

October 2013

Chairman's Letter to Cervantes Shareholders

Dear Shareholder

Whilst 2012 and 2013 may not be great years to remember for junior companies, or indeed the global markets as a whole, we believe 2014 will be a more promising year for the markets and in particular Cervantes shareholders.

We have assessed numerous ventures in the seafood and aquaculture industries over the years, and found most to be either excessively risky and or overpriced for acquisition or merger, proven by the failure of a number of projects in that sector since.

Our involvement in gold tailings processing ventures over the last 4 years has been to date unsuccessful, and the current venture was halted as a result of a dispute with the owner of the licences. Subsequently, Cervantes lodged a caveat over the licences until the dispute is resolved to protect shareholders' interests. In addition, the gold price slumped and substantially reduced interest in the sector, forcing the public company that approached Cervantes with the intent of incorporating the tailings in a new processing plant in the near vicinity, to also delay their activities for now. Cervantes continues to maintain contact with the public company for when market conditions generally turn more positive. If gold returns to higher prices, no doubt these discussions and disputes will make their way back to being priorities.

Cervantes underlying current assets have also been severely devalued via "fair value adjustment" accounting rules, creating substantial losses in the trading account as a result of the global market meltdown of stocks, and specifically in the junior sector. We expect this portfolio of assets, which the board has considerable faith in, to return to their previous highs as institutional and retail confidence returns to the markets both in Australia and globally in 2014. Specifically we expect our stocks held to attract attention in 2014, allowing the accounts to be re-valued, and profits booked in 2014, as well as increasing the cash available to Cervantes to consider other opportunities it is assessing.

During the 2012/2013 period Cervantes was offered the opportunity to participate in an iron sands (Titano Magnetite), project in the Philippines, contained within an unrelated, unlisted, public company which was in a financially distressed situation. The board believed the assets held were very prospective, but the short time frame of the opportunity and our listing rules prevented us from pursuing it at that time. The board introduced that opportunity to Baraka Energy & Resources Ltd, whose balance sheet and cash resources allowed it to provide the short time frame assistance the distressed company and its contained assets required. This has proven to be a successful decision as the potentially valuable permits that were under threat of forfeiture have since been renewed.

Cervantes was however, granted the right to receive an introduction fee , a reward, and or the right to back into the project as previously announced for the introduction, subject to the project's success, and reaching agreed milestones in the future. Whilst this venture has run into



some disputes and difficulties with the board of the unlisted company and a previous transaction, the board of Baraka believe these can in due course be resolved.

Whilst the investment method Baraka arranged, is advantageously via a secured, interest bearing, profit sharing loan agreement, the permits have had minimal, real, in ground exploration work carried out on them. The recent appointment to the Board of the Philippine company by the Chairman allows Baraka and Cervantes to have greater oversight of future exploration work, and ensure more transparency as to whether the actual permits stand up to the previously stated potential. The entry via a secured loan and profit sharing agreement would certainly be attractive to Cervantes shareholders if possible, and would allow a minimum risk capital involvement, to be progressively employed if the permits prove to be as valuable as claimed by the company holding the permits.

A recently noted saying that I thought reflected the current iron sands venture, and other ventures Cervantes have been involved in, and reflected on when we are assessing opportunities for future participation is: **“We are continually faced by Great Opportunities ---- disguised brilliantly as insoluble Problems”**. Our shareholders will recall that as a result of Cervantes, and their shareholders support and assistance, Baraka Energy & Resources Ltd was saved from suspension and receivership in 2009, and has since provided Cervantes and Cervantes shareholders with substantial profits as a result of the priority rights provided to shares in Baraka’s relisting, if they took up their entitlement at the time.

In the event we are able to obtain ASX approval in due course to pursue this venture, subject to the conditions imposed, and the venture gaining the status we require, we will be able to dispose of the current assets, including the lobster pots and take advantage of this opportunity. If not, we may still be able to acquire a healthy income and or profit from the introduction to Baraka and pursue alternative opportunities.

Your Company continues to be one of the least expensive run companies on the ASX with minimal directors, fees totalling some combined \$72,000 per annum, and the entire administration of the company costing less than a junior administrator of \$60,000 per annum. This will continue until the Directors and management are able to be adequately rewarded for their time, and for the ever increasing liabilities, and responsibilities attached to being directors of a public company.

If you would like to be placed on the mailing list of Cervantes for future ASX announcements and communications please call or email our office with your name and email address, or refer to our Website www.cervantescorp.com.au.

Yours faithfully



Collin Vost
Chairman

