



# INVESTOR UPDATE

Quarterly Period to June 30<sup>th</sup>, 2008

## HIGHLIGHTS

- ▶ Improved operating results at the Palito mine evident at the end of the period following commissioning of new mining equipment and revised mine planning
- ▶ Overall production of 5,754 gold equivalent ounces for the quarter
- ▶ 2H production expected to show marked improvement as a number of operating initiatives begin to take effect
- ▶ New resource estimate demonstrates wider ore potential and operational flexibility at Palito
- ▶ For the first time Serabi declares an ore reserve at the Palito mine indicating a minimum mine life of four years
- ▶ Exploration success on a number of fronts points to potential for important expansion of established mineralised structures



Leach tanks for CIP expansion are complete and being commissioned

## MANAGEMENT REVIEW

As noted in past communications, we had anticipated a much improved year in 2008 with greater emphasis on production improvements and also on realising the wider ore potential of the Palito / Jardim do Ouro district. However, despite our best efforts operational problems reported in Q1 continued well into Q2 and it was not until June that we finally saw significant improvement, which we are encouraged to see is continuing into July. As reported in the Q1 Investor Update, the first items of key new equipment were seriously delayed and not commissioned until mid-May. As was reported at the time of the AGM, this had a detrimental effect on Q2 production.

We are pleased to confirm, however, that the majority of the new mining fleet was at Palito and in operation by the end of the Q2 period. As a consequence, better results have immediately begun to flow through and after what has been a delay amounting to four-and-a-half months, we are now realising the production levels that were originally forecast for 2008. The key equipment procured include two new mini-jumbos, two mini-scoops and a long-hole drilling rig. During Q3 and Q4, we expect to see further operational improvements as two further mini-jumbos arrive at site, along with two further mini-scoops and some specialised haulage trucks at the end of the year.

In the plant, we have a programme of expansion works in place to increase throughput and improve recovery. We have completed an overhaul of mill # 2, and now have three rebuilt ball mills providing much improved reliability and operating efficiencies. This has led to a return to mill throughput of 500 tonnes per day (tpd). Attention has now turned to mill # 3 which is in the process of being overhauled and expected to be operational by the middle of Q3. This will increase daily milling rates by a further 20% to 600 tpd. With flotation capacity sufficient for this volume, the cyanidation plant (CIP) has also been expanded to accommodate increased throughput when required. This increased capacity will be operational during Q3.

As a result, we are now confident that the improved performance seen in June will continue through Q3. With much of July completed, we can say that it is on schedule to be the best month for twelve months. We continue to remain optimistic that over the next two quarters we will meet our quarterly targets of approximately 10,000 gold equivalent ounces. As was advised at the AGM the original 2008 annual target of 40,000 gold equivalent ounces is now not achievable and we would expect production for 2008 to be no more than 34,000 gold equivalent ounces.

During the quarter, Serabi finalised the "Palito Ore Reserve and Mineral Resource Update" dated July 9<sup>th</sup> 2008, for the first time reporting an ore reserve for Palito. The highlights of the estimate were:

- A mineral resource of 0.67 million total contained gold equivalent ounces from 25 mineralised structures
- A total proven and probable ore reserve of 187,538 gold equivalent ounces from within the mineral resource

- Ongoing exploration demonstrates possible further significant extension of a number of the mineralised veins which also remain open at depth and on strike

Establishing a reserve provides improved confidence for mine planning and indicates a minimum approximate life of four years. These estimates include exploration and evaluation activity only up to the end of Q1 2008 and, therefore, the entire Q2 drilling activity, as well as a large number of outstanding assays still not received at the time of the database closure (March 31<sup>st</sup> 2008) remain outside this estimate. Exploration activity in Q2 focused heavily on strike and depth extensions at the Palito Main Zone (PMZ), Palito West (PW) and Chico do Santa (CdS). By the end of the June quarter, drilling supported by assays, indicated significant southerly strike and depth extensions of PMZ G3 lode and Jatoba high-grade gold mineralisation. Drill results also confirm significant strike and depth extensions to the PW zone. This drilling, which remains ongoing, is likely to contribute to a significant increase in the recently disclosed resource.

In addition, drilling into the PMZ and PW strike and depth extensions confirmed the electromagnetic geophysics (EM) technique as a prime exploration tool for rapid identification of mineralization. Further drill testing of eight large EM anomalies is expected to commence before year-end following detailed interpretation of potential targets.

Meanwhile, detailed drilling at the Senna oxide prospect (Ruari's Ridge project) confirmed that the resource potential of shallow saprolite and oxide mineralisation at the Palito district may be greater than first thought. As a result, programmes are now underway to test other potential areas.

With the objective of expanding production in and around Palito, and with the disclosure of the first ore reserve at Palito now undertaken, we feel confident that continued near-mine exploration and evaluation is likely to justify a review of the resource and reserve position at year-end. In parallel to this, we remain committed to progressing regional exploration that we believe will lead to the discovery of a second mineral district in the Tapajós. This is all with the intention of placing Serabi in a strengthened position to make investment decisions that will enable it to achieve its goal of becoming an established and growing producer.

**Graham Roberts**  
Chairman

**Mike Hodgson**  
CEO



## OPERATING REVIEW

As reported in the first quarter, key new mining equipment scheduled to be delivered as early as January was seriously delayed and despite our best efforts only began to arrive at site during the second quarter. Regrettably, due to delays in commissioning some of the new fleet, our operational problems reported in Q1 continued well into Q2, with an adverse impact on the early part of Q2 production.

The items in question included the two mini-drilling jumbos and two mini-scoop trams. The consequence of the late arrival of these machines (and the inevitable lead time before their benefits were felt) saw an adverse outcome in Q2 production, resulting in overall production of 5,754 ounces gold equivalent.

All the machinery is now operating well and since the end of May there has been a steady improvement in results which, encouragingly, is continuing into July. Production to 20<sup>th</sup> July was approximately 2,100 gold equivalent ounces compared with the level of 2,300 gold equivalent ounces achieved for the month of June.

With effectively two months of much improved performance achieved we are optimistic that results will continue to improve.

As reported last quarter it has been the intention to optimise both development mining and stoping at Palito. The former will be achieved through the introduction of specialised mining equipment and the latter by the reduction in sub-level spacing, allowing shorter stope heights and improvements in drilling and blasting techniques.

Since reducing stoping heights, encouraging results have been achieved and we remain confident that dilution can be minimised from ore mined from the stopes. However, this positive impact will for the time being have only a limited effect on the overall results. In the near term we will continue to rely on development mining as the primary ore feed and the optimisation of the development mining methods remains the key to achieving near term production targets. As reported above, new equipment in the form of two mini-drilling jumbos and 2 mini-scoop trams was purchased primarily to improve our efficiency in development mining. However, we have been unable to see real progress in development mining performance until June and July, the first months to report significantly improved development rates and grades.

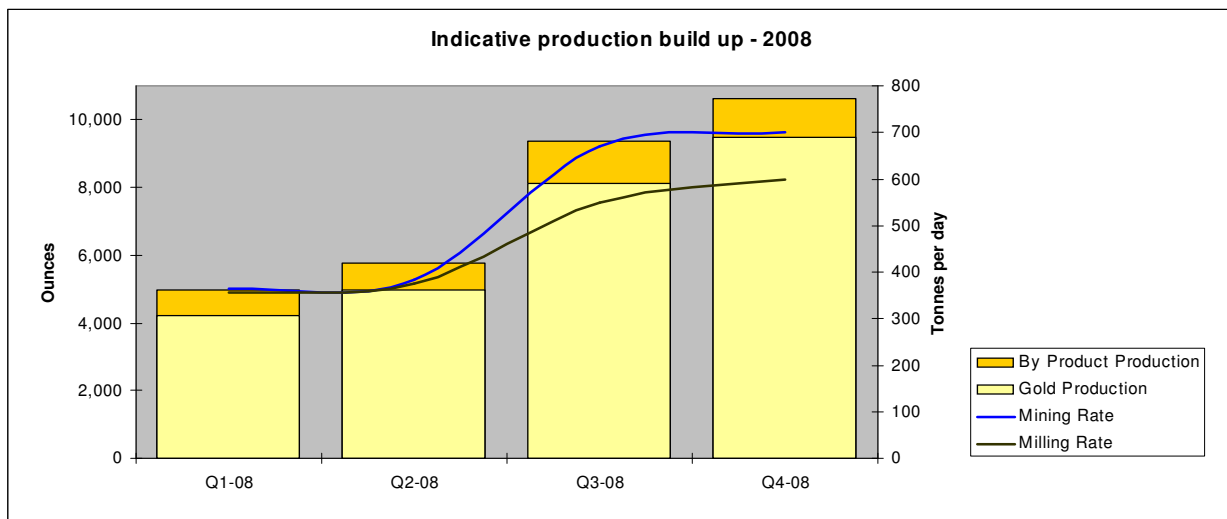
Modifications of the process plant (reported last quarter) designed to improve throughput is well underway with some of the work already completed. During Q2 the overhaul of mill #3 began ahead of schedule and we anticipate the refurbished mill to be fully operational in the first half of Q3. With all four mills overhauled it is anticipated that a plant throughput rate of 600 tonnes per day can be sustained. In accordance with the increased milling capacity, the cyanidation (CIP) plant expansion reported last quarter is also now close to completion.

Key operating initiatives for second half of 2008 include:

- Reducing development widths** - to compliment the arrival of the two new mini-drilling jumbos and two mini-scoop trams, a further two new mini-drilling jumbos will arrive and replace the older 'oversized' machines we currently have in use. Development rates are expected to increase significantly with much less waste rock being mined in the process. The target minimum mining width of 1.2 metres for ore development is already being achieved.
- Minimum stoping widths** - stope mining widths of less than 1.2 metres are already being achieved where required.
- Cross-cuts and ore-passes** - their introduction allows the establishment of multiple accesses to ore zones and also enables stoping to be undertaken concurrently with development. This in turn provides more efficient depletion of each level, better utilisation of equipment and slows the rate at which the mine needs to be deepened.

Palito – Operating Results <sup>(1)</sup>					
		2008	2008	2008	2007
		Q1	Q2	YTD	YTD
<b>Total Mined</b>	t	57,542	59,772	117,314	116,818
<b>(per day)</b>		(632)	(657)	(645)	(645)
<b>Mined Ore</b>	t	33,022	34,829	67,851	92,275
<b>(per day)</b>		(363)	(383)	(373)	(510)
<b>Milled</b>	t	32,479	34,027	66,506	87,950
<b>(per day)</b>		(357)	(374)	(365)	(486)
<b>Head Grade</b>	g/t	4.52	5.10	4.82	6.20
<b>Recovery</b>	%	89.00	89.00	89.00	90.50
<b>Gold</b>	oz	4,217	4,963	9,180	15,932
<b>Copper</b>	t	85.80	78.92	164.73	252.60
<b>Gold Equivalent</b> <sup>(2)</sup>	oz	4,985	5,754	10,738	18,718

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





- **Increase in the ore sources** – during Q1 and Q2 the production has largely come from the three veins of the PMZ. During Q3 and by Q4 seven ore bodies will be worked.
- **Oxide ore production** - continue the successful production from the Senna oxide ore deposit at Ruari's Ridge.
- **Overhaul mill #3** - alongside completion of the CIP plant, this will increase daily mill throughput to 600 tonnes per day.
- **Mine Fleet Maintenance** - a dedicated contract with Atlas Copco to operate and manage the mining fleet maintenance department at Palito has been put in place.

In summary, with the delayed delivery of the mining fleet in Q2 now hopefully behind us, much improved results are expected during the second half of the year. The increased ore sources, improved equipment availability and the introduction of specialised dedicated equipment, supplemented by oxide ore production places the Palito operation in a far better position than during the first five months of 2008. We are therefore optimistic that over the next six months the revised target production of approximately 20,000 gold equivalent ounces can be achieved. We continue to target an operating cost of sub-\$400/oz AuEq for this production level but continued worldwide cost escalation and the continuing strengthening of the Brazilian Real is placing significant pressure on this goal.

## EXPLORATION AND DEVELOPMENT

During the first half of 2008, the company took the decision to focus much of its exploration efforts on investigating the opportunities within the near-mine and the immediate vicinity of the Jardim do Oro (JdO) mineral district. This was intended to expedite the transition of exploration success into production ounces. In addition, the company has continued to undertake evaluation and exploration within the extensive land package it possesses, with the view to discovering Serabi's next mineral district in the Tapajos. In financial terms, this increase in exploration activity and commitment to expand has meant an exploration budget for 2008 of up to US\$9m compared with US\$6m in 2007. Of the US\$9m, 70% has been budgeted for near-mine exploration.

We are also pleased to announce that the day-to-day management of the Palito laboratory facility has now been handed over to Alex Stewart Assayers Ltd. Assay results from the laboratory under independent management will meet the requirement of the 'Qualified Person' and thus speed up the exploration and resource evaluation programme.

A detailed exploration update was issued on 22 July 2008 and for this reason it is only intended to highlight the key matters in this newsletter

### NEAR - MINE EXPLORATION

Exploration has focused predominantly on the main four sectors in and around the immediate mine, namely the Palito Main Zone (PMZ), the Palito West Zone (PW) 200m south-west of the mine, the Chico da Santa Zone immediately to the east of the mine and the Ruari's Ridge oxide deposit, 400 metres to the south-west of the mine.

#### Palito Main Zone

During the first half 2008 over 7,300 metres of drilling consisting of 26 holes has been completed specifically targeting electromagnetic geophysical (EM) anomalies indicative of sulphide mineralisation along the projected southern and northern strike and depth extensions of known mineralisation. Results from this drilling have had mixed success, with massive sulphide and quartz vein-sulphide zones intersected in all areas but variable gold grades.

In the south a programme of drill-holes targeted a block to the south of the boundary of the latest defined resource (see press release "Palito Ore Reserve & Mineral Resource Update" dated 9 July 2008). The drill results received to date indicate good grades and significantly extend the strike and plunge extent of the main G3 orebody by approximately 150 metres strike length and 150 metres in plunge extent. Intersections from later drilling still awaiting assays indicate the potential for the G3 of PMZ to extend at least 300 metres in this

direction and the apparent continuity remains open along the south east plunge extension, with apparent increase in widths. Results however also indicate that the G2 and G1 structures appear less promising down plunge.

During the quarter, the PMZ north and PMZ deep extensions were also tested with a series of drill-holes which intersected a number of zones of massive pyrrhotite, associated with minor chalcocopyrite and pyrite in excess of 1.0 metres wide. The zone of pyrrhotite bearing veins is hosted within the Fofokinha granodiorite and not the Palito and Rio Novo granites, which host the bulk of the gold-copper mineralisation at Palito. This change in sulphide mineralisation is believed to reflect a change in the geochemistry of the host rock thus resulting in sulphide zonation within the mineralised structures. The massive pyrrhotite veins tested so far generally contain sub economic gold values. As a result, indications of any significant economic extension of the PMZ to the north-west seem less likely than to the south.

#### Palito West

During Q1 and running into Q2 an eight-hole drill programme commenced to test the north-west strike and the projected south-east plunge extension of the ore shoot. These results were not available for the Q1 update or the recent resource estimation. So far this drilling has extended the strike and plunge extent of the main two veins to dimensions of approximately 200 metres strike length and 300 metres plunge extent and led to the discovery of a series of smaller parallel veins.

#### Senna Oxide (Ruari's Ridge)

Very good results have been obtained from a programme of 35 shallow drill holes along the Ruari's Ridge prospect and testing the economic potential of the saprolite-oxidized rock immediately above the vein structures

Close-spaced drill holes on 25 metre traverses delineated a gold-bearing oxide cap of 250 metres length, 50 metres width and averaging 2-4 metres thickness. At an average gold grade of 4 g/t and containing high grade sections, this material has been shown to be amenable to CIP recovery.

### DISTRICT EXPLORATION (JARDIM DO OURO)

Detailed interpretation of the results of the 6,000 hectare, helicopter-borne electromagnetic ("VTEM") geophysical survey is ongoing. However, from an initial assessment, eight large anomalies have been identified including the strike extensions of the massive sulphide zones of the PMZ that are currently being mined.

Three holes have been drilled on a series of massive sulphide targets in the Copper Hill South area, situated approximately 500 metres to the west of the Palito Mine. Consistent with the results of the PMZ North drilling discussed earlier, the massive sulphide and disseminated sulphides encountered in this area are mainly of pyrrhotite, containing lower tenor gold grades. Significantly however, in some of the narrow massive sulphide veins intersected, higher grades were obtained particularly around the contact with the Palito granite.

Further drilling of the VTEM anomalies will be undertaken following completion of a detailed analysis of the geophysical survey anticipated during the third quarter.

### REGIONAL EXPLORATION

During the quarter, the regional exploration activity largely focused upon the Pison project, which covers an area of approximately 123,000 hectares of highly prospective geology. Whilst assays from 597 sample sites are still pending, a result of delays experienced from the commercial laboratory being used encouragingly panning by the geological teams reported visible gold over large areas at a number of sites, suggesting the potential for numerous at and near surface zones of mineralisation.

In addition, similar stream sediment sampling is ongoing across the project areas surrounding the Palito mine and Jardim do Ouro district and expected to be completed in the third quarter of 2008

During the quarter, Serabi successfully acquired the right to explore the Rio Marupa project, which lies 150km km to the south west of Palito



and close to the Transgarimpeiro highway. This is considered as a high priority target within the Company's project portfolio and preliminary exploration is scheduled to start at Rio Marupa in July 2008. Initial drilling is anticipated to commence in the August - September period, targeting the main vein structures that are already well defined.

### ORE RESERVE AND MINERAL RESOURCE

On July 9<sup>th</sup> the Company released details of the estimation of the Ore Reserves and Resources undertaken and verified by NCL Brasil Ltda an established mining consultancy based in Brazil and with associates throughout South America.

This work established for the first time an ore reserve at the Palito mine and with this information the Company is better positioned to plan future production. At current production rates the reserve of 187,000 gold equivalent ounces is sufficient to support a minimum future mine life of more than four years.

This ore reserve is contained within a total mineral resource of 0.67 million gold equivalent ounces of which 224,300 gold equivalent ounces occur in the higher confidence Measured and Indicated category with the balance being in the Inferred Resource category.

The mineral resource estimate is based on a total of 25 different veins of a minimum of 70 cms width and located within the larger mineralised sections of Palito Main Zone, Palito West, Chico da Santa and Ruari's Ridge.

Within the PMZ there are eight vein structures of which the G3 and G2 veins comprise the bulk of the resource. These veins have yielded the bulk of the production at Palito since the beginning of 2005.

The database upon which the Ore Reserve and Mineral Resource estimations were made was closed as at 31 March 2008. As has been noted earlier there were a number of assays outstanding and much of the mine-site exploration undertaken since 31 March has been targeted at extension drilling outside of the boundary of this resource estimate. The indication of the additional information received to date is that extensions of the mineralised structures have been identified and the Company is confident that these will contribute to a future upward revision of the resource estimate.

Mineral Resource	Tonnes	Gold Grade (g/t)	Copper Grade (%)	Contained Au (oz)	Contained AuEq (oz)
Measured Resources	97,448	9.51	0.26	29,793	32,045
Indicated Resources	753,545	7.29	0.23	176,673	192,228
Total Measured and Indicated	851,193	7.54	0.23	206,466	224,272
Inferred Resources	2,087,741	5.85	0.27	392,817	443,956
Ore Reserve	Tonnes	Gold Grade (g/t)	Copper Grade (%)	Contained Au (oz)	Contained AuEq (oz)
Proved Reserve	56,464	9.06	0.29	16,456	17,910
Probable Reserve	676,028	7.19	0.22	156,379	169,628
Total Proved and Probable	732,492	7.34	0.22	172,836	187,538

**FOR YOUR INFORMATION:** Management regularly undertakes investor meetings and 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 2008

Apr-17	Preliminary Results Announcement for year ended 31 December 2007
Apr-23	First Quarter Investor Update
May-19	Notice of AGM & publication of Annual Report and Accounts
July-09	Ore Reserve & Mineral Resource Update
July-22	Exploration Update

### Meetings & Conferences 2007 & 2008

Nov-20 / 21	<i>Mines &amp; Money 2007 Conference</i> - London
Jan-08	Investor meetings
Apr-23	<i>Mining Journal's 20:20 Investor Series GOLD DAY</i> - London
June-23 / 26	European Roadshow – Paris, Zurich, Geneva

### Media & Broker Coverage 2008

Apr-17	Analyst comments: Seymour Pierce, Ambrian, Fairfax IS
Apr-20	Minesite - comment
Apr-25	Analyst comments: Citywire, AFX UK Focus, Hemscott
May-08	Numis: site visit review by Mike Stuart
May-23	Moneyweek's Roundtable
May-26	Minesite article: Henry Sandford
May-28	Daily Express article: Stephen Kahn
June-11	Midas Midweek Column: Joanne Heart
June-11	Numis Intraday comment, Sharecast note, AFX International Focus, Ambrian note
June-12	Dow Jones note
June-19	Ambrian morning note
July-22	Numis Exploration Update, Fairfax Daily Market Report, Ambrian
July-22	Minesite article: Henry Sandford
July-23	Daily Mail

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