

# INVESTOR UPDATE

Quarterly Period to June 30, 2007

## HIGHLIGHTS

- ▶ Completion of £12.5 million placing provides strengthened foundation for resource and production growth
- ▶ Exploration success points to wider potential and basis for short-term production expansion
- ▶ First half production of 18,718 oz gold equivalent, a 6% year-on-year increase
- ▶ Changes to the mining method are resulting in improved grades at the Palito mine
- ▶ Further improvements to mining and mill productivity at Palito anticipated during the second half of the year
- ▶ Copper revenue accounts for 15% of gross revenue following a resumption of high copper prices



Discoveries at Ruari's Ridge and Chico do Santo expand the zone of mineralisation to at least 700m across strike

## MANAGEMENT REVIEW

Developments during the past year have placed the company in a strong position and ready to achieve its next goals, which are intended to lead Serabi towards becoming a mid-tier producer. While cash flow from the existing Palito mine provides for basic ongoing capital and exploration requirements, to assist in the advancement of these plans the company raised gross proceeds of £12.50 million with institutional investors during the last quarter, through the issue of 29 million shares, at a price of 43p. The issue was ratified by shareholders at an EGM on July 11. Investments arising from these funds combined with cash flow will facilitate the development of new production, initiate an enhanced exploration programme, optimise financial management and place the company in a more competitive position to acquire new opportunities.

The recent discoveries at the Ruari's Ridge, Chico do Santo and Palito West prospects highlight the potential of the Palito/Jardim do Ouro district. Further detailed evaluation of these projects is now underway, with on-lode development of Ruari's Ridge entering from the north-west expected to start in August. Assuming evaluation is successful, an access decline is planned to commence during the fourth quarter 2007. It is noteworthy that the decline will also cross the Palito West ore zone soon after commencement, providing access to ore immediately. At Chico do Santo, exploration and drilling indicates five high-grade, gold-copper structures, which could potentially be developed underground from the nearby Palito Main Zone mining operation.

The success of the developments and plans now underway will place Serabi in a position to potentially achieve an annualised production rate of between 60,000oz to 70,000oz gold equivalent during 2008. Having already established the central processing and infrastructure facilities at Palito, we expect this expansion can be achieved with relatively low capital requirements, and thus potentially improve the economics of the operation.

Key to moving beyond these targets is achieving a better understanding of the mineral potential across the wider Jardim do Ouro district. We are confident of the continuing mineral potential at Jardim do Ouro, with the goal to establish resources over the next 24 months capable of supporting annual production of over 100,000 ounces per annum gold equivalent. We will also be progressing our other projects elsewhere in the Tapajos region, where our land-holding at 273,000 hectares has increased 165% since our IPO.

Operationally, while underground mining and milling rates continued to improve at the Palito mine during the second quarter, production remained relatively flat after encountering some difficulties with the introduction of long-hole mining, leading to lower grades than anticipated. As a result we have now chosen to adapt the underground mining technique to the cut-and-fill method, which is proving to be successful, with grades now improving to between 7 g/t and 8 g/t. Combined with other production initiatives currently underway, recent results point to an improved third quarter.

From the above it is evident that the pace of Serabi's progress remains unabated, now further supported by improved funding. We recently noted elsewhere that Serabi played a leading role in organising the inaugural Tapajos conference in Itaituba. It is notable that many other companies, large and small, participated in the conference and are now active or showing a keen interest in the region. Having ourselves been in the region since 1999, and as the only hard-rock gold producer with established resources, near mine potential and an extensive land package, the company is well placed to play a leading role in the region's exploration and mining development going forwards. Building from a strong platform, Serabi is ready for the Next Move.

<b>THE NEXT MOVE</b>	
<b>"The first phase of development is complete at Serabi and the foundations are in place for the company to move forward to the next stage"</b>	
<b>STAGE 1</b> <i>Completed</i>	Mining – Establish infrastructure and commercial production Exploration – Initial review of projects Strategic – Consolidate land title Corporate - IPO
<b>STAGE 2</b> <i>Underway</i>	Optimise operations & initial production expansion Expand detailed project evaluation at Jardim do Ouro leading to resource expansion Consider new opportunities
<b>STAGE 3</b> <i>Medium - term goals</i>	Major production increase Establish mineable resources outside Jardim do Ouro Construction of new operations Develop new opportunities

**Graham Roberts**  
Chairman

**Bill Clough**  
CEO

## OPERATING REVIEW

### PALITO MINE

A continuing increase in mining rates this quarter was accompanied by improved average daily milling of 497 tonnes, compared with the planned 480 tonnes. However, dilution combined with an ongoing high ratio of lower grade development to ore production, resulted in lower head-grades during the early part of the period.

The planned transition to long-hole mining started at the end of 2006 and gathered pace during March and April this year. While the long-hole stoping method results in lower costs and some efficiency benefits, the increased dilution proved to be greater than expected. The high-grade mineralisation found along the Palito Main Zone, occurs along steeply dipping fractures, located within a competent granite host rock and generally produces excellent ground conditions. Notwithstanding, some short sections along some of the orebodies are associated with small, sub-parallel micro-fractures with quartz infilling. Long-hole mining resulted in localised areas of sidewall collapse as these fractures opened up following ore blasting, resulting in higher than forecast levels of dilution and having the potential to compromise safety levels.

As a result a decision was taken early in the second quarter to move to the cut-and-fill mining technique. Smaller blasts and greater selectivity have brought immediate grade benefits, dilution and sidewall collapses have been substantially reduced and minimum mining widths as low as one metre are being achieved. Although this change will require marginally greater development rates in the short term, early results have been very successful, achieving grades between 7 g/t and 8 g/t since early June.

With the successful introduction of cut-and-fill mining, underground development now established over 5-levels from the decline, imminent commissioning of an additional scooptram and the introduction of a new drill jumbo specially adapted for cut-and-fill mining, further improvements to mining results over the second half of the year are expected. As we have previously noted, production is also expected to benefit from an increase in planned daily mill rates to approximately 550 tonnes following re-commissioning of Mill-3 after refurbishment.

Palito – Operating Results <sup>(1)</sup>					
		2007 Q1	2007 Q2	2007 YTD	2006 YTD
Total Mined (per day)	t	55,251 (614)	61,567 (677)	116,818 (645)	65,610 (362)
Mined Ore (per day)	t	42,217 (469)	50,058 (550)	92,275 (510)	63,419 (350)
Milled (per day)	t	42,705 (475)	45,245 (497)	87,950 (486)	55,365 (306)
Head Grade	g/t	6.5	6.0	6.2	9.5
Recovery	%	89.6	91.1	90.5	91.6
Gold	oz	8,044	7,888	15,932	15,544
Copper	t	125.6	127.0	252.6	205.1
Gold Equivalent <sup>(2)</sup>	oz	9,301	9,417	18,718	17,742

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

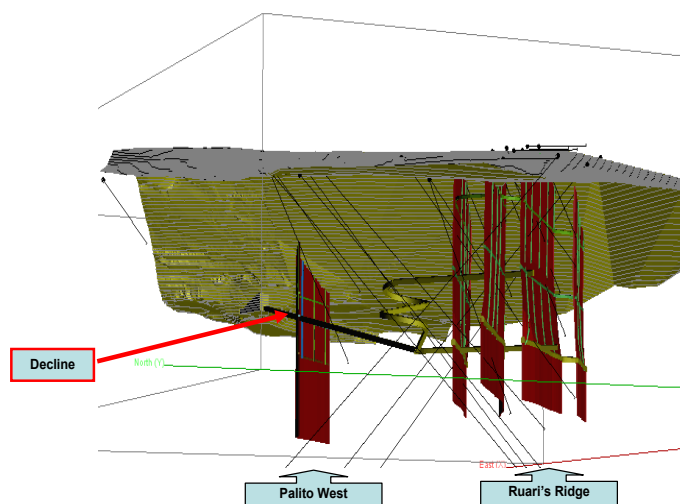
### PLANNING AND OUTLOOK

Following successful exploration results at Ruari's Ridge, Chico do Santo and Palito West (see Press Release dated June 4); the potential development of new production at Palito/Jardim do Ouro will provide the opportunity to achieve a more balanced production profile from multiple ore sources, as well as growth potential. Such an outcome will permit a reduction in the rate of deeper development and mine expansion on the PMZ, resulting in future annual production from this section of between 35,000 oz and 40,000 oz gold equivalent. Subject to the detailed evaluation now underway, development of Ruari's Ridge, Chico do Santo and Palito West could lead to combined annual production of between 20,000 oz and 30,000 oz gold equivalent; it is envisaged that annualised production rates at Palito operations could then rise to between 60,000 and 70,000 oz gold equivalent during 2008. The opportunity to expand in this manner would be highly beneficial economically, with projected capital costs of US\$7 million.

A 10,000 metre drill programme is expected to be completed at Ruari's Ridge by the end of the third quarter with further programmes underway on both Palito West and Chico do Santo. The local topography of Ruari's Ridge is conducive to quick underground access to the mineralisation and initially we will put in place an on lode development running from the north-west end of Ruari's Ridge. Assuming that this further evaluation is successful we would then construct an access decline for production purposes at the base of Ruari's Ridge itself.

- ▶ The north-east main decline development will intersect the main lodes at 150m RL, approximately 160m below the ridge crest
- ▶ Thereafter initial mining would be undertaken from four production levels above, while downward ramp development would access further ore at depth
- ▶ Full production could be achieved within 16 months of commencing development

Conceptual development plan at Palito West and Ruari's Ridge (looking south east)



## THE NEXT MOVE

Central to Serabi's strategy is creating value through discovery and development. Discovery of new mineralisation close to Palito demonstrates such potential and provides a basis for near-term growth, while an expanded land position and escalating exploration programme is set to propel the company towards its longer term goals.

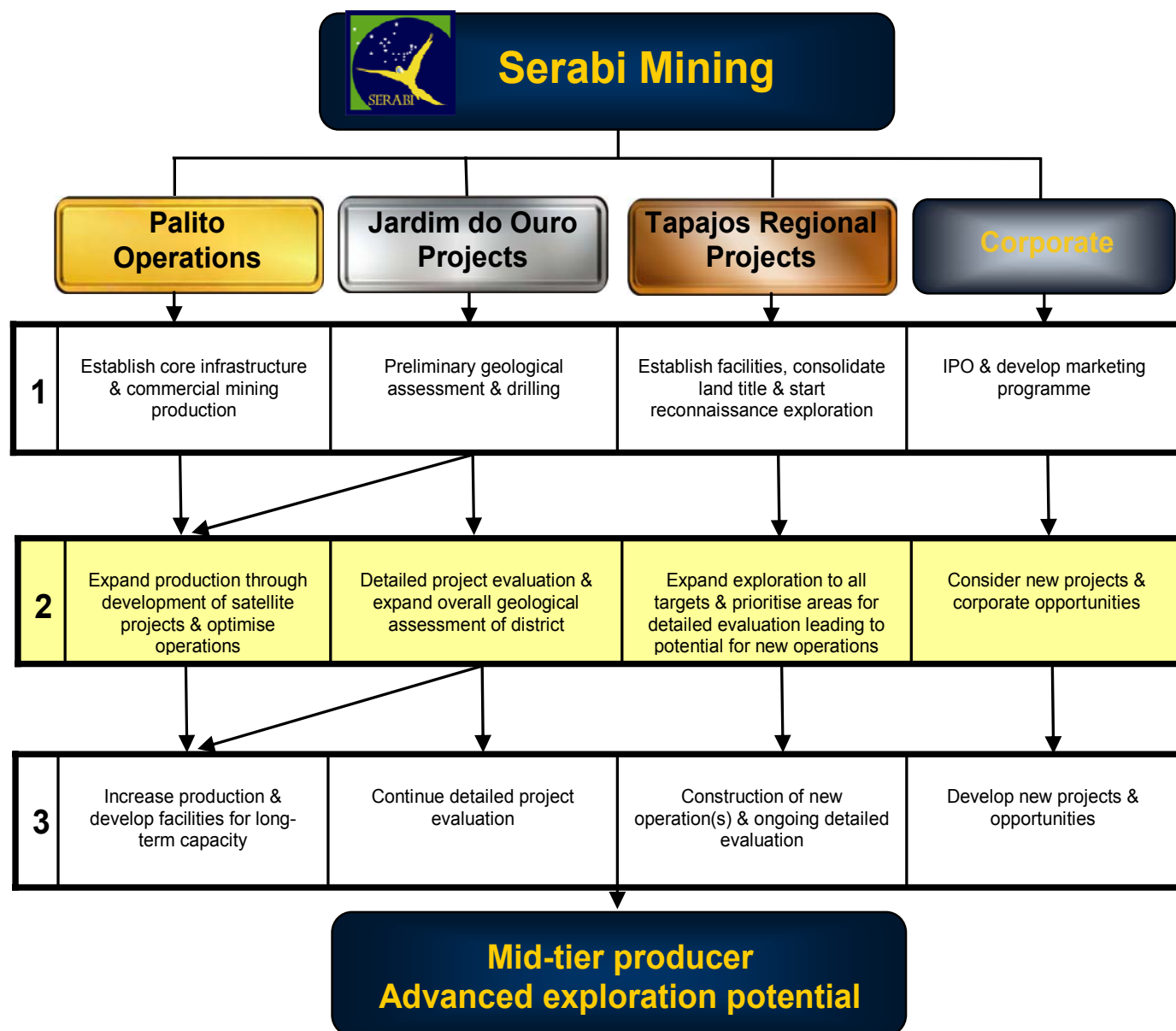
**The first phase of development is now complete at Serabi and the foundations are in place for the company to move forward to the next stage over the next 18 to 24 months through:**

- ▶ Discovery and development of new production at Jardim do Ouro
- ▶ Expanded project portfolio & increased rate of exploration & assessment

- ▶ Potential to lever off strategic position and relationships
- ▶ Optimisation of financial management

**Successful completion of these initiatives is intended to:**

- ▶ Provide growth potential at the Palito operation based on an expanded resource base at Jardim do Ouro from which to fully assess and develop the long term potential of the district
- ▶ Establish resources and development potential across the Tapajos
- ▶ Capitalise on the company's strategic position in the Tapajos and Brazil



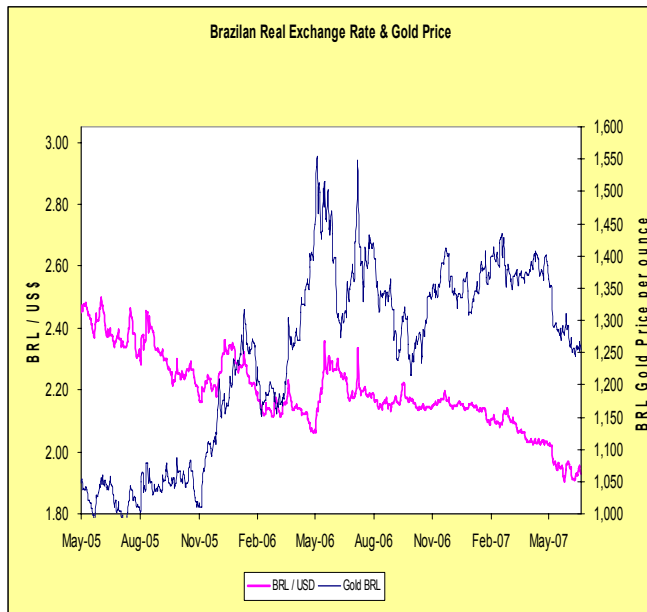


## 2007 SHARES AND MARKET FOCUS

"There's no denying that the news coming out of Brazil in recent months has been extremely positive. The country was recently upgraded to one notch below investment grade by Fitch and Standard & Poor's; demand for Brazilian products abroad is booming; foreign reserves have surpassed external debt; sovereign debt (as measured by the JP Morgan Chase Emerging Markets Bond Index) is at its lowest rate on record; and interest rates are as low as they have been in decades, prompting a boom in local consumption of everything from homes to appliances." From *The Business* magazine, 9 June, 2007.

### Continuing Currency Strength

Against this background the Brazilian Real has continued to strengthen against the US dollar, recently standing at 1.87 and since Serabi's IPO in May 2005 the currency has appreciated some 31% against the US dollar. Although a positive indictment of the country's growing success, this outcome places some pressure on Serabi as a US dollar reporting company. For this reason we are now looking at ways to 'lock-in' currency levels from time-to-time insofar as possible. Such action is not intended to speculate on currency movements but through taking out timely currency contracts, to minimise the potential impact on cash flow of further currency strength and undue volatility.



### Increased Benefits from Copper Price

Meanwhile, with the price of copper rising by some 142% since the Company's IPO in May 2005, accompanied by increased production, revenue from copper production at the Palito mine is now a significant factor for Serabi. Citigroup Global Markets Equity Research recently pointed out that "copper is now pinned between a series of high-profile strikes and persistent COMEX short interest and inventories have been falling in Asia, North America and Europe", furthermore, "copper will hold above \$3.00/lb level. Smelter charges point to a tight copper chain." JP Morgan and UBS also raised their copper price forecasts in July for the next two years because of supply concerns.

Such an outlook would be positive for Serabi, as at current prices copper accounts for approximately 15% of the company's revenue.

### Market Trends Since IPO

	May 2005	July 2007 <sup>(1)</sup>	Change
<b>BRL / USD</b>	2.45	1.87 <sup>(2)</sup>	+ 31%
<b>Gold Price (US\$/oz)</b>	427	660	+ 55%
<b>Copper Price (US\$/lb)</b>	1.49	3.60	+ 142%
<b>Copper as % total revenue</b>	6.9%	15.2% <sup>(3)</sup>	+ 120%

<sup>(1)</sup> Average to 18 July <sup>(2)</sup> Current (18 July) <sup>(3)</sup> Applied to June 2007 production

### FYI

Management regularly undertakes 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 and Press Releases 2007

April 11	2006 Final Results
April 25	March Quarterly Investor Update
May 1	Annual Report & Accounts
May 22	Land Holdings Increase
June 1	AGM Statement & Results
June 4	Exploration results indicate new mining potential at Palito
June 15	Placing and Notice of EGM
June 29	Total Voting Rights
July 11	EGM Results

### Meetings 2007

April	Institutional investor meetings
May 2-4	Latin American Mining Congress - Miami
June	Institutional investor meetings
October 16	Minesite Investor Forum – London
November 20-21	Mines & Money 2006 Conference - London

### Media and Broker Coverage 2007

April	Red Hot Penny Shares
April	World Gold Analyst
April 15	Resource Investor
April – May – June	Numis Securities – Various research notes
April 25	Ambrian Partners – Research note
April 27	Investors Chronicle
May 21	Seymour Pierce – Research report
June 15	Mineweb
June 15	Shares Magazine
June 24	International Mining
June 28	Shares Magazine
June 22	Growth Company Investor
July	Edison Investment Research
July 3	Financial Times

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