



**SERABI
MINING**

Serabi Mining plc

Interim report 2005



Serabi Mining plc is a gold mining company focused on the prolific Tapajos geological region of northern Brazil. Extending over an area about the size of Belgium, the Tapajos is a major, under-explored mineral province from which artisanal miners (“garimpeiros”) are thought to have extracted up to 30 million ounces of gold from mostly alluvial and surface weathered bedrock deposits over the past three decades.

The Company’s principal operating asset is the 100% owned Palito Gold Mine. In January 2005, an independent consultant calculated the total resource at Palito to be 460,000 ounces of gold equivalent, with an average gold grade of 11.0 grams per tonne. The Company believes the potential to increase the resource base to be significant. Additional diamond drilling so far in 2005 has continued to yield encouraging results which will be included in a resource update to be undertaken at the end of this year.

In addition to the Palito Gold Mine, Serabi has an extensive portfolio of exploration properties totaling over 100,000 hectares of highly prospective ground throughout the Tapajos region. Within this portfolio, Serabi has identified several relatively advanced projects in the Jardim do Ouro (“Garden of Gold”) District immediately surrounding the Palito Gold Mine and a further series of properties elsewhere in the Tapajos Region, which are at an earlier stage of assessment.

Serabi believes the exploration potential throughout the Tapajos region to be excellent and is focused on developing additional gold mines in the same, proven manner that has resulted in the ongoing development of the Palito Gold Mine.

Highlights

- ▶ Successfully completed IPO on London AIM, raising £8.0 million at a share price of 30p
- ▶ Gold production at Palito of 7,588 ounces to 31 July
- ▶ Major new capital projects set to improve efficiencies
- ▶ 2005 target of 12,000 metres of diamond drilling to be significantly exceeded
- ▶ 2005 drill programme confirms extensions of mineralised zones at depth and along strike at Palito
- ▶ New 'Compressor Lode' discovered parallel to Palito Main Zone
- ▶ Advanced high-grade copper/gold project acquired in the southern Tapajos region

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Report of the Chairman and Chief Executive

Dear Shareholder,

The period ending July 31 2005 marked a number of significant accomplishments for Serabi. Foremost among these was the successful completion of the Company's IPO on the London AIM Exchange, which raised gross proceeds of £8.0 million at 30p per share. These proceeds will ensure that the Company has the funds necessary to execute its strategy in Brazil, principally through:

- Expanding the resource base and production at the Palito Gold Mine
- Introducing productivity enhancing capital investments to the Palito Gold Mine
- Further evaluating the Company's exploration projects in the Jardim do Ouro district which surrounds the Palito Gold Mine and the broader Tapajos region
- Assessment and possible additional acquisition targets in the Tapajos region

Financial results

The Group has reported an unaudited loss for the six month period to 31 July 2005 of US\$2.3 million after accounting for exchange losses and the value of options issued prior to the IPO in accordance with FRS20. Net assets increased by US\$15.5 million to US\$27.4 million during the period and cash balances to US\$9.2 million.

The Company is currently in a pre-development stage of the mine and is developing its plans to achieve commercial production through long term sustainable mine production and plant capacity. During this phase all mine related costs and revenues generated during the pre-development phase will continue to be capitalised.

The Group's assets, in particular plant and equipment and exploration and development expenditure are principally held by Serabi Mineração Ltda and as such are denominated in Brazilian Reals. The Brazilian Real has strengthened by more than 11% against the US dollar during the six month period ended 31 July. Foreign exchange losses have been incurred as a result of the retranslation of the opening net asset position.

These interim results will form part of the Company's first audited financial statements, which are required to be prepared for the period from incorporation to 30 September 2005. In order to align its future reporting to calendar years at the earliest opportunity we will be producing further accounts for the three month period to 31 December 2005.

Operations

At the Palito Gold Mine, development is continuing at a rapid pace. For the seven months ended 31 July 2005 Palito produced approximately 7,600 ounces of gold.

	7 months to 31 July 2005
Ore mined (t)	27,494
Ore processed (t)	27,101
Average grade (g/t)	9.91
Gold recovery %	87.9%
Gold produced – ounces	7,588
Average gold price received \$	\$436

The Company had at the end of July shipped and received provisional payment for a total of 20 consignments of gold-copper concentrate to Antwerp for treatment. A further 17 consignments have been despatched subsequently.

Total revenues generated for the seven months aggregated US\$2.97 million. To date, mining at Palito has predominantly focused on development drives, which are required to access the mineralisation and subsequently establish areas for production. This development period inevitably leads to lower grades and hence production, which is reflected in the current results. Furthermore, the present worldwide mining boom is causing delays to the delivery of some key items of equipment that has also impacted on short-term output. Notwithstanding, production has steadily improved over the period, albeit slower than anticipated and management is taking action that is expected to improve this situation over the next six months. In addition, the Company will soon start work on the long-term mine plan required to access the deeper mineralisation, which will form the main basis of future ore supply. As part of this assessment the potential to introduce more mechanised equipment to the operation and optimise the mining method to increase production rates further will also be considered.

A number of productivity enhancing capital investments (see press release 22 June 2005: Capital Projects Update) are being introduced at the operation. Recently introduced underground shovels are performing well and have resulted in important improvements to production rates, whilst also allowing personnel to be redeployed to other mining priorities.

The first of the Company's underground drill rigs has only recently arrived, with the remainder expected to be delivered by the end of October; some two to three months later than envisaged. This equipment is essential to the understanding of the Palito Main Zone mineralisation and hence efficient mining. As the rate of underground drilling increases it is expected that items of mine planning and grade control will greatly benefit. Furthermore, the underground drill rigs represent an additional and cost-effective method of exploration and resource evaluation drilling, especially at the deeper levels of the Palito mine.

The plant expansion to 250 tonnes per day (tpd) is near completion and an upgrade programme to take this to 300-350 tpd is envisaged soon thereafter. Gold recoveries have been good and are expected to achieve targeted levels of between 90% to 94% soon. Conditional on finalising the long term mine plan and consequently the optimum operating scale at Palito, which is expected to be completed in the first quarter of 2006, further modular expansion of the process plant may be undertaken.

Work is well advanced to introduce grid electricity to the Palito Gold mine, and the Company is expecting this project to be completed by the end of 2005 and under the budgeted cost of US\$580,000 (see press release 22 June 2005: Capital Projects Update). The introduction of the grid electricity will bring immediate and substantial cost savings to the Company, as its reliance on current diesel generated power will be significantly reduced.

Palito drilling programme

Considerable progress has been made during the period on Serabi's drill programme at the Palito mine (see press release 9 September 2005: Drilling Update). As discussed in the Company's press release, Serabi is set to exceed its 2005 drilling target of 12,000 metres. 10,697 metres had been completed in a combination of infill drilling of the Palito Main Zone, strike and depth extensions and step-out drilling to test for parallel vein structures.

The drilling programme continues to intersect very high grade gold values along strike and at depth, that is expected to provide a good basis to improve the resource base which will be reassessed at year-end. In addition, the drilling has also identified a new area of significant mineralisation immediately adjacent to the Palito Main Zone, which has been called the 'Compressor Lode'. Drilling on the Compressor Lode is continuing and it is now expected to be incorporated into the short-term mine plan.

Further drilling at Palito for the remainder of the year will be focused on increasing the resources at Palito through a threefold strategy of depth extension drilling at the Palito Main Zone, strike extension drilling in both directions and further work at nearby projects such as Palito West and Chico do Santo, both of which have previously yielded encouraging results.

Jardim do Ouro and Tapajos regional exploration

The main focus so far this year has been drilling on the Palito Main Zone. The Company has acquired two further surface rigs that are now expected to arrive on site later this month, at which time drilling will then be expanded to incorporate priority drilling targets in the Jardim do Ouro district such as Bill's Pipe and Ruari's Ridge, as well as elsewhere in the Tapajos region.

Pombo Gold project

On 14 October, the Company announced the acquisition of an option over the Pombo Gold Project in the southern Tapajos region (see press release 14 October 2005: Serabi purchases option to acquire Pombo gold project). This is an advanced, high grade copper/gold project, in which mineralisation has so far been identified along 700 metres of strike and bears many geological similarities to Palito. The Company will shortly locate one of its drilling rigs to the area to commence an initial drill programme. It is noteworthy that the Company's established presence since 1999 and its reputation in the Tapajos, played an important role in securing this project, the first for Serabi in the southern Tapajos region.

Corporate

At the corporate level, Serabi is actively evaluating strategic alternatives that could enhance shareholder value by advancing the Company's other exploration properties throughout the Tapajos region. In addition, acquisition opportunities are continually being assessed by management. In this regard the Company will adopt guidelines to ensure that any transaction that Serabi might undertake fits into the Company's existing strategy of developing high quality gold assets within Brazil.



Graham Roberts
Chairman
26 October 2005



Bill Clough
Chief Executive

Profit and loss account

for the six months to 31 July 2005

(expressed in US\$)

	Group Incorporation to 31 January 2005 (unaudited)	Group Six months to 31 July 2005 (unaudited)
Turnover	343,064	—
Operating expenses	(255,913)	—
Profit from operations	87,151	—
Administration expenses	(1,148,979)	(792,791)
Option costs	—	(597,260)
Write-off of exploration and development cost	—	(43,051)
Depreciation (plant and equipment)	(26,269)	(157,459)
Loss on ordinary activities before interest and other income	(1,088,097)	(1,590,561)
Foreign exchange gain/(loss)	260,584	(789,612)
Interest payable	—	(19,072)
Interest receivable	2,376	103,556
Loss on ordinary activities before taxation	(825,137)	(2,295,689)
Taxation	(524)	—
Loss on ordinary activities after taxation	(825,661)	(2,295,689)
Earnings per ordinary share (basic and diluted)	(2.72p)	(2.62p)

Statement of total recognised gains and losses

for the six months to 31 July 2005

	Group Incorporation to 31 January 2005 (unaudited)	Group Six months to 31 July 2005 (unaudited)
Loss for the period	(825,661)	(2,295,689)
Exchange loss on foreign currency net investment	—	(233,410)
Total recognised loss for the period	(825,661)	(2,529,099)

Balance sheet

as at 31 July 2005

(expressed in US\$)

	Group as at 31 January 2005 (unaudited)	Group as at 31 July 2005 (unaudited)	Holding Company as at 31 January 2005 (unaudited)	Holding Company as at 31 July 2005 (unaudited)
Fixed assets				
Intangible assets				
Goodwill on acquisition	1,752,516	1,752,516	—	—
Tangible assets				
Property, plant and equipment	2,621,091	3,905,780	—	3,327
Capitalised exploration and development expenditure	8,161,099	12,893,768	—	394,500
Investments	—	—	12,883,375	17,330,611
Current assets				
Stock and work in progress	357,719	985,487	—	—
Debtors	120,293	459,912	—	200,228
Prepayments	116,451	64,519	—	58,428
Loans to subsidiaries	—	—	116,451	2,495,058
Cash at bank and in hand	474,059	9,235,179	58,920	9,191,679
	1,068,522	10,745,097	175,371	11,945,393
Creditors: amounts falling due within one year	(1,511,518)	(1,447,705)	(318,814)	(483,492)
Net current (liabilities)/assets	(442,996)	9,297,392	143,443	11,461,901
Total assets less current liabilities	12,091,710	27,849,456	12,739,932	29,190,339
Provision for liabilities falling due after more than one year	(178,660)	(419,992)	—	—
Net assets	11,913,050	27,429,464	12,739,932	29,190,339
Capital and reserves				
Called up share capital	11,249,596	17,974,336	11,249,596	17,974,336
Share premium reserve	1,489,115	11,818,128	1,489,115	11,818,128
Option reserve	—	991,760	—	991,760
Profit and loss account	(825,661)	(3,354,760)	1,221	(1,593,885)
Equity shareholders' funds	11,913,050	27,429,464	12,739,932	29,190,339

These unaudited results do not amount to statutory accounts within the meaning of section 240 of the Companies Act 1985.

Consolidated cash flow statement

for the six months to 31 July 2005

(expressed in US\$)

	Group Incorporation 31 January 2005 (unaudited)	Group Six months to 31 July 2005 (unaudited)
Net cash outflow from operations	(1,238,313)	(2,673,961)
Returns on investment and servicing of finance		
Interest received	2,376	103,556
Interest paid	—	(19,072)
Net cash inflow from returns on investments and servicing of finance	2,376	84,484
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(285,007)	(1,501,953)
Exploration and evaluation expenditure	(2,798,590)	(3,474,197)
Net cash outflow on capital expenditure and financial investment	(3,083,597)	(4,976,150)
Acquisitions and disposals		
Capital and loan investments to subsidiaries	—	—
Cash acquired with subsidiaries	—	—
Net cash outflow on acquisitions and disposals	—	—
Cash outflow before financing	(4,319,534)	(7,565,627)
Financing activities		
Issue of ordinary share capital	4,564,375	17,053,752
Net cash inflow from financing activities	4,564,375	17,053,752
Increase in cash at bank and in hand	244,841	9,488,125

Reconciliation of operating loss to net cash flow from operating activities

for the six months to 31 July 2005

(expressed in US\$)

	Group Incorporation (18 May 2004) to 31 January 2005 (unaudited)	Group Six months to 31 July 2005 (unaudited)
Operating loss	(827,513)	(1,653,168)
Depreciation	34,848	157,459
Increase in stocks	(335,147)	(541,237)
Option costs	—	597,260
Increase in debtors and prepayment	(202,810)	(215,737)
Increase/(decrease) in creditors and accruals	583,436	(31,519)
Foreign exchange	(491,127)	(987,019)
Net cash outflow from operating activities	(1,238,313)	(2,673,961)

Reconciliation of cash to net funds

for the six months to 31 July 2005

(expressed in US\$)

	Group Six months to 31 July 2005 (unaudited)
Cash at bank and in hand at 1 February 2005	474,059
Cash flow	9,488,125
Exchange loss	(727,005)
Cash at bank and in hand at 31 July 2005	9,235,179

Basis of preparation

These accounts represent the first Group accounts prepared by the Company. The Company was incorporated on 18 May 2004 and on 14 July 2004 acquired the whole of the issued capital of Moonlight Express Holdings Limited and its wholly owned subsidiary Serabi Mineração Ltda.

These interim accounts are for the six month period ended 31 July 2005. Comparative information has been provided for the period since the incorporation of the Company to 31 January 2005.

The accounts for the period have been prepared in accordance with the policies which the Group will adopt for its annual accounts, notably:

- (i) the accounts have been prepared on the historical cost basis;
- (ii) the Group capitalises exploration and development costs relating to the license areas that it holds and will amortise these costs over the life of the mine once commercial production has been achieved;
- (iii) stocks are valued at the lower of cost and net realisable value;
- (iv) property, plant and equipment is depreciated over its useful life;
- (v) the Company is currently undertaking mining from an area known as Palito Hill. Given the history of the development of the Palito mine and in particular the ability, unlike many mines, to generate cash flow at a very early stage of mine development through the availability of an existing plant at the site, the Board has considered that the current activities represent development activity rather than commercial production. At this stage, the operations have not reached the targets set by the Board for commercial production and accordingly all mine and plant costs have been capitalised as ongoing development costs. All sales revenue to date has been set off against the development costs;
- (vi) in 2004, the Company generated gold sales from re-treatment of some old tailings. As the reprocessing of this material was not part of the long-term development of the mine this income and its associated costs has been taken directly to the profit and loss account; and
- (vii) revenues are recognised only at the time of sale. Any unsold production and in particular concentrate is held as inventory and valued at production cost until sold.

Corporate directory

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Board of Directors

Graham Roberts – Chairman
Bill Clough – Chief Executive Officer
Clive Line – Finance Director
Richard Robinson – Non-executive Director
Roger Davey – Non-executive Director

Company Secretary

Clive Line

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