

Strategic Report

Chairman's Statement

2014 has been an exciting and successful year for Serabi and has laid a strong foundation which the Company will continue to build on. The Palito mine and process plant are now fully operational and during the second quarter of 2015 we expect to start processing ore from our second mine at Sao Chico. The Board originally announced its plan to bring the Palito Mine into production in June 2012 and, less than three years later, we will, during 2015, have two mines in operation. It is very rewarding to be a part of a junior mining company that continues to deliver on its plans.

The Palito Mine is operating smoothly and is now consistently producing the tonnages and grades that were projected in the Preliminary Economic Assessment issued back in 2012. Following completion and commissioning of the Carbon-in-Pulp circuit at the end of the third quarter of 2014, the gold recoveries are also now reaching the forecast levels. With Palito settling into a steady routine, we are now switching our attention to the successful development of Sao Chico.

All of the initial indications for Sao Chico are highly encouraging both in the short and longer term. The first intersection of the Main Vein from the mine development, in January 2015, yielded a result of 3.6 metres with a gold grade of over 40 g/t. With more than 70 metres of development now completed to the east and west of this initial intersection we are seeing excellent continuity of the mineralised structures all of which is highly encouraging. This development ore is being stockpiled and will shortly start being transported to Palito for processing. The short term production outlook is therefore very positive. A new drill programme has also just started at Sao Chico and with the discovery of additional veins during the development of the mine portal, the long term potential for Sao Chico and further resource growth is excellent.

Whilst we anticipate that Sao Chico will still be in development for much of 2015, combined gold production from Palito and Sao Chico for the year will almost double from the 2014 production level of 18,452 ounces with a full year 2015 production target of 35,000 ounces. We also expect further growth in 2016 when Sao Chico is in production for a full twelve month period. It is important to note that we are anticipating our All-In Sustaining Costs for 2015 to be below US\$950 and with increased production levels anticipated for 2016, we would hope that this will allow the Company to reduce this cost statistic further in 2016.

Whilst the gold price has traded between US\$1,145 and US\$1,380 over the last 15 months, over that same period

the Brazilian Real has fallen in value from around Br\$2.35 to US\$1.00 to recent levels in the range of Br\$3.20 to US\$1.00, a 26% decline. Our base case economics in 2012 were predicated on a gold price of US\$1,400 per ounce equivalent at that time to around Br\$2,800 per ounce. The declining value of the Real has however insulated Serabi's operations against the fall in gold price by bringing down the effective operating costs. We estimate that some 80% of our operational costs are denominated in Brazilian Reals. Whilst the current exchange rate is at a 10 year low, it would appear that the economic woes that have driven this decline in the Real are unlikely to be reversed quickly. Inflation is at 6.5%, local interest rates have recently risen to 12.75% and unemployment rates, which had long been falling, had been a driver in wage growth particularly in the state sponsored public sector and been below 5% for much of 2014, increased in January 2015 to 5.4%. Austerity measures are being introduced and with the economy expected to contract in 2015, it seems likely that the Real will remain weak in the near to medium term.

Compared with many of our peers in Brazil we are now in the fortunate position of generating income and, with much of the capital requirements for Sao Chico being incurred in the first half of 2015, we are expecting to be producing positive cash flow which will allow us to retire our current debt arrangements and start to look for new growth opportunities both organically and potentially through acquisition. We are indebted to our major shareholder, Fratelli Investments, for the strong support that they continue to provide and I am confident that their faith will be rewarded.

Finally I would like to say a huge thank you to all our staff for their continued commitment and diligence. With so many stories of problems arising from cost over-runs, poor management or failure to grasp technical issues, we are fortunate to have assembled a team that has successfully delivered at Palito and I am confident they will deliver the Sao Chico Mine on time and within budget. On behalf of the Board and the Company's shareholders I take this opportunity to express my gratitude to all our staff for their hard work over the past year.

I look forward to a successful and rewarding 2015.

T Sean Harvey
Chairman
30 March 2015