

## INVESTOR UPDATE

Quarterly Period to March 31, 2007

### HIGHLIGHTS

- ▶ Quarterly production of 9,301 oz gold equivalent, a 17% year-on-year increase
- ▶ Palito mine poised to benefit during the rest of 2007 from extensive pre-production mine development now completed
- ▶ Major increase in mining productivity achieved following shift to trackless mining and the introduction of additional underground equipment
- ▶ New mill configuration results in record throughput
- ▶ Production commences at Palito West project
- ▶ Favourable results from initial evaluation of Jardim do Ouro projects points to good potential for additional gold resources



*Investments at Palito are resulting in improved productivity and reliability; last quarter Serabi took delivery of a new jumbo drill rig and scooptram which will provide further benefits to the operation during 2007*

### MANAGEMENT REVIEW

Results from the March quarter reflect the important transition now taking place at the Palito gold mine and which we have previously highlighted. Following the near depletion of ore in the upper levels of the mine, the emphasis has now shifted predominantly to the lower levels accessed from the decline development that commenced at the end of 2005. Since embarking on this development major changes have been taking place from which the operation is now poised to benefit. By the end of the March quarter the decline had been extended over four levels and more than 2,500 metres of on-lode development established, forming a strong base for future ore production. This translates into at least six months of high grade ore production.

The need to continue development over this first quarter has resulted in an unusually high level of lower grade ore. As a result of dilution, production derived from development is inevitably lower grade and this has impacted on average grades over the period and consequently depressed production for the period. Notwithstanding, the operation is now well placed to benefit from the extensive pre-production development that has been undertaken over the past year and for the remainder of the year we expect the results at Palito to improve with a more favourable ratio of ore production to development.

Meanwhile, following the shift to trackless mining and continuing introduction of additional underground equipment, daily mining rates have risen dramatically to over 600 tonnes, a 34% improvement on the previous quarter and a 68% increase on the corresponding quarter in 2006. Similarly, commissioning of the fourth ball mill at the end of last year has resulted in impressive results, with quarter-on-quarter throughput up 33%, reflecting increased capacity and improved availability. This combination of increased ore production, higher mining rates and increased plant throughput, will impact positively on production over the rest of the year. As a result, we continue to target approximately 50,000 ounces gold equivalent in 2007 with cash costs below US\$250 per ounce gold equivalent.

During last year exploration focussed on three items:

- Expand and improve exploration facilities.
- Escalate evaluation of advanced projects nearby to the Palito mining operation.
- Commence assessment of regional projects.

Having successfully established improved facilities during the first half of the year, encouraging exploration results are now starting to emerge from a number of projects. Channel sampling and a programme of short-hole diamond drilling has outlined a high-grade mineralised structure at Palito West, situated parallel to and just 200 metres from the Palito Main Zone. Work is now underway to mine the upper levels of this feature, which will be the first satellite deposit to be mined at Palito

The main focus of evaluation and drilling is on the Jardim do Ouro district, with its potential to provide additional ore feed to the Palito operation. This is starting to return good results (see Exploration Update, March 26), notably at Ruari's Ridge, Chico do Santo and Palito Main Zone South. We are now stepping up drilling on each of these prospects with a view to establishing additional resources later in the year.

Elsewhere, early stage exploration in the region is initially focussed on projects at Pizon and Jutai and later in the year we expect to commence work at other projects within the Tapajos portfolio. Historical reported artisanal production of 30 million ounces was not confined to the high-grade vein and stockwork deposits that have been our prime exploration focus. The region is a diverse geological environment and Porphyry and IOCG style deposits are known to exist and will increasingly form part of our exploration programme in the future. We will also be stepping up initiatives to expand the company's assets within the Tapajos and elsewhere in Brazil, which remains relatively unexplored and an attractive country for mining development.

As Serabi now enters the next phase of its growth, the company is seeking to strengthen its team and three important appointments have been made in the first quarter of the year. Mike Hodgson joins as Technical Director, Ulisses Melo as CFO Brazil and Chris Spurway as Chief Geologist. Each has extensive experience relevant to successfully taking the company to the next level (see page-4 for profiles).

We recently reported our 2006 year-end results and will shortly be issuing the Company's 2006 Annual Report. The highlight of last year was undoubtedly the attainment of commercial production at Palito in October, leading to an underlying operating profit at the mine of US\$2.4million in the fourth quarter. However such headlines inevitably overlook many other achievements throughout the group, which place the company's mining, development and exploration activities on a sound footing for 2007.

**Graham Roberts**  
Chairman

**Bill Clough**  
CEO



## OPERATING REVIEW

### PALITO MINE

#### Mining

Mining improvements seen towards the end of last year continued into the first quarter of 2007, leading to a 34% increase in tonnage mined. Gold production over the period was, however, significantly impacted by the move from the higher levels under Palito Hill to the lower levels that have been under development for more than a year. Scheduling for much of the quarter resulted in a very high ratio of lower grade development to ore production. Henceforth, this ratio will decline, resulting in improved grades. In addition, following the completion of primary development work required to establish the mining of deeper ore accessed from the decline, development rates and widths can now be reduced, further benefiting the production, development and waste ratio which has been a factor of the recent results.

Palito – Operating Results <sup>(1)</sup>				
		2007	2006	
		Q1	Q1	Q4
Total Mined (per day)	t	55,251 (614)	32,820 (365)	42,007 (457)
Mined Ore (per day)	t	42,217 (469)	31,555 (351)	34,072 (370)
Milled (per day)	t	42,705 (475)	25,514 (283)	32,760 (356)
Head Grade	g/t	6.5	9.3	9.4
Recovery	%	89.6	91.9	91.0
Gold	oz	8,044	7,017	8,980
Copper	t	125.6	98.0	224.6
Gold Equivalent <sup>(2)</sup>	oz	9,301	7,927	11,687

<sup>(1)</sup> Provisional <sup>(2)</sup> Includes Copper & Silver

#### Plant

Following the commissioning of Mill-4 towards the end of last year, the impact on throughput and reliability has been dramatic. Average daily mill throughput rose 33% during the first quarter to 475 tonnes, with peak production over 550 tonnes. As a result, daily throughput of 480 tonnes is planned for the first half of the year, increasing to approximately 550 tonnes during the second half following the introduction of Mill-3, which is currently undergoing refurbishment.

Meanwhile, detailed test-work continues on the possible use of an upgrade circuit to treat lower grade ore, prior to entering the main milling circuit where it would be blended with high grade ore.

#### Planning and Outlook

As a result of extensive underground development, Palito is now strongly placed to deliver ore production during the rest of the year. These achievements can be summarised as:

- Decline and primary access completed on four levels – 210mRL, 192mRL, 178mRL and 163mRL
- On-lode development established over more than 2,500m

Meanwhile, Serabi took delivery of a new jumbo drill and scooptram late in the first quarter, which will greatly assist productivity, whilst also improving reliability; another scooptram has subsequently been ordered to complete these purchases. As a result the mine will then be operating a fleet of two single-boom drilling jumbos, three 3 cubic yard scooptrams, one mobile long-hole drill rig and three 20 tonne trucks for ore and waste haulage.

This equipment and development is required for the introduction of long-hole stope mining, which will assist production growth during 2007. Compared with shrinkage mining previously used in the upper levels of the mine, long-hole stoping can be up to five times more productive per man-shift. Given the nature of the mineralisation found at Palito it will be however, important to maintain a degree of mining flexibility in the future, therefore shrinkage and hybrid mining techniques may also continue to be used on a limited basis where considered appropriate. Such a combination will optimise ore production through increasing the rate of access to ore and minimising waste dilution wherever possible.



Overall, the general operating trends for 2007 are summarised on the accompanying chart, which is intended to be schematic; each trend is relative to the 'average' operating rate for each item. Decline and waste production will generally be carried out on a campaign basis, resulting in periodic increases and decreases, mainly corresponding to phases of primary decline and related access development. Having now successfully established the critical first phase of on-lode ore development from the decline, a better balance between ore production, development rates and waste can be achieved hereon.

Located approximately 200 meters south-west of the Palito Main Zone (PMZ) underground mining operation, Palito West is a similar but separate geological feature. Previous channel sampling and limited drilling produced some spectacular results and more recently a new high-grade zone has been identified close by. Development of this feature has now commenced and, as a result, Palito West will become Serabi's first satellite ore production at the Palito operation.

Last year a scoping study was started to evaluate the potential of establishing a small open pit operation on the southern end of the current PMZ resource, where a high density of high-grade veins come close to surface. While the outcome of this study has been encouraging, rapid development underground in the same area has meant that this project is no longer necessary and consequently has been abandoned.



# EXPLORATION

An expansion of exploration and drilling across the Jardim do Ouro district is now starting to highlight some key targets. Of these Ruari's Ridge, Chico do Santo and Palito Main Zone South will now become the main focus for detailed follow-up in the first half of the year, each with good potential to establish additional resources.

## Ruari's Ridge

Initial wide-spaced drilling has identified two sub-parallel continuous zones of mineralisation, extending over 600 metres strike and 200 metres down dip. The main focus of follow-up will be infill drilling and trenching, which is now underway. In addition, a limited drill programme will be carried out to test the potential south-east extension of the soil anomalies. Recent sampling has already identified the occurrence of gossan material at the south-west end of the Palito airstrip, coincident with a significant gold geochemical anomaly. Located just 500 metres south-west of Palito Main Zone, these results indicate this project has good potential for PMZ look-alike mineralisation.

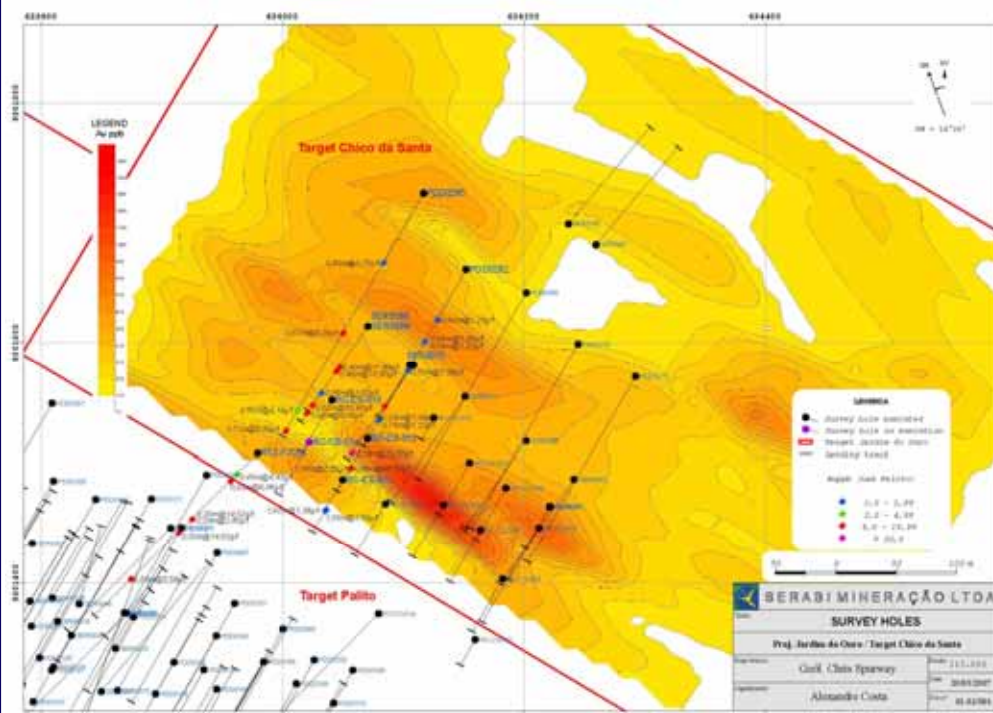
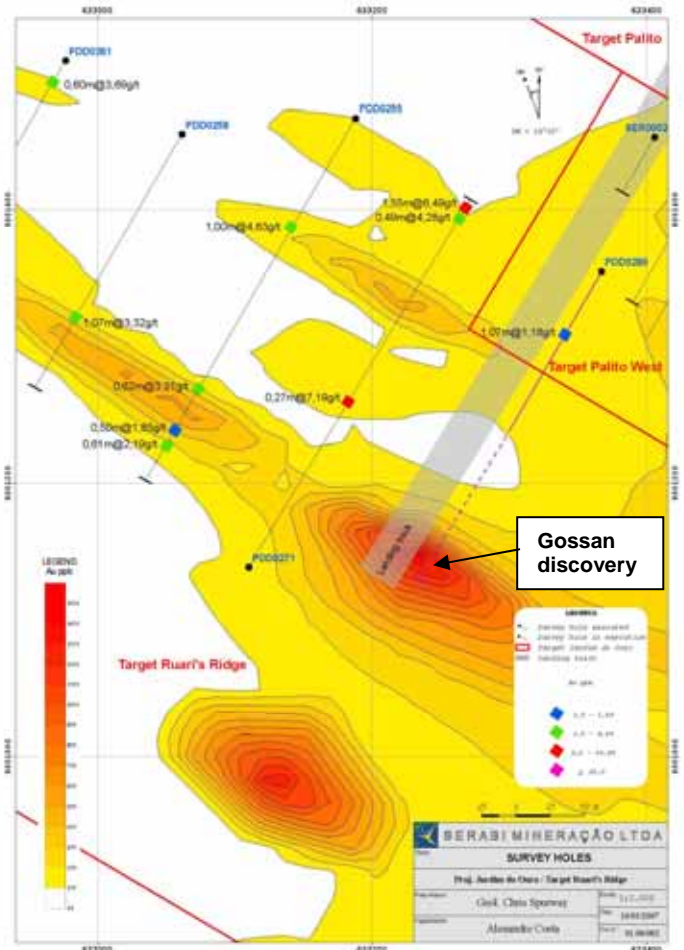
## Chico do Santo

Situated 300 metres north-east of PMZ, earlier work identified three parallel mineralised structures along some 200 metres strike. A programme of shallow reverse circulation drilling and trenching, combined with deeper diamond drilling is underway.

## Palito Main Zone South

Deep drilling on the central section of the PMZ is likely to resume later in the year, pending results of geophysical surveys. This work is being undertaken to improve the effectiveness of deeper, more expensive drilling. Meanwhile, limited drilling will be confined to the shallower south extension of this zone.

Other work is expected to take place in the first half of the year across the Jardim do Ouro district at the Tatu and Rio Novo prospects, pending results of preliminary assessment programmes.



Elsewhere in the Tapajos preliminary exploration will focus on follow-up work at the Sucuba prospect, the regional strike extension of PMZ mineralisation along the Tocatanzinho structural trend, and the Pizon and Jutai prospects; later in the year we are also considering initial, first pass assessments at the Castanheira and Modelo projects.



## BUILDING A BRAZILIAN GOLD MINING SUCCESS

### PEOPLE MATTERS

During the March quarter Serabi successfully made three senior appointments, in areas of critical importance to optimising operations, finance and exploration, as well as being central to building the next phase of the company.

#### Mike Hodgson – Technical Director

Mike brings extensive international experience in mining, development and project evaluation to the Board and executive management team of the company. Working in the industry for over 20 years, he has extensive international mining experience as a senior executive and consultant. Most recently Mike worked as Chief



Operating Officer and Vice President Technical Services for Canadian based Orvana Minerals Corporation, where he successfully improved results at their 80,000 oz p.a. underground gold mine in Bolivia. The operation has similar technical, logistical and cultural features to Palito. Previous roles have included various senior technical appointments, including Manager Technical Services and Operations for TVX Gold Inc.'s base metal operation in Greece, Mining Technical Consultant at ACA Howe International Ltd. and other similar positions at Rio Tinto plc and Zambia Consolidated Copper Mines Ltd.

#### Ulisses Melo – CFO (Brazil)

Ulisses has responsibility for all Financial and Administrative affairs of the company in Brazil and brings with him strong experience of implementing system improvements and internal controls and international finance and reporting. Ulisses is a graduate in Economics and Business Administration who spent five years working with the international accounting firm Arthur Andersen and a further 10 years working with Samarcao Mineracao, Rio Capim Caulim S/A as Controller and Finance Director and Companhia de Fomento Mineral.



#### Chris Spurway – Chief Geologist



Chris joins Serabi from Troy Resources, where he was Exploration Manager in Latin & South America for the past four years. He has over 15 years of experience in mineral exploration and resource definition in Australia and South America. Previously Chris has worked as project geologist for a number of

companies including AngloGold, Acacia Resources and CRA. The addition of Chris's experience provides further impetus to the company's growth ambitions as Serabi steps up its programme of exploration and evaluation.

### FYI

Management regularly undertake investor meetings. Copies of the presentations along with press releases and Financial Reports are available from our office or on our website [www.serabimining.com](http://www.serabimining.com)

#### Reporting & Press Releases 2006 – 2007

September 13	Exploration Update
September 26	Interim Report 2006
October 4	Commercial Production at Palito
January 15	Appointment of Technical Director
January 24	December Quarterly Investor Update
March 13	Adoption of IFRS & Restatement
March 26	Exploration Update
April 11	2006 Final Results

#### Meetings 2006 – 2007

November 20 - 22	Mines & Money 2006 Conference - London
February & March	Institutional & retail investor meetings
February 25 - 28	BMO Capital Markets: 2007 Global Resources Conference – Tampa, Florida
March 4 - 7	PDAC – Toronto
April	Institutional investor meetings
May 2 - 4	Latin American Mining Congress - Miami
June 19	Minesite – London

#### Media & Broker Coverage 2006 – 2007

Sept 8	Resource Investor
October 10	Business News Americas
October 31	Mineweb
November 8	Numis Securities
November 17	Investors Chronicle
November 20	Platts
December 7	Shares Magazine
December 19	Minesite
January	Hedge Funds Review
January 15	Ambrian Partners
January 11 - 17	Shares magazine
February 1	Numis Securities
March 26	Ambrian Partners
March 26	Numis Securities
March 26	The Times
March 27	Wall Street Reporter
April	Red Hot Penny Shares

**CONTACT:** Serabi Mining plc, Cleary Court, 21-23 St Swithins Lane, London EC4N 8AD

■ Tel: +44 (0) 20 7220 9550 ■ Fax: +44 (0) 20 7220 9555 ■ Email: [contact@serabimining.com](mailto:contact@serabimining.com) ■ [www.serabimining.com](http://www.serabimining.com)