



INVESTOR UPDATE

Quarterly Period to 30th June, 2009

HIGHLIGHTS

- ▶ Production of 1,802 ounces of gold for the quarter from surface oxide mining
- ▶ Continued positive operational cash flow for the year to date
- ▶ Potential for the identification and continued mining of oxide gold deposits at Palito – with approval for a US\$250,000 surface oxide drilling programme
- ▶ Continued reduction in overheads
- ▶ Geophysical targets at Palito provide principal focus for future exploration to increase resources



Surface oxide mining operations at Palito

MANAGEMENT REVIEW

The second quarter of 2009 (“Q2”), saw continued positive cash-flow for the Palito Operation. Gold production from surface oxide ore sources continued much as reported in the first quarter of 2009, with 1,802 ounces produced during Q2. For the year to date this means that production has met the costs of the Brazilian operation, a consequence of the previous dramatic reduction in overheads, a continued strong US dollar gold price and a favourable Brazilian Real to US dollar exchange rate over the period.

Considering the continued, albeit very modest success of surface mining and gold production at Palito, the Directors have approved a US \$250,000 surface oxide drilling programme with the objective of testing a series of anomalies, that it is hoped can be readily turned into mineable oxide deposits. Initial results from this programme should be available by the Q3 2009 update.

The surface gold production has been a welcome success for the company, and whilst we have had to take tough decisions in the process of downsizing the company and its immediate aspirations, the resultant cash-flow has avoided the need for distressed asset sales and placed the Company on a better footing to consider a wider range of options for re-building value. That said, it is unlikely the oxide ore sources on their own will be sufficient for us to grow the business and pursue the direction we wish without additional funding and we continue therefore to pursue all strategic options for raising new funds for the Company and/or the projects. These options include the sale or joint venture in whole or part of its mining and exploration assets. The Directors are also continuing to pursue opportunities that might result in an injection of new capital either into the Company or directly into its Brazilian operating subsidiary. In this regard we are working with a selection of North American and UK based groups to identify parties both from within the industry or as strategic partners that are interested in investing in the Company, its projects and its strategy.

As reported in Q1 2009 we pursue a strategy going forward that de-risks the business and are firmly of the view that before underground operations at Palito are fully resumed, the following should be in place:

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 expanding surface mining activities, along with the necessary exploration to support this in order to at least continue to cover costs. This is now in progress with the surface drilling programme mentioned above, which will be funded from cash flow supplemented if required, from current cash holdings.

In the medium term, and conditional on securing further funding, additional underground ore sources are required. The real value in the Serabi’s land-holdings is the hard rock ore sources that undoubtedly underlie the area and from which the oxidized ore is derived that historically the garimpeiros and now Serabi generates production. It was this potential that drew Serabi to the Tapajos in the first place, and this potential has now been enhanced by results of the airborne geophysical survey flown by the Company in early 2008.

Operations in any remote region of the world bring with them a need to independently establish infrastructure and support services. The success of such ventures is the ability to grow production to comfortably meet and exceed such costs. At Palito, the difficulties encountered expanding production meant that this cost could not be spread over sufficient ounces resulting in a high and unsustainable cost per ounce.

To realistically overcome this, a second and third mine in the Palito district is the best option, and the Directors feel the most realistic one. The model is to feed the central process plant, from a selection of small mines. The 18 principal anomalies that were largely identified from the 2008 airborne geophysical survey are therefore a priority. These anomalies exhibit very similar geophysical characteristics to the Palito deposit, and their close proximity to the Palito infrastructure makes them all the more important. We believe testing (through a combination of drilling and further geophysics, and geochemistry) and advancing these targets could be achieved with an initial budget of around US\$1.4M for the first 12 months, followed by a further US\$2.2M over a subsequent 12 month period. It is also believed that oxide ore sources are likely to accompany these targets, and therefore continued low cost surface oxide ore gold production can be additional benefit from such a programme.

As reported last quarter, regionally the Company has suspended its activities. Our outlying tenements are not core assets, and therefore we are pursuing partners with whom to advance these properties.

Graham Roberts
Chairman

Mike Hodgson
CEO

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

OPERATING REVIEW

Since the beginning of the year, limited gold production has continued at Palito through the mining of surface oxide ore. The operation is mining and processing approximately 6,000 tonnes of oxide ore per month.

Key points:

- ▶ Since suspension of underground mining at the end of 2008, surface oxide operations have produced over 37,000 tonnes (200 tonnes per day) at grades of approximately 3.4 g/t gold.
- ▶ Mining has to date been limited to the Senna Zone. Up to 10 other areas are now being evaluated.
- ▶ Plant has capacity to process over 700 tpd of oxide ore
- ▶ Considering current gold prices and exchange rates, at a 200-250 tpd production rate, operating cut off grades are between 2.2-2.5 g/t gold.

The oxide ore is mostly free-dig and therefore does not require drilling and blasting. As a result, very little ore requires crushing. The feed only requires treatment through the existing CIP plant and as a result, the flotation circuit is currently idle.

As reported last quarter, the dramatic reduction in overheads has resulted in gold production from oxides being able to more than meet the costs of the Brazilian operation year-to-date. The modest operating cash surplus has been used for paying down residual payables from 2008 and also to pursue limited oxide exploration. More importantly, the success to date has been sufficiently encouraging for the Directors to approve a US \$250,000 surface oxide drilling programme with the objective of testing a series of known soil anomalies, which it is hoped can be readily turned into mineable oxide deposits in the near term. Initial results from this programme should be available by the Q3 2009 update.

Conditional upon the success of this oxide drilling programme, it is our intention to continue to identify additional minable 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 adequate capacity is available to meet any increase in mining volumes. The drilling rig required for this type of evaluation drilling is expected to be on site by early August and will be operated by an independent contractor experienced in this type of exploration activity.

The Palito underground mine has been on care and maintenance since January 2009, but remains in a condition whereby mining

operations could re-commence at relatively short notice. Any re-establishment of underground mining at Palito to levels of production similar to those originally targeted for 2008, would require a phase of long-term development (up to 12 months), bringing with it a substantial working capital requirement. However, in the light of experience of the past 3 years, the Directors are firmly of the opinion, that the re-introduction of selective manual mining at Palito is necessary, and even this would require a significant working capital outlay and require identification and recruitment of suitable mining personnel. Selective mining whilst yielding lower ore volumes would produce a higher grade ore feed to the plant and thus be expected to produce lower cost ounces and improved and more robust economics. The unavoidable higher fixed costs of operating in a remote location mean that to achieve sustainable profitable ounces with healthy margins, an increase in geological resource and mineable reserves are also required.

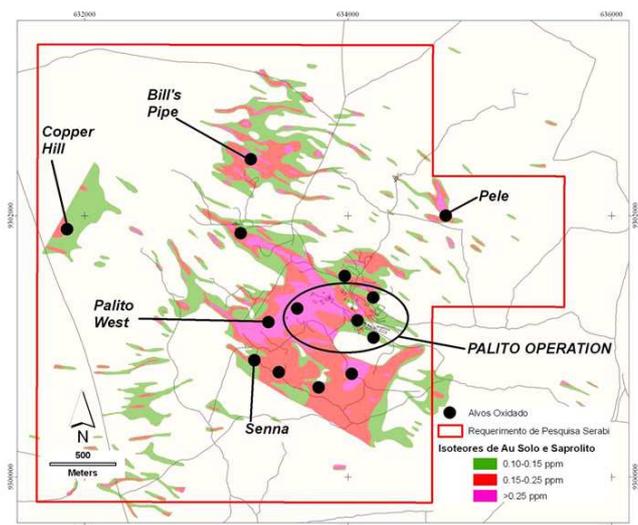
EXPLORATION REVIEW

Since the beginning of the year, exploration activity has been largely suspended with the exception of exploration activity designed to delineate oxide resource amenable to surface mining. As mentioned earlier, the board has now approved a US\$250,000 surface oxide drilling programme, which will focus on a combination of targets which include geochemical, geophysical and historical indications of further oxide ore potential.

Key points:

- ▶ 10 target areas located within the mine operating license area
- ▶ Targets have been defined by anomalous gold in soil geochemistry, trenching and shallow drilling results
- ▶ Further evaluation will be by power auger and shallow percussion drilling and follow up trenching
- ▶ 50,000 tonnes at more than 2 g/t gold oxide ore is targeted

Regionally, the Company has suspended its activities. Our outlying tenements are not core assets, and therefore we are pursuing partners with whom to advance these properties.



Oxide ore targets for current programme

Palito – Operating Results ⁽¹⁾					
		2009			2008
		Q1	Q2	YTD	YTD
Milled	t	17,580	19,151	36,731	66,506
(per day)		(197)	(210)	(203)	(365)
Head Grade ⁽²⁾	g/t	3.78	3.09	3.42	4.82
Recovery	%	92.3	94.7	93.6	89.0
Gold ⁽³⁾	oz	1,973	1,802	3,775	10,738

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

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