



Serabi Gold and Kenai Resources announce proposed business combination – Serabi remains focused on gold production

The Boards of Directors of Serabi Gold plc. (AIM:SRB and TSX:SBI "Serabi") and Kenai Resources Ltd (TSXV:KAI "Kenai") announce that they have entered into an agreement ("the Transaction"), subject to the approval of shareholders of Kenai and other conditions precedent, whereby Serabi will acquire all the issued and outstanding common shares of Kenai ("Kenai Shares") by way of a Plan of Arrangement ("the Arrangement").

Significant Benefits of the transaction:

- Kenai's wholly owned subsidiary Gold Aura do Brasil Mineração Ltda ("GOAB") owns the high-grade Sao Chico gold deposit, some 23 kilometres from Serabi's Palito gold mine. Sao Chico hosts a NI 43-101 compliant combined Measured and Indicated Mineral Resource of 25,275 ounces of gold at 29.77 grammes per tonne ("g/t") and an Inferred Mineral Resource of 71,385 ounces gold at 26.03 g/t.
- Serabi's nearby Palito gold mine is set to recommence gold production by the end of 2013, with average annual production of 24,000 ounces⁽¹⁾ with an average ore grade of 9 g/t.
- The existing Palito gold recovery plant is currently being refurbished and upgraded, and Sao Chico is expected to be the first satellite gold resource to supplement Palito mine production with high grade material, taking advantage of the excess plant capacity available to quickly expand Serabi's future gold production.
- An exploration programme at Sao Chico including an approximate 6,000 metre drill campaign is expected to start mid-2013, with strong potential to increase the current mineral resource.

Highlights of the Arrangement include:

- Shareholders of Kenai will receive 0.85 of one new ordinary share of 5 pence par value of Serabi (a "Serabi Share") in exchange for each Kenai Share held (the "Exchange Ratio").
- Based on the closing price of the Kenai Shares and Serabi Shares on May 3, 2013, the Exchange Ratio represents:
 - an implied price of C\$0.0936 per Kenai share;
 - a premium of 87% and 152% based respectively on the May 3, 2013 closing prices and 30-day volume-weighted average share prices of both companies;
- Upon completion of the Transaction, Kenai shareholders will own approximately 20.8% of Serabi's enlarged issued share capital (and 22.1% on a fully diluted basis);
- An opportunity for Kenai shareholders to benefit from Serabi's near term gold production, its exploration potential, expertise, ability to finance exploration and improved trading liquidity.
- Daniel Kunz, Chairman of Kenai will join the Serabi board on closing (subject to satisfactory regulatory enquiries in compliance with the AIM Rules).
- Kenai information circular to be issued before end May, with shareholder meeting to be early July.

Announcing the details of the Transaction, Michael Hodgson the CEO of Serabi, said ***"This is a very exciting development for Serabi. The Transaction will combine Kenai's high grade Sao Chico gold property with our Palito operation just 23 kilometres away. With the Palito plant currently under remediation, we see Sao Chico as the first satellite deposit to augment Palito mine production with further high grade feed, taking advantage of the excess plant capacity available. It therefore provides real potential to quickly expand and grow Serabi's future gold production. By completing this transaction at this time ensures that we are able to consider the processing of Sao Chico ore into our current plant remediation plans.***

Whilst I remain excited by the value accretion that this transaction is expected to bring to Serabi, we are on schedule for, and fully focussed on, bringing the Palito mine into production by the end of 2013. Underground development and rehabilitation work continues to progress well at Palito. Development ore is currently being stockpiled on surface and the remaining underground mining fleet is scheduled to be at site early in Q3 2013.

Sao Chico has a current resource of approximately 25,000 Measured and Indicated ounces, and 71,000 Inferred ounces, both averaging over 26 g/t. However, the property is far from fully explored and we are very confident that in the near future we can increase the resource by commencing an exploration programme in the near-term including a planned ~6,000 metre drill programme.



PRESS RELEASE 6 MAY 2013
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The current Sao Chico resource comprises just 3 veins, and with 10 more veins identified we hope to add gold ounces by drilling these areas. This work will also support the upcoming application for a long term Mining Licence for the property. Both Boards consider the combination to be highly accretive and beneficial for both sets of shareholders as it unlocks value neither could have realised on their own".

Greg Starr the CEO of Kenai commented ***"The 152% premium over recent trading that Serabi is paying for Kenai is a very good outcome for Kenai shareholders in this very difficult environment for junior explorers. This transaction enables Kenai shareholders to have near term exposure to a near-term gold producing asset at Serabi's Palito project, while maintaining the significant exploration exposure to the demonstrated high grade Sao Chico deposit.***

The Kenai Board explored a number of alternatives to develop the Sao Chico project independently, however none matched the ability of the Serabi offer to realise the project's value in a timely manner.

Serabi's experience in Brazil and more specifically within the Tapajos region, makes them an ideal partner to develop Sao Chico. With Palito's pending gold production and cash flow plus Serabi's strong shareholder base, Kenai Directors believe that the proposed acquisition will ensure the eventual production of gold from Sao Chico and give Kenai shareholders access to more immediate gold production. Kenai Directors also consider that the proposal represents the most viable alternative in the current market conditions, which are not favourable for junior gold miners seeking to obtain both/either exploration and/or production financing".

- (1) *Production estimates for the Palito Mine are derived from the Preliminary Economic Assessment NI 43-101 Technical report 13 June 2012 (the "PEA") which partially utilises Inferred Mineral Resources. Inferred Mineral Resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves and there is no certainty that the preliminary economic assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.*

DETAILS OF THE TRANSACTION

The acquisition of Kenai shares under the Arrangement will result in Kenai shareholders receiving 0.85 of one Serabi Share in exchange for each Kenai Share held. The Arrangement will provide for the issuance by Serabi of replacement warrants to holders of 17,288,500 outstanding Kenai warrants on similar terms as adjusted by the Exchange Ratio. The Arrangement also provides for the issuance of replacement options to holders of 2,980,000 outstanding Kenai options as adjusted by the Exchange Ratio with expiry on similar terms or 12 months from the date from which the holder is no longer involved with the Company. The completion of the Arrangement will be subject to usual terms and conditions, including the following:

- a) Approval of the Arrangement by special resolution of Kenai's shareholders requiring two-thirds of the votes cast to be in favour of the resolution;
- b) Court approval of the Arrangement;
- c) Receipt of any required third party approvals and consents;
- d) Receipt of all required regulatory approvals, including acceptance by the TSX Venture Exchange; and
- e) Admission of the new Serabi Shares to trading on AIM.

Key provisions of the Agreement include a non-solicitation covenant on the part of Kenai, the right in favour of Serabi to match any superior proposal and the payment of a termination fee of \$500,000 to Serabi in certain circumstances including if Kenai accepts a superior proposal.

In aggregate it is currently anticipated that 90,020,724 new Serabi Shares will be issued to Kenai shareholders to acquire the 105,906,734 Kenai Shares currently in issue. In the event that any of the existing warrants or options to acquire Kenai Shares is exercised prior to completion additional Serabi Shares will be required to be issued. In addition and pursuant to a Share Purchase Agreement between Kenai and Gold Anomaly Limited ("GAL") whereby Kenai acquired the Sao Chico project, Serabi will issue to GAL 5,100,000 new Serabi Shares in satisfaction of additional consideration commitments made by Kenai to GAL under this Share Purchase Agreement. The new shares being issued pursuant to the Transaction will, on issue, rank pari passu with the existing ordinary shares of Serabi in issue and application will be made for the new Serabi Share to be admitted to trading on AIM and listed on the TSX.

Concurrently with the execution of the Acquisition Agreement, Serabi and Kenai have entered into a secured loan agreement (the "**Loan Agreement**") pursuant to which Serabi will make available a facility of up to US\$2,750,000 (the "**Principal**") to Kenai. The loan will be used by Kenai to finance the commencement of an estimated 6,000 metre diamond drilling programme at the Sao Chico project and for general working capital purposes. The Principal shall be payable in full following the termination of the Acquisition Agreement by either party thereto in accordance with the provisions of the Acquisition Agreement (the "**Repayment Date**"). Up to the Repayment Date, interest shall be calculated on the Principal outstanding at the rate of 12% per annum and upon and after the Repayment Date and until the Principal is repaid in full, interest shall be calculated on the Principal outstanding at the rate of 18% per annum. Unless the Acquisition Agreement is terminated earlier the Repayment Date is 31 August 2013.

Serabi will provide the loan to Kenai from its existing cash resources. Serabi's board will on completion of the Transaction and based on the results of the exploration drilling consider what further funding commitments are required at Sao Chico. If the



PRESS RELEASE 6 MAY 2013

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



Board of Serabi determines, in light of the progress and commitments at Palito and the anticipated commitments for Sao Chico, that further funding is required, it will consider the options available to it at that time.

Documents relating to the Arrangement, including the information circular required in connection with Kenai's special shareholder meeting, scheduled to take place in early July 2013, are expected to be mailed to Kenai shareholders during May 2013.

BOARD RECOMMENDATION

Kenai's Board of Directors has determined that the Arrangement is fair, and has unanimously recommended that Kenai's shareholders vote in favour of the Arrangement.

Executive officers and directors of Kenai as well as shareholders representing approximately 27% of the outstanding Kenai Shares have entered into lock-up and support agreements with Serabi under which they have agreed to vote in favour of the Arrangement.

ADVISERS

Heenan Blaikie LLP is acting as Canadian legal counsel and Farrer & Co LLP is acting as UK legal counsel to Serabi and its Board of Directors. Owen Bird Law Corporation is acting as Canadian legal counsel to Kenai. FFA Legal is acting as Brazilian local counsel to Serabi and Pinheiro Neto is acting as Brazilian local counsel to Kenai. Beaumont Cornish Limited, as Nominated Adviser to Serabi in accordance with the AIM Rules, has advised Serabi in respect of its obligations under the AIM Rules.

ADDITIONAL DISCLOSURES PURSUANT TO THE AIM RULES

Kenai reported an audited consolidated loss before taxation of C\$(1,579,815) for the year ended 31 December 2012 (2011: C\$(1,028,449)) after a write-down of its mineral properties of C\$(789,738). Kenai had no revenues. As at 31 December 2012 total assets and shareholders' equity amounted to C\$8,756,433 and C\$8,554,238 respectively. The balance sheet carrying value of the Sao Chico project as at 31 December 2012 amounted to C\$8,016,158. As at 31 December 2012 Kenai had net cash and cash equivalents of C\$637,097 and no borrowings.

Daniel Kunz (the current Chairman of Kenai) who will join the Serabi board as a non-executive director on closing of the Transaction (subject to satisfactory completion of standard regulatory checks in compliance with the AIM Rules), will be entitled to receive a fee of C\$20,000 per annum and a further C\$500 in respect of each Serabi board meeting that he attends. His proposed appointment as a director does not provide for any minimum period of service or for the provision of any period of notice of termination by either party.

This press release does not constitute an offer to buy or an invitation to sell, or the solicitation of an offer to buy or invitation to sell, any securities of Serabi or Kenai. Subject to the terms and conditions set forth in the Agreement, as amended, Kenai intends to file a notice of meeting, management information circular and related materials with Canadian securities regulatory authorities relating to the proposed transaction. Investors and security holders are urged to read these documents, as well as any amendments and supplements to these documents, when they become available because they will contain important information. At that time, investors and security holders may obtain a free copy of the Kenai management information circular and related documents at the Canadian securities regulators' website at www.sedar.com. At that time, free copies of these documents can also be obtained by directing a request to Kenai at 625 Howe Street, Suite 530, Vancouver, BC, Canada, V6C 2T6. **KENAI SHAREHOLDERS SHOULD READ THE MANAGEMENT INFORMATION CIRCULAR AND RELATED MATERIALS CAREFULLY BEFORE MAKING A DECISION CONCERNING THE PROPOSED TRANSACTION.**

ABOUT THE SAO CHICO PROPERTY

The Sao Chico gold project comprises a single exploration permit, AP12836 with an area of 1,416 hectares, located approximately 23 kilometres to the south west of the Palito mine and accessed by road from Palito along the Transgarimpeiro Highway via the town of Jardim do Ouro.

On October 15, 2012, Kenai filed a Technical Report entitled "Mineral Resource Estimate on the Sao Chico Gold Project, Brazil" dated October 15, 2012 and authored by Mr A.J. Tunningley, MGEOL (Hons), MAusIMM (CP), MSEG, and Mr B. Ackroyd, BSc (Geo), MAIG in accordance with Canadian National Instrument 43-101 relating to the Sao Chico gold project ("the Sao Chico Technical Report"). The Sao Chico Technical Report has been reviewed on behalf of Serabi by Michael J Hodgson, a Qualified Person for the purposes of Canadian National Instrument 43-101. To the best of Serabi's knowledge and belief, there is no new material scientific or technical information that would make the disclosure of the mineral resources in the Sao Chico Technical Report inaccurate or misleading.

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The Sao Chico Technical Report established an independent mineral resource based on the results of 22 diamond drill holes totalling 3,268 metres undertaken by Kenai in late 2011. The NI 43-101 mineral resources are as follows:

	Tonnes	Grade Au g/t	Ounces
Measured Resources	5,064	32.46	5,269
Indicated Resources	21,423	29.14	20,006
Total measured and Indicated Resources	26,487	29.77	25,275
Inferred Resources	85,577	26.03	71,385

Metallurgical testwork has demonstrated the mineralisation at Sao Chico to be amenable to a variety of process routes including cyanidation leaching, gravity separation and flotation, with gold recoveries being reported of up to 99%. All of these potential process routes can be accommodated at the Palito processing operation.

The main area of focus for the Sao Chico project is an area of some 200 artisanal workings, close to the Sao Chico village, in the form of shallow pits and shafts. The current resources are identified in three vein structures namely the Main Vein, the Parallel Vein and the Highway Vein covering a strike length of some 600 metres. Artisanal activity at the Main Vein includes a shaft extending some 18 metres below surface giving access to a 58 metre long exploration drive.

The Main Vein comprises a gold-rich quartz/sulphide lens striking over 100 metres and with true widths between 0.9 metres and 2.9 metres wide. The lens is open along strike to the east and down dip to the west. The Parallel Vein is located 60 metres south of the Main Vein and has been defined over a strike length of 80 metres and to a depth of 75 metres, dipping steeply to the south. Surface workings in the form of small open pits exist 350 metres along strike from the known mineralisation at the Main Vein. Previous trenching has yielded high grades in this area which has not been thoroughly drill tested.

The Highway Vein is located 400 metres east along strike from the Main Vein and characterised by a number of artisanal workings in shallow (<15 metre deep) shafts and small open pits clustered in the area. One sub vertical west-northwest trending vein zone has been identified between 1.6 and 2.9 metres wide to a depth of 75 metres below surface.

The potential for discovery of blind sub parallel vein deposits has been demonstrated through the definition of inferred mineral resources in the Parallel Vein. Further exploration is also warranted in the immediate area around Sao Chico where some areas with artisanal workings on surface remain untested by drilling.

Exploration of the wider licence area outside of the Sao Chico prospect has located the Pedro and Paulo Arara prospects, located 1.7 and 1.1 kilometres north of the Sao Chico prospect respectively. These prospects are currently defined by artisanal surface workings and rare shafts exploiting similar styles of mineralisation to that observed at Sao Chico. Further work is warranted to advance the Pedro and Paulo Arara prospects given the successful drilling programme at Sao Chico. It is possible that given their proximity to each other, the Pedro and Paulo Arara prospects are related to the same mineralising event or structural control.

Kenai has an agreement, which will continue following the acquisition of Kenai by Serabi, with the original Brazilian vendors of the Sao Chico property, whereby Gold Aura do Brasil Mineracao Limitada (Kenai's wholly owned Brazilian subsidiary) will make the following payments:

I. Unconditional Payment

Property acquisition payment

- US\$600,000 (US\$75,000 per quarter from December 2012 to September 2014) of which US\$150,000 has already been paid

II. Conditional on the Procurement of Project Finance for not less than \$15m ("Project Finance")

Property acquisition payment

Total amount payable - US\$3,500,000

- US\$1,500,000 payable 30 days after Project Finance is obtained plus
- US\$2,000,000 payable over 36 equal monthly instalments starting 11 months after Project Finance is obtained

III. Conditional on Production

Production based royalties

- 3% Net Smelter Royalty (NSR) to a maximum of US\$10,000,000 (i.e. this NSR would cease after some 200,000 ounces of production at a US\$1600 gold price) and S\$3.75 per ounce of gold production.



PRESS RELEASE 6 MAY 2013

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Based on a \$1,600 per ounce gold price and 100,000 ounces of gold production, in aggregate these royalties equate to an average NSR of 3.2%.

Based on a \$1,600 per ounce gold price and 500,000 ounces of gold production, this overall production based royalty payable to the vendors equates to an average NSR of 1.5% (as the 3% NSR would cease after some 200,000 ozs).

The above amounts are based on production from gold in the exploration licence area of AP12836. There are other minor royalty payments on metal production from any new exploration permits arising from the further contiguous and nearby 6,763 hectares which are the subject of current exploration permit applications.

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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