



9 February 2016

Letter to Shareholders – Company Update

Dear Shareholder

Metallum Limited (ACN 149 230 811) (**Company**) wishes to provide the following further information and clarification to shareholders (**Shareholders**) in relation to the Company's planned recapitalisation activities, the subject of the upcoming general meeting of Shareholders to be held on 26 February 2016 (**General Meeting**).

Sale of Chilean Assets

As you will be aware, the Company is proposing to divest its Chilean assets. In September 2015, as a consequence of the falling copper price, the Company was forced to suspend its operations in Chile and put its Chilean assets onto care and maintenance. With consideration given to the outstanding liabilities and constraints on access to capital, the Company was compelled to investigate the sale of the associated assets in light of the costs that continue to accrue.

The Company's Directors at the time decided to quarantine the Company from existing and future liabilities by underwriting the sale of the Chilean assets, prior to putting them on the market for sale with independent firms appointed to manage the sales process. Given the Company did not receive any formal offers during the process, the Company prepared the paperwork to seek Shareholder approval for the sale to the relevant related parties. At the time, a significant option payment was payable on a large part of the land holding, which the Company was unable to fund and consequently that ground has been relinquished as any further expenditure was not deemed to be value accretive in the current market environment.

Whilst the original offer period has now passed, I am one of the proposed buyers and I, with my colleagues, would welcome any other buyers who may wish to offer a superior bid for the remaining Chilean assets.

Our offer is to take assignment of the existing and ongoing liabilities which were recorded as approximately \$394,000 in the Independent Expert's Report, which was included in the Company's Notice of General Meeting dated 28 January 2016, and to pay \$1.

Any person wishing to make an offer for the assets should contact the Company's solicitors, contact details for whom are set out below.

If the resolutions relating to the sale of the Chilean assets are rejected by Shareholders, those significant liabilities and ongoing commitments will remain with the Company. I do note that Stanton's International Securities Pty Ltd was commissioned as an Independent Expert to consider the resolutions and has concluded that the sale terms are *fair and*

reasonable to unrelated Shareholders.

Capital Raising

Shortly, the Company will lodge a prospectus to raise \$2,000,000 (before costs).

The original intention was to offer this capital raising as a rights issue to existing Shareholders but due to regulatory restrictions this was not possible. Consequently, to ensure due consideration is given to our loyal Shareholders, the offer is structured as a placement with a priority treatment of existing Shareholders whereby the Board and the underwriter, Merchant Corporate Finance Pty Ltd (**Underwriter**), shall give priority to existing Shareholders over other applicants.

Under this structure, Shareholders that view the offer as generous will be able to participate as a priority. If Shareholders do not wish to participate, the Underwriter will subscribe for any unallocated securities to effectively guarantee the Company sufficient means to survive and embark on its next chapter.

Shareholders who wish to participate should complete the application form accompanying the prospectus and send it by post to the Company at Suite 5, 62 Ord Street, West Perth WA 6005, by fax on 08 9322 5230 or by email to sarah@evolutioncapital.com.au.

Consolidation

The Company has received queries from investors around the proposed consolidation of its issued share capital. The proposed consolidation is for the conversion of every four hundred (400) existing shares in the Company into one share. We note that all of the shares issued under the proposed capital raising and referred to in the Notice of General Meeting are on a pre-consolidation basis.

We acknowledge concerns expressed by some Shareholders in relation to the scale of the consolidation, but we maintain our belief that this is the most responsible course of action. As a consequence of the falling commodities prices, generally negative sentiment towards small cap resource companies such as ours, and the impact that has had on our operations, the Company now holds a negative net asset position. As it stands, the trade and other creditors of the Company exceeds our existing cash balances and as a consequence neither the Company itself nor its individual shares, can support a large valuation.

It is this unfortunate reality that means the Company must access additional capital to meet its liabilities and fund future activities. In the context of the tight capital markets we are currently operating in, any capital raising needs to be structured around an appropriate valuation to attract investment.

Issues to creditors

There are also resolutions to be put to Shareholders at the upcoming General Meeting seeking approval to issue shares to creditors, including former and current Directors.

In each case the amounts payable / to be issued are to meet fees otherwise payable in cash that those relevant parties have previously forgone. In each case, the relevant parties have forgone those cash fees in order to support the Company's treasury and provide the Company with as much opportunity as possible to succeed. In no case is anyone getting something for nothing. I thank those creditors and directors who have assisted in our



endeavours to have the Company survive this difficult time.

Lastly, whilst this is a letter to Shareholders I hoped never to have to write, we unfortunately find ourselves in this invidious position. I offer my sincere thanks to all of our Shareholders for their support in the past and ask for your patience and continued support as we seek to recapitalise the Company and embark on what I trust will be a successful future.

Should you have any questions please feel free to contact me on 0410 667 844 or on my email at winton@azc.com.au

Kind regards

A handwritten signature in black ink, appearing to be "Winton", written in a cursive style.

Non-Executive Chairman
Metallum Limited

Contact details for the Company's solicitors:

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