



interim report 2006



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Corporate Statement

Serabi Mining plc is a gold mining and exploration company currently focused on the Tapajos geological province of northern Brazil. The Tapajos region is a major, under-explored mineral province from which artisanal miners (“Garimpeiros”) are thought to have extracted some 30 million ounces of gold, mostly from alluvial and weathered bedrock deposits since the early 1970’s.

The Company has established the first significant hard-rock mining operation in the region at the 100% owned Palito Gold Mine. In addition, Serabi has amassed a sizeable land position in the Tapajos where advanced exploration and drilling is currently underway.

Serabi’s goal is to become a low-cost, long-life, multi-mine producer, using the experience at Palito as the guide for further mining developments.

Highlights

- Year-to-date production increases to 17,742 ounces gold equivalent from 6,009 ounces in 2005, with successive quarterly improvements of 43% and 24% for the first two quarters of 2006
- Commercial production imminent at the Palito Gold Mine
- Completion of decline access and increased mechanisation at Palito leading to much improved mining rates
- Introduction of grid electricity supply to Palito results in a significant reduction of energy costs
- 74% year-on-year increase in total resources at Palito to 825,900 ounces gold equivalent
- Successful capital raising of US\$4.3 million to finance further productivity enhancing initiatives at Palito and acceleration of the exploration programme

Report of the Chairman and Chief Executive

The first six months of 2006 have seen a number of important milestones in the development of Serabi.

A key focus has been to bring the Palito Mine into a state of sustainable commercial production and to this end we have now:

- completed a decline ramp which will provide long-term access to ore located at depth;
- introduced long-hole stoping operations to improve mining productivity;
- connected to the grid electricity system, creating significant reductions in power supply costs;
- expanded and enhanced the crushing and milling circuits to improve throughput, reliability and plant availability;
- completed expansion of in-house laboratory and geological facilities; and
- commissioned two underground drilling rigs to improve ore definition and mining efficiency.

A substantial 74% increase in the Palito mineral resource to 825,900 ounces gold equivalent was announced earlier in the year providing a strong foundation for future mine development. Meanwhile, we have been expanding exploration following the acquisition of two additional surface drill rigs and have now started to deploy some of this capacity on projects outside the Palito Mine, at Jardim do Ouro and elsewhere in the Tapajos region.

Financial results

The Group has reported an unaudited loss for the six months ending 30 June 2006 of US\$1.71 million. This loss is after accounting for the amortisation of option awards in accordance with the provisions of IFRS 20 and also reflects a depreciation charge on plant and equipment of \$572,000 for the period. Net assets have increased by US\$4.9 million to US\$31.6 million during the period. This increase reflects, in part, the fund raising which the Company undertook at the end of March 2006, which raised net proceeds of US\$4.3 million, through the issue of 6.5 million shares with a number of institutions, at a price of 40p per share. Cash balances at the end of the period were US\$4.0 million with a further US\$1.35 million outstanding for deliveries of copper/gold concentrate made prior to the period end.

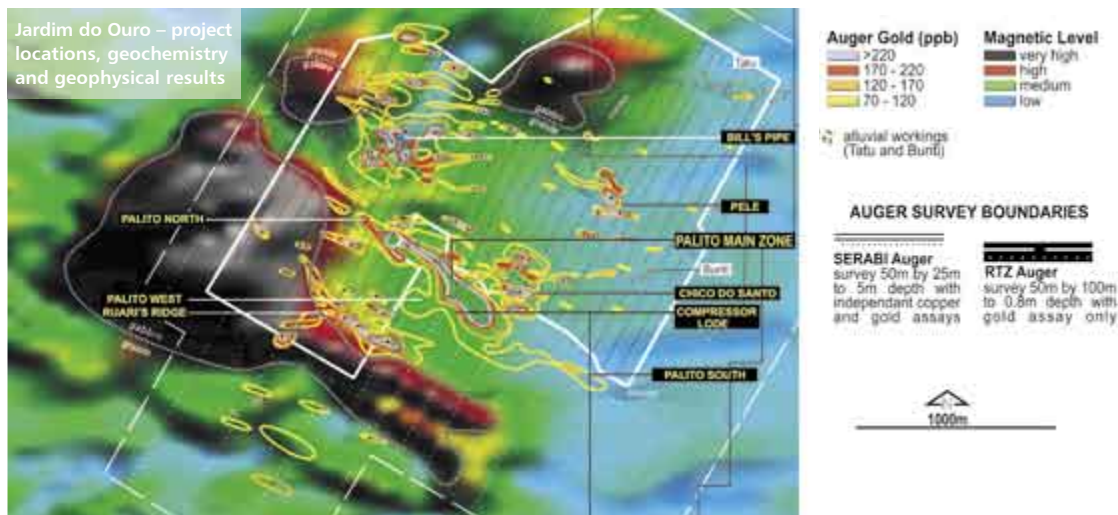
During the reporting period management decided to implement several optimisation projects with a total investment of up to US\$3.0 million identified. Furthermore, opportunities identified for the acceleration of the exploration programme could result in an increase to the budget of up to US\$3.0 million.

At the time of the Company's listing in 2005 the Board, in conjunction with its advisers, established a set of operating and financial targets for the Palito Mine that should be attained in order to reach a point of long-term, sustainable and commercially viable production, thus marking an important and pivotal moment for the future of the operation. Up until now the Board has considered the mine to be operating in a development phase, with significant additional capital investment required to achieve economic sustainability. As a consequence, during this time

Palito – operating results ⁽¹⁾

		2006 Q1	2006 Q2	2006 H1	2005 H1
Mined	t	31,555	34,055	65,610	21,442
Per day		351	374	362	118
Milled	t	25,514	29,851	55,365	22,228
Per day		283	328	306	123
Head-grade	g/t	9.3	9.7	9.5	8.9
Recovery	%	91.9	91.3	91.6	86.7
Gold	oz	7,017	8,527	15,544	5,504
Copper	t	98.0	107.1	205.1	60.6
Gold equivalent ⁽²⁾	oz	7,927	9,815	17,742	6,009

⁽¹⁾ Provisional ⁽²⁾ Includes copper and silver



all mine related costs and revenues generated have been capitalised. As a result of the investment in grid electricity, the decline, new mining equipment and the process plant, management considers that the targets established in May 2005 are now close to being met. As soon as the set criteria are achieved commercial production will be declared and from that point all mine related costs and revenues will be reported through the profit and loss account.

Operations

Development of Palito over the last six months has continued at a rapid pace as borne out by the production results.

Initial decline access to mineralisation at Palito was completed by the contractors at the end of February, on time and on budget. Development of the decline forms the basis for long-term exploitation of the Palito Main Zone mineralisation at depth. This first phase gives access for mechanised equipment at two underground levels of 210 mRL and 192 mRL, directly beneath the 'Palito Hill', which has to date been a significant source of ore at the higher levels. Prior to this development, access to the 200 mRL was via a small shaft, located to the south east of the decline portal. We will in the future continue the decline development on an incremental basis in order to access mineralisation at deeper levels.

In some areas of the Palito Main Zone, core drilling has identified good mineralised intersections to a depth of up to 200 metres beneath the current limits of the decline. The ore body remains open in all directions and for reasons that are discussed later, we are confident the resource base can continue to be expanded further over time.

Benefiting from commissioning of the decline and introduction of mechanisation, mining production rates have continued to increase significantly and we anticipate a successful second half performance, with a noticeable pick-up in the fourth quarter as milling rates also improve. Some increase of ore dilution is expected to accompany the higher mining output, leading to a lower run-of-mine grade. This reflects the increasing proportion of ore from new development drives accessed from the decline, which are required in order to establish eventually, the mining of high-grade ore from the long-hole stopes. A significant investment since February 2006 has been in the preparation of these mining stopes from the development drives. The first production from this higher grade, long-hole stope ore is expected to commence soon.

For the future, rather than directly processing mined material from lower grade development drives with high grade ores, we plan to introduce a beneficiation, upgrade circuit. We can then blend this upgraded material with the main ore and maintain high head-grades to the main mill feed, prior to it entering the primary flotation and CIP extraction processes. Thus by lowering the total mass and keeping the head-grade up we negate the requirement to expand this major part of the process plant. Testwork to date with lower-grade ore indicates that the gold can be concentrated with a relatively simple gravimetric process following only coarse milling, without an excessive loss of gold. Further testwork is ongoing to determine the optimum process route and in the meantime, mining will be carefully directed in order to deliver the best available grade to the plant.

Report of the Chairman and Chief Executive continued

Operations continued

Towards the end of 2005, process capacity was expanded with the addition of a third ball mill, in order to achieve sustainable daily capacity of at least 350 tonnes. However, as the mill capacity has been impacted by unscheduled downtime and mining volumes regularly exceed 400 tonnes per day, a fourth larger mill is now being sourced. The introduction of such a mill would also allow redeployment of existing mills for use in the planned beneficiation circuit.

Amongst a number of important capital projects, the introduction of grid electricity earlier in the year is noteworthy, providing a long-term cost saving of around \$20 per ounce, compared with the previous diesel generated power costs. Initial problems with lightning strikes causing outages, which we experienced at the end of the wet season up to April, have now been addressed.

Exploration

At the beginning of 2006 Serabi reported a major increase in the Palito Mine resource from 416,000 ounces to 734,000 ounces gold or 825,900 ounces gold equivalent (including copper-gold equivalent). The JORC resource classification also increased the proportion of ore classified as indicated resources from being only 12% in 2005 to 90% in 2006. The remaining 10% of ore remains in the inferred category. Mineralisation on the Palito Main Zone remains open along strike, at depth and also across strike. Important features of the new resource are the increase in the number of veins identified from 20 to 54 and a 50% increase in gold per vertical metre through the main section of the resource, both with potentially significant positive economic implications for the Palito operation.

As most drill holes are orientated at an angle, in order to test the depth of the mineralisation of the Palito Main Zone it is necessary to 'step back' from the zone in order to obtain deeper intersections. In doing so additional parallel veins have also been intersected. Such structures had already been identified at places such as Palito West, which lies 200 metres to the south west of the Main Zone, and the Chico do Santo area, some 300 metres to the north east. Whilst further work is required, these results indicate the possibility that a series of mineralised veins could extend between the Palito West and Chico do Santo areas, encompassing those already identified within the Palito Main Zone.

The new resource also showed a close correlation between the number of drill-hole intersections and the gold per vertical metre. The resource identified to date is mainly concentrated above the 150 mRL level and its distribution at each level correlates closely with the density of drilling undertaken so far. Such a result suggests that as further drilling is undertaken at depth the resource should continue to grow proportionately.

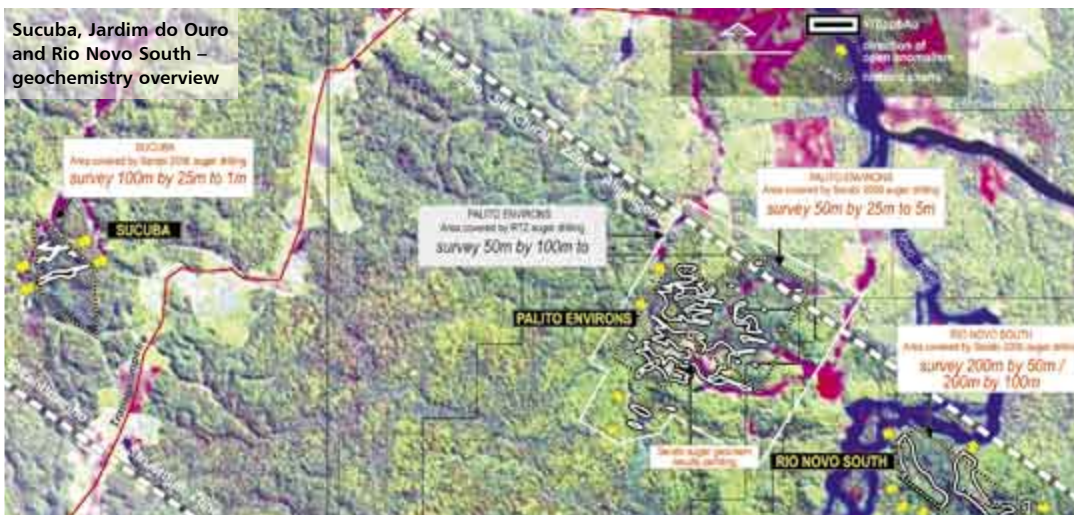
The drill programme for 2005 resulted in some 18,000 metres being completed on the Palito Main Zone. This productivity was greatly enhanced by a programme of close-spaced, shallow drilling that was undertaken towards the end of the year and is unlikely to be repeated this year. During the first eight months of 2006 we have completed a total of 7,600 metres of drilling on the Palito Main zone itself, and a further 6,000 metres at satellite areas around Palito and on Serabi's other tenements.

During the earlier part of 2006 we have improved and expanded our exploration facilities with the acquisition and commissioning of additional drilling rigs and the expansion of our 'in-house' preparation and laboratory facilities.

The exploration programme outside the work being undertaken on the Palito Main Zone is focused on two strategic goals in order to provide short/medium and longer term growth potential. Correspondingly the approach to this programme is divided into two areas:

1. Jardim do Ouro – the district immediately adjacent to the Palito Mine where there is a number of advanced projects with good resource potential which could become satellite deposits feeding the Palito operation.
2. The Tapajos – the wider region in which Palito is situated has historically hosted extensive artisanal gold production from alluvial and weathered bedrock sources and has potential for large tonnage, low-grade style deposits as well as further Palito style, high-grade gold mineralisation.

Within the Jardim do Ouro region we have been undertaking extensive geochemistry and surveying of existing and new targets, assessing various garimpeiro workings and commenced preliminary drilling programmes on Bill's Pipe, Ruari's Ridge, Copper Hill and Rio Novo South.



Rio Novo South, which lies 5 km south of Palito, is an area of old garimpeiro workings where sampling has confirmed the presence of extensive gold mineralisation. A follow-up geochemical survey has now identified widespread gold and copper values at two locations, which remain open and are now being investigated further. A preliminary drill programme will commence shortly.

Preliminary drilling at Bill's Pipe has encountered high-grade gold mineralisation on several structures near the surface, where infill drilling is now being planned. At Ruari's Ridge the first drill hole encountered massive sulphides at depth, returning encouraging gold and high-grade copper assay results. The ongoing programme will continue to test the strike and depth extension of this strong gold geochemical and electromagnetic anomaly.

Within the wider Tapajos region geochemistry and initial drilling has identified mineralisation at the Sucuba project area, located approximately 10 km west of Palito. The drilling undertaken has confirmed the occurrence of a poly-metallic structure that will now be further evaluated along strike and at depth.

Meanwhile at the Pombo project situated in Mato Grosso state, drilling has been undertaken along the main west-east structure, with results confirming extensive gold-copper mineralisation across the central section, which includes values of 16.41 metres at 2.28g/t gold and 0.174% copper, including 9.95 metres at 3.5 g/t gold and 0.23% copper. Drilling has moved west and east of the central mineralised section, where initial holes completed some 100–150 metres along strike indicate continuing strong alteration with associated sulphide mineralisation.

Further information on the exploration programme is contained in the update release of 13 September 2006.

Meanwhile, Serabi continues to review other opportunities in Brazil. It remains our goal to build up the production capability of Serabi through the identification, evaluation and development of areas that have a history of gold mining, with appropriate infrastructure, enabling them to be brought into production for an attractive capital outlay.

People

As a final comment none of the Company's achievements this year would have been possible without the support of our staff. They have shown great loyalty and commitment to ensuring that the Company achieves the goals which your Board has set. Our thanks and gratitude continues to be extended to all of them.

Graham Roberts
Chairman
26 September 2006

Bill Clough
Chief Executive

Profit and Loss Account

for the six months to 30 June 2006

(expressed in US\$)

	Group		
	Six months to 30 June 2006 (unaudited)	Six months to 31 July 2005 (unaudited)	Three months to 31 December 2005 (audited)
Administration expenses	(1,320,150)	(792,791)	(621,422)
Share-based payment costs	(331,338)	(597,260)	(422,298)
Write-off of exploration and development cost	—	(43,051)	—
Depreciation (plant and equipment)	(572,364)	(157,459)	(339,552)
Loss on ordinary activities before interest and other income	(2,223,852)	(1,590,561)	(1,383,272)
Foreign exchange gain/(loss)	582,390	(789,612)	(35,703)
Interest payable	(116,992)	(19,072)	(69,929)
Interest receivable	48,531	103,556	21,044
Loss on ordinary activities before taxation	(1,709,923)	(2,295,689)	(1,467,860)
Taxation	—	—	—
Loss on ordinary activities after taxation	(1,709,923)	(2,295,689)	(1,467,860)
Earnings per ordinary share (basic and diluted)	(1.61c)	(2.62c)	(1.42c)

Statement of Total Recognised Gains and Losses

for the six months to 30 June 2006

(expressed in US\$)

	Group		
	Six months to 30 June 2006 (unaudited) US\$	Six months to 31 July 2005 (unaudited) US\$	Three months to 31 December 2005 (audited) US\$
Loss for the period	(1,709,923)	(2,295,689)	(1,467,860)
Exchange gain/(loss) on foreign currency net investment	1,521,633	(233,410)	(175,330)
Total recognised loss for the period	(188,290)	(2,529,099)	(1,643,190)

Balance Sheet

as at 30 June 2006

(expressed in US\$)

	Notes	Group	
		As at 30 June 2006 (unaudited)	As at 31 December 2005 (audited)
Fixed assets			
Intangible assets			
Goodwill on acquisition		1,752,516	1,752,516
Tangible assets			
Property, plant and equipment	4	6,367,766	5,375,621
Capitalised exploration and development expenditure	5	17,569,792	15,831,875
Investments		—	—
Current assets			
Stock and work in progress	3	2,754,891	1,825,479
Debtors due within one year		3,124,395	2,818,551
Cash at bank and in hand		3,973,212	2,152,452
		9,852,498	6,796,482
Creditors: amounts falling due within one year		(3,326,254)	(2,451,537)
Net current assets		6,526,244	4,344,945
Total assets less current liabilities		32,216,318	27,304,957
Creditors: amounts falling due after more than one year		(210,846)	(244,724)
Provision for liabilities and charges		(448,121)	(428,944)
Net assets		31,557,351	26,631,289
Capital and reserves			
Called up share capital	6	19,170,496	17,974,336
Share premium reserve	6	15,045,251	11,818,128
Share-based payment reserve		3,381,121	2,690,052
Profit and loss account		(6,039,517)	(5,851,227)
Equity shareholders' funds		31,557,351	26,631,289

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

The statutory accounts for the three months ended 31 December 2005 have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985.

Consolidated Cash Flow Statement

for the six months to 30 June 2006

(expressed in US\$)

	Group		
	Six months to 30 June 2006 (unaudited)	Six months to 31 July 2005 (unaudited)	Three months to 31 December 2005 (audited)
Net cash inflow/(outflow) from operations	157,177	(2,673,961)	(2,725,970)
Returns on investment and servicing of finance			
Interest received	48,531	103,556	21,044
Interest paid	(116,992)	(19,072)	(69,929)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(68,461)	84,484	(48,885)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(1,564,509)	(1,501,953)	(1,627,113)
Exploration and evaluation expenditure	(1,378,186)	(3,474,197)	(967,746)
Net cash outflow on capital expenditure and financial investment	(2,942,695)	(4,976,150)	(2,594,859)
Cash outflow before financing	(2,853,979)	(7,565,627)	(5,369,714)
Financing activities			
Issue of ordinary share capital	4,423,283	17,053,752	—
Net cash inflow from financing activities	4,423,283	17,053,752	—
Increase in cash at bank and in hand	1,569,304	9,488,125	(5,369,714)

Reconciliation of Operating Loss to Net Cash Flow from Operating Activities

for the six months to 30 June 2006

(expressed in US\$)

	Group		
	Six months to 30 June 2006 (unaudited)	Six months to 31 July 2005 (unaudited)	Three months to 31 December 2005 (audited)
Operating loss	(2,223,852)	(1,590,561)	(1,383,272)
Depreciation	572,364	157,459	339,522
Increase in stocks	(753,002)	(541,237)	(1,003,810)
Share-based payment costs	331,338	597,260	422,298
Increase in debtors and prepayment	(518,212)	(215,737)	(1,754,743)
Increase/(decrease) in creditors and accruals	770,837	(31,519)	709,714
Foreign exchange	1,977,704	(1,049,626)	(55,679)
Net cash inflow/(outflow) from operating activities	157,177	(2,673,961)	(2,725,970)

Reconciliation of Cash to Net Funds

for the six months to 30 June 2006

(expressed in US\$)

	Group		
	Six months to 30 June 2006 (unaudited)	Six months to 31 July 2005 (unaudited)	Three months to 31 December 2005 (audited)
Cash at bank and in hand beginning of period	2,152,452	474,059	7,557,138
Cash flow	1,569,304	9,488,125	(5,369,714)
Exchange gain/(loss)	251,456	(727,005)	(34,972)
Cash at bank and in hand at end of period	3,973,212	9,235,179	2,152,452

Notes to Interim Financial Statements

1. Basis of preparation

These interim accounts are for the six month period ended 30 June 2006. Comparative information has been provided for the unaudited six month period to 31 July 2005 and the audited three month period from 1 October to 31 December 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 each of the licence areas that it holds and will amortise these costs over the life of any mine that is developed 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) 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.

2. Taxation

The Group as a whole has been in a loss making situation up to balance sheet date and consequently has made no provision for any income tax charge. No deferred tax asset arising from carried forward losses has been recognised in the financial statements because of uncertainty as to the time period over which this asset may be recovered.

3. Stocks

	30 June 2006 (unaudited)	31 December 2005 (audited)
Bullion and work in progress	1,029,596	424,950
Consumables	1,725,295	1,400,529
	2,754,891	1,825,479

4. Property, plant and equipment

	30 June 2006 (unaudited)	31 December 2005 (audited)
Cost		
Balance at beginning of period	6,042,815	4,415,702
Additions	1,564,509	1,627,113
Disposals	—	—
Balance at end of period	7,607,324	6,042,815
Depreciation		
Balance at beginning of period	(667,194)	(327,672)
Charge for period	(572,364)	(339,522)
Balance at end of period	(1,239,558)	(667,194)
Net book value	6,367,766	5,375,621

5. Exploration and development costs

	30 June 2006 (unaudited)	31 December 2005 (audited)
Balance at beginning of period	15,831,875	14,609,905
Net additions	1,737,917	1,221,970
Write down for impairment	—	—
Balance at end of period	17,569,792	15,831,875

Notes to Interim Financial Statements continued

6. Share capital

	30 June 2006 (unaudited) Number	30 June 2006 (unaudited) \$	31 December 2005 (audited) Number	31 December 2005 (audited) \$
Called up capital				
Balance at beginning of period	102,991,636	17,974,336	102,991,636	17,974,336
Issue of shares	6,500,000	1,134,055	—	—
Conversion of employee share options	343,306	62,105	—	—
Balance at end of period	109,834,942	19,170,496	102,991,636	17,974,336
Share premium reserve				
			30 June 2006 (unaudited) \$	31 December 2005 (audited) \$
Balance at beginning of period			11,818,128	11,818,128
Issue of shares			3,402,165	—
Conversion of employee share options			78,980	—
Share issue expenses			(254,022)	—
Balance at end of period			15,045,251	11,818,128

Serabi Mining plc

Cleary Court, 21–23 St Swithins Lane
London EC4N 8AD

Tel: +44 (0)20 7220 9550

Fax: +44 (0)20 7220 9555

Email: contact@serabimining.com

Web: www.serabimining.com

Serabi Mineração Ltda

Av Antonio de Pádua Gomes, no. 737

Jardim das Araras, Cidade Itaituba

CEP 68180–120 Pará

Brazil

Tel: +55 93 3518 1006

Fax: +55 93 3518 0353

Company number

5131528

Board of Directors

Graham Roberts – Chairman

Bill Clough – Chief Executive

Clive Line – Finance Director

Richard Robinson – Non-executive Director

Roger Davey – Non-executive Director

Company Secretary

Clive Line

Nominated adviser and broker

Numis Securities Limited

Cheapside House

138 Cheapside

London EC2V 6LH

Auditors

PKF (UK) LLP

20 Farringdon Road

London EC1M 3AP

Solicitors

Farrer & Co

66 Lincoln's Inn Fields

London WC2A 3LH

Registrars

Computershare Investor Services plc

PO Box 82, The Pavilions

Bridgwater Road

Bristol BS99 7NH



Serabi Mining plc
Cleary Court, 21–23 St Swithins Lane
London EC4N 8AD
Tel: +44 (0)20 7220 9550
Fax: +44 (0)20 7220 9555
Email: contact@serabimining.com
Web: www.serabimining.com
