



INVESTOR UPDATE

Quarterly Period to 31st March, 2009

HIGHLIGHTS

- ▶ Production of 1,973 ounces of gold for the quarter from surface oxide mining
- ▶ Positive operational cash flow for the quarter
- ▶ Potential for the identification and continued mining of oxide gold deposits at Palito
- ▶ Major reduction of costs following cutback of personnel and landholding expenditures
- ▶ Geophysical targets at Palito provide principal focus for future exploration to increase resources



Surface oxide mining operations at Palito

MANAGEMENT REVIEW

The first quarter of 2009, saw a modest return to positive cash-flow for the Palito Operation. Whilst 2008 was dominated by underground production difficulties, it was in fact a successful year on the exploration front, where the Company identified over 16 high priority exploration targets located in close proximity to Palito, as well as producing its first mining reserve statement.

Following the suspension of underground mine production in late December 2008 and in order to reduce costs, the Company has aggressively reduced all manpower in Brazil and London from over 300 employees in mid-2008 to approximately 60 today. In parallel with this, the Company has been able to continue processing oxide ore at a low level during 2009. As a result, the operation processed on average some 200 tonnes per day, and produced 1,973 ounces of gold for the first quarter. Combined with a significant reduction in overheads, a stronger US dollar gold price and the continued relative weakness of the Brazilian Real, this level of gold production has been able to meet the costs of the Brazilian operation over the first quarter.

The operating cash surplus has been used to explore for additional surface oxide resources and it is now our intention to try and gradually increase oxide gold production further, but only to levels that are sustainable.

As previously announced, the Directors have been actively pursuing strategic options for the Company including the sale in whole or part of its mining and exploration assets. The Directors are also pursuing opportunities that might result in an injection of new capital either into the Company or directly into its Brazilian operating subsidiary. Against a background of difficult market conditions worldwide, it is helpful that the relative operational success of the first quarter has provided some respite for the Company whilst a resolution to these issues is sought.

Considering the operational problems of the past two years, where equipment delays and lack of skilled manpower resulted in the ultimate suspension of the Palito underground operation, the Directors are determined to de-risk the business going forwards and are of the view that before underground operations at Palito are fully resumed, the following items are satisfied:

1. A return to selective mining methods, which would bring reduced ounces, but quality ounces yielding the highest margins.
2. A larger resource and reserve base is established.

Our near term objective is therefore to focus on maintaining and if possible expand surface mining activities, along with the necessary exploration to support this in order to at least continue to cover costs.

In the medium term, and conditional on securing further funding, additional ore sources are required. The experience to date has shown the risks involved in operating from a single mine whilst covering overheads in such a remote area. To overcome this a second and third mine in the Palito district, feeding the central process plant has always been and remains the medium term objective. To achieve this, a detailed investigation of the 16 principal geophysical anomalies that were identified from the 2008 airborne geophysical survey is therefore a priority. These anomalies exhibit very similar characteristics to the Palito deposit, and their close proximity to the Palito infrastructure makes them all the more important. The Board believes that these anomalies currently represent most attractive targets for the early identification of additional resources within the Palito district which in time could form part of an expanded and more sustainable mining plan. Third parties that have been visiting Palito have all been intrigued by the longer term potential and the possibility of securing an operation producing significantly more than the previous 30,000 – 40,000 oz AuEq targeted range. We believe this could be achieved by testing and proving up these satellites with a budget of around US\$2M over approximately 18 months.

In response to the problems at Palito we have suspended all regional exploration activity. The Company has also reduced its land holdings and thus costs, to 158,000 hectares from over 300,000 hectares. A large part of this reduction came from the Pizon area, where the Company successfully completed an initial screening programme last year, resulting in the identification of a large number of highly anomalous drainage catchments. Notwithstanding these results, we currently see this area as non-core, and having added significant value to this district, we are pursuing partners with whom to advance this project. Following similar initial exploration programmes elsewhere, the company has decided to relinquish the Rio Marupa, Castanheira and Sucuba tenements.

Graham Roberts
Chairman

Mike Hodgson
CEO



OPERATING REVIEW

As reported in the February 23rd 2009 press release, the company suspended underground mining activity at its Palito mine at the end of 2008. However, following from success in mining the near-surface oxide ores in and around Palito during 2008, initially as a supplement to the underground sulphide ore, the Palito operation is now mining and treating approximately 6,000 tonnes of oxide ore per month.

The mined oxide ore only requires treatment through the existing CIP plant and as a result, the flotation circuit is currently idle. Whilst such near-surface oxide resources are currently limited, the Directors' are confident that an oxide mining operation can continue for at least the next few months.

Having taken the decision to suspend underground mining activity, the company aggressively reduced manpower in Brazil. By the end of the quarter, the company retained only 60 employees in Brazil. This reduction in overheads has meant the gold production from oxides has been able to more than meet the costs of the Brazilian operation for the year-to-date. The resulting operating cash surplus is being used for exploration to increase surface oxide resources, and it is our intention to continue to identify additional oxide resources and if sustainable, gradually increase oxide gold production further. The process plant has capacity to treat over 700 tonnes per day of oxide ore, and whilst we do not currently envisage such throughput levels, capacity is already in place to support higher production rates as and when adequate medium term resources can be identified.

| Palito – Operating Results ⁽¹⁾ | | | | |
|---|-----|--------|--------|--------|
| | | 2009 | | 2008 |
| | | Q1 | YTD | YTD |
| Mined Ore | t | 17,863 | 17,863 | 33,022 |
| (per day) | | (200) | (200) | (363) |
| Milled | t | 17,580 | 17,580 | 32,479 |
| (per day) | | (197) | (197) | (357) |
| Head Grade ⁽²⁾ | g/t | 3.78 | 3.78 | 4.52 |
| Recovery | % | 92.3 | 92.3 | 88.97 |
| Gold ⁽³⁾ | oz | 1,973 | 1,973 | 4,985 |

⁽¹⁾ Provisional ⁽²⁾ Ore feed to the process plant ⁽³⁾ For 2008 gold production Includes copper and silver credits.

In addition to gold production from oxides, the company is also now assessing a number of other local, near surface sulphide ore sources to further supplement gold output. Such ore could be exploited by surface mining activities but will require processing using the flotation plant at Palito in order to liberate the gold from the associated copper mineralisation prior to CIP treatment.

During the first quarter, the Brazilian Real remained weak against the US dollar relative to last year, which combined with the strong US dollar gold price has had a significant, positive effect on operating margins. As a result, we are investigating all options to increase surface mining and maximize cash-flow for the Company, whilst we continue to explore options to move the business forward.

With respect to the Palito underground mine, the operation finally suspended ore production at the end of December 2008, at which time the mine was placed on care and maintenance, with a view to re-commence operations during the year. The mine remains fully accessible and available for a re-start with all infrastructure maintained.

As previously stated, the success of the oxide mining combined with a better gold price and a favourable Brazilian exchange rate, has allowed the Company more time than originally anticipated to review and consider a number of options for the longer term operations at Palito.

Delays in the arrival of much-needed equipment required to achieve the 2008 budget, resulted in a need to defer mine development in the early part of 2008 to concentrate on ore production. However, by September 2008 it had become clear that even with increased rock moving capability it was not financially practical to continue to try and recover the development metres lost during the early part of the year.

In order to re-establish underground mining at Palito to levels of production similar to those originally targeted for 2008, requires a phase of long-term development, bringing with it a significant working capital requirement. Following the operating problems of 2008 and taking into account other issues, such as suitable manpower and skilled labour, fleet maintenance and continuity of power supply, we have taken the opportunity to further review the mining options.

As a result current operational objectives are:

1. in the near term to maintain and seek to grow surface oxide ore production and resources.
2. assess the viability of surface mining of sulphide ore sources (which would require restart of flotation plant and production of a copper-gold concentrate).

In the light of experience, it is now our view that for underground mining to resume at Palito, the re-introduction of selective manual mining along with more ore sources is necessary. Re-establishing underground ore production at Palito is therefore unlikely to be a near term objective without having in place solutions to these issues. Selective mining of narrow vein ore-bodies requires skilled mining labour not readily found in Brazil, but which is available in other countries in South and Central America where similar deposits are mined.

EXPLORATION REVIEW

Following the suspension of underground mining at Palito, exploration activity has been significantly reduced in order to conserve cash. Most exploration personnel have been released, though some senior personnel were retained to compile, integrate and re-interpret geochemistry, geology and geophysics results across the Palito district and on the regional projects. Consequently exploration activity has been focused solely upon delineating oxide resource amenable to surface mining at Palito.

The main areas assessed for oxide potential and immediate oxide ore sources have been:

- The Mogno and Ipe structures of the Chico da Santa Zone
- The southern and northern extension of the Senna lode
- The Palito West Zone south west of the existing portal
- The G3 lode south of the Palito mine camp

These areas were prioritised on the basis of significant geochemical and geophysical anomalies and are being tested by Auger drilling on a nominal 25m X 10m grid, which has now defined broad halos of elevated gold grades that may be indicative of near vertical gold bearing quartz structures. By the end of the first quarter 80 holes had been completed, totaling 488.6m. The first quarter of the year is also the rainy season, which has hampered exploration and surface mining activities. During the next two months the rains will subside, and we plan to utilize excavators to trench across the strike of these targeted zones and complete their assessment. A total of 75,000 tonnes of potential oxide ore has been provisionally targeted, and with improved weather conditions we are confident exploration success can be accelerated and a more robust surface mining plan established.

Qualified Persons Statement

The information contained within this announcement has been reviewed and verified by Michael Hodgson as required by the AIM Guidance Note on Mining. Oil and Gas Companies dated March 2006. Michael Hodgson is an Economic Geologist by training with 20 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

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