



INVESTOR UPDATE

Quarterly Period to September 30, 2006

HIGHLIGHTS



Fourth ball mill en route to Palito in September – combined with existing mills will result in major process improvements

- ▶ Palito Gold Mine achieves commercial production
- ▶ Quarterly production of 9,768 oz gold equivalent
- ▶ Cash operating costs of US\$300 per ounce achieved
- ▶ Production improvements anticipated for the fourth quarter with commissioning of additional milling capacity
- ▶ Provisional target for 2007 production at Palito of approximately 50,000 oz gold equivalent, at an operating cash cost of between US\$200 to US\$225 per ounce
- ▶ Drilling results and new geochemistry at Jardim do Ouro highlights further potential close to Palito operation
- ▶ Regional exploration indicates a new poly-metallic project along strike from Palito

MANAGEMENT REVIEW

Undoubtedly the highlight of the September quarter was the attainment of commercial production at the Palito mine, which took effect from October 1. This achievement is the culmination of a period of intense development and investment that has taken place over more than two years, such that the operation has now reached a point of sustainable commercial production. This reflects that amongst other criteria which have now been achieved, the mine is generating positive operating cash flow, providing a strong basis for further developments at Palito and throughout the Company.

The impact of these investments can be seen in the mining improvements put in place over the past year, which are now having a major impact. A similar effect is evident from the reduction in operating costs that has accompanied these improvements. Cash operating costs have fallen from US\$480 per ounce to approximately US\$300 per ounce in recent months, with additional reductions envisaged later in the year. Against this background Serabi is targeting annual production of 50,000 ounces gold equivalent for 2007 and cash operating costs of between US\$200 and US\$225 per ounce.

While the introduction of trackless mining is having a profound impact on total daily mining rates, often achieving more than 500 tonnes in September, the process plant continued to suffer during the last quarter from downtime of the mill circuit. In order to deal with this problem a fourth mill has been sourced, purchased and delivered, and should be fully commissioned before the end of November. The introduction of this mill in conjunction with an existing mill, will comfortably take the primary daily capacity to 450 tonnes. The remaining mills will be used for standby capacity and be available for an upgrade circuit of lower grade ore. Production benefits from these changes will be widespread: increased capacity, improved reliability, greater flexibility and improved recoveries.

Due to lower than anticipated mill availability, quarter-on-quarter production remained flat for the September period, which will result in production of less than the original target of 45,000 ounces gold equivalent this year. However, with the new primary mill circuit in place, production levels should show a marked improvement from the latter part of the fourth quarter, leading to annualised production levels in excess of 45,000 oz gold equivalent by year-end. Further mining improvements should also be evident this quarter, as underground ore production starts in November from the long-hole stopes.

Away from Palito we announced this quarter the first

exploration results from other projects at Jardim do Ouro and elsewhere in the Tapajos. Having established a significant in-house drilling and evaluation capacity, the expansion of Serabi's exploration also marks an important moment in the Company's development, potentially no less significant than the achievement of commercial production at Palito.

The evolution of discovery at Palito has already been dramatic, as reflected by the substantial increase in resources along the Palito Main Zone last year, which also saw an increase in the number of veins identified along the structure from 20 to 54, over a strike length of 1,050 meters and across strike of approximately 50 metres width. Recent drill results from nearby projects now indicate that similar mineralised structures could extend across a zone of at least 500 metres width.

Important results have also been obtained at other projects in close proximity to Palito. Some 5 km south-east and directly on-strike from the Palito mineralisation, a geochemical survey has identified gold and copper anomalies at two locations, which are being followed-up with additional work, including a short drill programme. In the other direction, approximately 10 km west of Palito, geochemistry and drilling has highlighted the occurrence of a poly-metallic deposit at Sucuba.

Any one of these and other projects close to the Palito mine could form the basis for further production growth. However, having established a sound operating basis at Palito, the potential development of such satellite deposits would have a greater financial impact as funding requirements are likely be much less than originally required to establish Palito.

Elsewhere in the Tapajos work has focussed on the Pombo project, where drilling has confirmed extensive gold-copper mineralisation on the main section of the known geological structure. We continue to review new opportunities throughout the Tapajos, which remains the Company's focus but if merited, will also consider projects elsewhere in Brazil which meet the technical, logistical and financial criteria. Reflecting the escalation of exploration activities now taking place, we envisage an increase of the exploration budget from US\$3 million this year to between US\$4 to US\$5 million in 2007.

In summary, progress at Serabi during 2006 has been significant. These achievements now enable the Company to better exploit the strategic position established within what we believe will become one of the world's major gold regions.

Graham Roberts
Chairman

Bill Clough
CEO

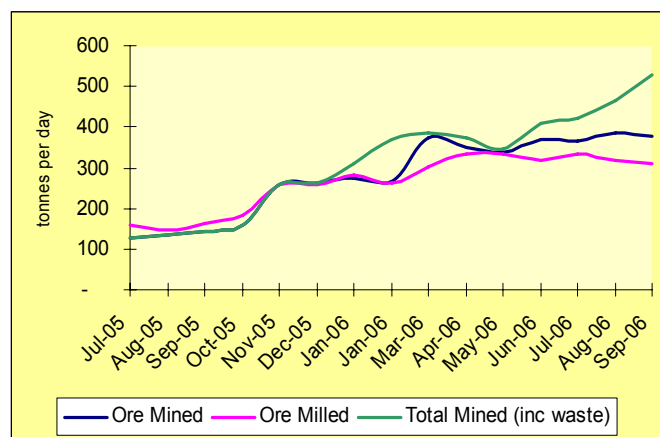


OPERATING REVIEW

PALITO MINE

Mining

Mining continued to improve noticeably during the quarter, with total daily mining rates routinely exceeding 500 tonnes during September, reflecting the impact of the introduction of trackless mining on the deeper levels. Phase-2 extension of the decline has now started in order to access deeper ore on the next level at 177m RL; thus accounting for the increase in waste tonnage over the period, which is evident in the graphical record below.



Meanwhile, following an extended period of pre-production development since completion of Phase-1 of the decline in February, we expect the first ore production from long-hole stopes to start in November. As a result of similar ongoing developments from the decline, there will be noticeable shift of production over the next six months from the upper levels under Palito Hill using a shrinkage mining technique, to the

more productive long-hole stopes at deeper levels that will now be mainly used for ore production. To further support this increased level of mechanized mining and improve production scheduling, additional equipment is currently being purchased.

Plant

Problems with the mills reported at the end of Q2 continued during the last quarter, resulting in similar daily process rates for both periods. In addition to planned relining of Mill-2, Mill-3 suffered a serious breakdown of its bearing, resulting in only 67% availability. Although this has now been repaired, given the ongoing need for routine maintenance, combined with increasing levels of ore production now being achieved, plans are underway to improve and increase the size of the mill circuit.

As a result a new, larger mill has already been sourced, purchased and transported to site. Running at lower speeds, in combination with one of the existing mills, the new primary mill circuit will achieve a daily process capacity of 450 tonnes, with. An additional mill from the established set-up will be available for standby, in order to provide a back-up facility to prevent lost production in the event of downtime.

On-going beneficiation test-work is being conducted to confirm the optimal flow-sheet to upgrade the lower grade ore material. In addition to an option using coarse milling and spirals separation, preliminary results using screening and a Dense Media Separation circuit have been encouraging.

With these items already well advanced, such a combination is set to provide a wide range of benefits to future production:

- ▶ Improved reliability
- ▶ Expanded capacity
- ▶ Greater flexibility
- ▶ Improved recoveries

Purchase of additional mining equipment will enable better development rates and improved mining schedules



Throughout the mine key equipment is being added to provide back-up and potential expansion capacity e.g. a second crusher has been acquired

Palito – Operating Results ⁽¹⁾						
		2006				2005
		Q1	Q2	Q3	YTD	YTD
Total Mined (per day)		32,820 (365)	34,055 (374)	42,357 (460)	109,232 (400)	36,034 (132)
Mined Ore (per day)	t	31,555 (351)	31,864 (350)	34,598 (376)	98,017 (359)	36,034 (132)
Milled (per day)	t	25,514 (283)	29,851 (328)	29,492 (321)	84,859 (311)	36,543 (134)
Head Grade	g/t	9.3	9.7	9.2	9.4	10.1
Recovery	%	91.9	91.3	91.4	91.5	88.3
Gold	oz	7,017	8,527	7,974	23,518	10,509
Copper	t	98.0	107.1	139.2	344.4	141.5
Gold Equivalent ⁽²⁾	oz	7,927	9,815	9,768	27,510	11,733

⁽¹⁾ Provisional ⁽²⁾ Includes Copper and Silver



EXPLORATION

Serabi is seeking to exploit three strategic opportunities, in order to provide sustainable resource and production growth:



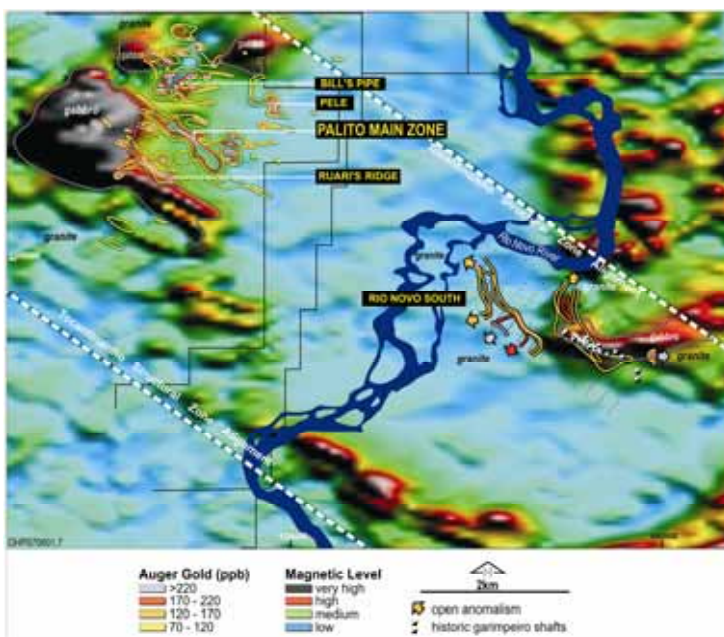
Immediate – Palito mine is the first hard-rock mine established in the region, providing cash flow and near term expansion potential

Medium term – the district immediately adjacent to the Palito mine contains advanced targets that could potentially be developed as satellites to the Palito operation

Medium to long term – Serabi has an extensive land position across the Tapajos gold region, which has previously produced up to 30 million ounces of gold from artisanal workings

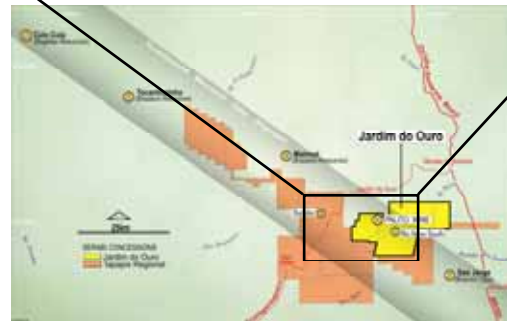
During 2005 geological activities were focussed mainly on the Palito Main Zone and accompanied by a strengthening of the company's exploration capacity. This expansion culminated last quarter in the first progress report for projects outside of Palito mine (see Press Release dated September 13), which highlighted:

- ▶ Improved exploration facilities, equipment & increased budget providing a strong basis for expanded exploration programme
- ▶ Expanded geochemical survey highlighting additional targets at Jardim do Ouro which are expected to form the basis for new drill targets
- ▶ Geological survey and geochemistry results indicate new targets at Rio Novo South, directly along strike of the Palito Main Zone mineralisation



Rio Novo South: Good potential identified along strike from Palito

- ▶ Drilling of a major coincident geochemical and geophysical anomaly at the Bill's Pipe project, situated near to the Palito Mine, intersecting massive sulphides, with anomalous gold and copper grades
- ▶ Initial drill results at Ruari's Ridge returning attractive gold and copper grades
- ▶ Drilling results from the recently discovered Sucuba project, located 10km west of Palito, indicate the occurrence of a poly-metallic deposit
- ▶ Drilling at Pombo confirming the presence of a wide mineralised structure, with indications of porphyry associated alteration at depth.



Strategic land position: 70 km land position established along strike of Palito on a major regional geological trend. Poly-metallic discovery 10 km west of Palito at Sucuba project

Serabi now owns and operates four surface exploration drilling rigs, which in conjunction with extensive geological and laboratory facilities, provides a major advantage to the company for rapid in-house assessment of projects. Against this background the company is planning to expand its programme of exploration and evaluation and in this regard expects to increase the annual exploration budget from approximately US\$3 million in 2006, to between US\$4 to US\$5 million in 2007.

The unique status that Serabi has now established in Brazil, places the company in a strong competitive position to assess and potentially acquire new projects. It remains the goal to build-up the resources and production of Serabi and in this regard we now plan to expand the new business development activities of the company.



BUILDING A BRAZILIAN GOLD MINING SUCCESS

Indicative of the company's potential and strategic advantages, for some time Serabi has headlined its investor presentations: *Creating Value from a Position of Strength*. The rapid progress now being achieved throughout the company underlines this point. Highlights for the year-to-date include:

- ▶ Year-on-year production increase of 15,777 oz from 11,733 oz gold equivalent in 2005 to 27,510 oz gold equivalent in 2006
- ▶ Commercial production achieved at the Palito Gold Mine
- ▶ Completion of Phase-1 decline access and increased mechanisation at Palito leading to much improved mining rates
- ▶ Introduction of grid electricity to Palito results in a significant reduction of energy costs
- ▶ 74% year-on-year increase in total resources at Palito to 825,900 ounces gold equivalent
- ▶ Successful capital raising of US\$4.3 million to finance further productivity enhancing initiatives at Palito and acceleration of the exploration programme
- ▶ Regional exploration underway – good results at Jardim do Ouro and Sucuba projects

Building on this success and with preparations for the coming year, it is expected that the full potential of Serabi will become more evident during 2007, with the following goals:

- ▶ Increase Palito annual mine production to at least 50,000 ounces gold equivalent with a cash cost of US\$200 – US\$225 per ounce
- ▶ Further increase of the mineral resource base on Palito Main Zone
- ▶ Review expansion potential for the Palito mine
- ▶ Establish mineral resources on other Jardim do Ouro projects
- ▶ Expand exploration across the Tapajos project portfolio
- ▶ Increase project portfolio

The Company is now starting to perform on all fronts - exploration, development & production, placing Serabi in a strong position to further exploit its foundations, *From a Position of Strength*.

FYI

Management regularly undertake investor meetings, copies of the presentations along with press releases and 2006 Interim Report are available from our office or on our website www.serabimining.com.

Reporting and Press Releases	
February 1	Drilling & Exploration Update
February 14	2005 Resource Update
March 30	Share Placing
March 30	Report and Accounts to September 2005
March 31	Annual Report & Accounts 2005
April 19	March Quarterly Investor Update
April 13	Annual Report and Accounts 2005
July 20	June Quarterly Investor Update
September 13	Exploration Update
September 26	Interim Report 2006
October 4	Commercial Production at Palito
Meetings – 2006	
June 1	Annual General Meeting
October – November	Investor Meetings
November 20 – 22	Mines & Money 2006 Conference - London
Media and Brokers	
April 5	World Gold Analyst
June 27	Proactiveinvestors.com
July 20	Ambrian Partners
August 31	Shares Magazine
September 8	Resource Investor



exploration



development



production

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