved by a majority of the minority shareholders of Serabi. Serabi will be relying on an exemption from the requirement under MI 61-101 to obtain a formal valuation in respect of the Placement available for distributions of securities by an issuer for cash consideration. In respect of the Loan Agreement, Serabi will be relying on an exemption from the requirement to obtain minority approval available for loans provided on reasonable commercial terms and that have no equity component.

5. Proposed General Meeting

The Circular containing full details of the Subscription Agreement and the Loan Agreement and notice of a General Meeting of Shareholders to approve, *inter alia*, the waiver to make a general offer to shareholders will be prepared by the Company and sent to shareholders as soon as practical, which the Board currently expects to be during November.

Notes

1. Fratelli Investments Limited currently has the following interests in the securities of the Company
 - 17,616,000 Ordinary Shares (19.30%)
 - 1,355,000 warrants exercisable at C\$0.75 on or before 2 December 2012
 - 2,270,833 warrants exercisable at UK£0.15 on or before 23 January 2014
2. About Fratelli Investments Limited

Fratelli is a private investment company managed by Megeve Investments which is the family office of the Chilean family Solari Donaggio. The Solari Donaggio family has significant business interests in Chile and other parts of South America. They are significant shareholders in the Falabella retail group, the second largest retail chain in South America and have interests in a variety of other sectors including mining, energy and real estate.

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

Forward-looking statements

This press release contains forward-looking statements. All statements, other than of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding the estimation of mineral resources, exploration results, potential mineralization, potential mineral resources and mineral reserves) are forward-looking statements. Forward-looking statements are often identifiable by the use of words such as "anticipate", "believe", "plan", "may", "could", "would", "might" or "will", "estimates", "expect", "intend", "budget", "scheduled", "forecasts" and similar expressions or variations (including negative variations) of such words and phrases. Forward-looking statements are subject to a number of risks and uncertainties, many of which differ materially from those discussed in the forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things, without limitation, failure to establish estimated mineral resources, the possibility that future exploration results will not be consistent with the Company's expectations, the price of gold or copper and other risks identified in the Company's most recent annual information form filed with the Canadian securities regulatory authorities on SEDAR.com. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement.

Qualified Persons Statement

The scientific and technical information contained within this announcement has been reviewed and approved by Michael Hodgson, CEO 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.

Appendix

The Company has undertaken to Fratelli under the Subscription Agreement to procure that each member of the Serabi Group shall, prior to completion of the Fratelli Subscription, except with the prior written consent of Fratelli (such consent not to be unreasonably withheld or delayed):

Until the earlier of:

- (a) the completion of the Fratelli Subscription;
- (b) the voting down of the whitewash resolution in the Circular; and
- (c) such date that the Board of the Company reasonably believes that the whitewash resolution in the Circular will be voted down

not create, allot or issue (or enter into any negotiations or reach any agreement (legally or otherwise) to create, allot or issue) any shares or securities or grant any option, warrant or right to subscribe or convert any securities into shares, or require the allotment or issue of any such shares or securities whether conditional or otherwise at an issue price of less than £0.06 per ordinary share;

1.2 Not dispose of the whole or part of its undertaking or enter into any negotiations, or reach any agreement, with regard to any such disposal (whether conditional or otherwise). For the avoidance of doubt, this shall include not entering into or agreeing to enter into any off-take or other agreement relating to any future production of the Group;

1.3 Not enter into any contract or arrangement that is not on an arm's length basis;

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This document is not intended to and does not amount to an invitation or inducement to subscribe for shares in Serabi Gold plc



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- 1.4 Not vary or allow the term of any licence or permission relating to the Palito mine and the Group's other mining concession in Brazil to be altered in a material way or allowed to lapse;
 - 1.5 Save for intra-group arrangements, not incur any indebtedness or borrowings of any description other than to Fratelli;
 - 1.6 To notify Fratelli immediately by email if there is any material adverse change in the financial condition of any member of the Serabi Group;
 - 1.7 To notify Fratelli immediately by email if an event of default occurs under the Loan Agreement; and
 - 1.8 To comply with the AIM Rules for Companies published by London Stock Exchange plc and the Companies Act 2006.
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