

10 October 2012

Company Announcements Office
Australian Stock Exchange Limited

Dear Sirs
Placement to Shandong Gold

Please find attached a copy of a letter to shareholders in relation to the proposed placement to Shandong Gold. This letter will be mailed to all Focus shareholders.

Yours faithfully

Paul Fromson
Company Secretary & CFO

10th October 2012

Dear Focus Minerals Shareholder,

By now you will be well aware that your Board is recommending to you for approval, (subject to no superior proposal arising and an independent expert opining that the transaction is reasonable) the transaction that has been negotiated between Shandong Gold and Focus Minerals Ltd ("**Focus**" or the "**Company**"), wherein the Company will raise approximately \$225 million in return for a 51% interest in Focus (on a fully diluted basis).

Profile of the Cornerstone Investor

Shandong Gold International Mining Corporation Limited ("**Shandong Gold**") is a 65%-owned subsidiary of Shandong Gold Group Co. Ltd ("**Shandong Group**"), one of the largest gold producers in China. Shandong State-owned Assets Investment Holdings Co., Ltd holds the remaining 35% of Shandong Gold. Shandong Group and its associated entities are principally engaged in exploration, mining, processing and smelting of gold and non-ferrous metals.

The Shandong Group was established in 1996 and in recent years has established a strategic goal of focusing on the resources industry, entering the non-ferrous field and striving to be a global first-class enterprise with international competitiveness. Shandong Gold is responsible for expanding the Shandong Group's operations overseas through project trade, overseas listings and foreign financing.

The Shandong Group has built five mining bases within China at Shandong, Hainan, Inner Mongolia, Henan and Qinghai. Shandong Gold is also actively pursuing opportunities overseas by investing in resource companies based in the USA, Canada, Australia, Argentina, Nigeria, Malaysia and other countries.

The Shandong Group has also established a close strategic partnership with various financial institutions both in China and overseas, as well as government departments and research institutes, who provide the support for Shandong Gold's exploration operations.

I am asking you to vote **YES** to this proposed transaction at the upcoming meeting of shareholders (subject to no superior proposal arising and an independent expert opining that the transaction is reasonable) and to assist you with forming a positive view of this transaction, I would like to explain the reasoning the Board went through in reaching its recommendation.

Planning Future Growth – Our Strategic Plan

Each year the Company reviews its Strategic Plan relative to the prior year's outcomes and determines continuing relevance to existing business conditions and expectations for the future. The 2012 calendar year review sought to draw out a bolder plan going forward in a long term development scenario, and prioritised exploration targets which had been the focus of work performed by the mining team and the exploration team. The Company's Strategic Plan from this year forward, is more about developing the business for the long term future of the Company and its owners, than an emphasis on mining on a "hand to mouth basis."

Prior to this, the Board's discussion with Management had centred around two distinct choices:

- Continue the "steady as you go" developing asset base within known cash means given the state of the capital markets (Plan B); or
- Develop a Strategic Plan for the long term with a development plan to support it, exploration expenditures prioritised around known targets, development expenditures required to bring new ore bodies to life, processing needs across the business addressed and a serious attack on green fields exploration opportunities to significantly unlock the potential of the ground we already own in the Coolgardie, Laverton and Widgiemooltha areas. Success in these areas would rapidly replenish a "war chest" to maintain value creation. The opportunity to think boldly was afforded by an expectation by the Company that we would see a rising gold price going forward, given the financial scenarios the world was experiencing (Plan A).

Both discussions were positive, and as you would expect, one option had a much more significant return, but required more development cash and associated capital for infrastructure.

Co-existing at the time was the frustration for the Board, Management and you, of a stagnant share price and unwillingness from the market to reward the Company for where it had reached. We sought feedback from the market on how we were being assessed about the Company's performance and from many of our shareholders.

Leaving aside the depressed international financial market, we were told by those contacted that:

- there was a lack of empathy for diverting some funds to the Crescent purchase, when the last capital raising was undertaken to accelerate exploration and development expenditure in Coolgardie;
- there was concern about Focus' ability to digest and turnaround Crescent; and
- costs had been rising across the mining sites and would Focus be able to stem this?

On the first point, timing was not perfect for Focus and the acquisition did cause us to deal with some short term indigestion with allocating our cash resources to the priorities of the business, rather than also being able to develop other ground more swiftly. But the acquisition of an asset base of this quality at a discounted price is not the norm.

It did however, fit comfortably into our strategy of identifying another potentially significant gold producing area so that the Company had options should its main producing centre at Coolgardie experience any production issues as new ground was brought on stream, or its exploration initiatives took longer to prove up and in the ordinary course of business the multitude of issues that a business faces on a daily basis, when in live production.

The Board wanted "insurance" and believed Crescent could provide it. This has proved the case this year as output at The Mount was slower than planned, yet as you know gold output grew considerably.

So whilst you could say the acquisition was opportunistic – the assessment stacked up. If we did not move when we did, a significant gold address in Western Australia would have gone elsewhere and the opportunity to create future value for shareholders would have been denied.

On the second and third points, the Board was confident that both of these matters would be addressed and as advised in our results announcement on 28 September 2012 I am pleased to inform you that the Laverton operation has posted a \$3.8 million profit in the 9 months since being acquired by Focus, turning from a \$51 million loss last year, and operating costs at Laverton have been reduced from 1,554/oz to 1,203/oz.

Gold output remains our Achilles heel in Laverton because we are limited in the number of processing days negotiated with Barrick Granny Smith and there is little room for flexibility, as Barrick has its own requirements as well. Breakdowns, stockpiling ore, weather or delays from other processing priorities, have a material effect on our ability to generate cash flow for reinvestment in further development. Consequently, plans are seriously impacted if any of these delays are experienced, yet we as a Company have continued to plan, develop and dig dirt on the basis that all will be well. Sometimes it is, sometimes it's not. They are the realities we work with presently at Laverton and did so for a time at Coolgardie as well.

On the operating costs side we have made serious efficiency improvements. The reductions identified in our first phase review have resulted in annualised savings of \$10 million and those benefits will begin to flow through. Phase 2 reductions are about making step changes in the operations which lock in permanent cost savings and may require capital investment as well. Significant further gains can be delivered through an increase in our scale, where there would be no requirement for further major fixed cost additions, and the potential of our tenements to prove up higher grade at depth. Both of these opportunities have therefore also underpinned our recommendation to you of the funding approach, via the proposed transaction with Shandong Gold.

As the business currently stands we have four mines, each with their own significant requirements for working capital and development funds to keep gold output rising.

Our existing 4.3Moz Mineral Resource base across Coolgardie and Laverton has been the base for the Strategic Plan.¹ The Strategic Plan is designed to enable the business to sustain the current production rate and the potential exists through technical work and significant levels of exploration expenditure, to build production to well in excess of our current annual output levels delivering quite positive financial metrics for the Company and its shareholders.

However, as our operations currently stand they will not produce enough free cash to enable this Strategic Plan to be implemented in a swift and tangible way.

When attempting to grow a business outside of its existing constraints, there is always an upfront need for working capital, development expenditure and fixed capital prior to the beginning of the opportunity, with the revenue following from the considerable growth in gold ounces, increased profitability and exceptional cash flow generation. Like all of these plans, it requires a significant working capital uplift and a sizeable development budget, including increased exploration expenditure for resource delineation, grade control drilling and mine development, followed by further fixed capital investment into new and/or enlarged processing capacity.

The cash that could be generated from the Strategic Plan's success could be utilised for processing upgrades/expansion, other capital improvement projects, acquisitions of prospective surrounding land tenements, new areas and last but by no means least, the payment of dividends.

This implied potential and our success to date, encouraged Shandong Gold to want to be that cornerstone investor.

This process therefore does reshape the size and shape of the Company you are invested in, considerably.

Capital Requirement to Drive Shareholder Value

Your Board concluded that the Company would have its best chance of creating sustainable value for shareholders and removing the question marks over the Company by implementing this Strategic Plan.

¹ Approximately 2 million ounces of this Mineral Resource are owned by Focus Minerals (Laverton) Limited. Focus owns 81.57% of this subsidiary company. Please refer to Annexure A – Mineral Resource Table and competent person's statement.

The Strategic Plan called for a significant capital injection and as mentioned elsewhere in this letter, this proposed transaction with Shandong Gold, for a number of reasons, offered the best way to raise this level of capital in an otherwise difficult market.

It was a choice for the Board to seek funding for the Strategic Plan, or remain doing things within the limits of the Company's current capabilities. Knowing that significant funding was required, we wanted a proposal that we could take to you for your consideration.

This is the choice which is before you now, as you resolve which way you will vote.

As a Board, we are recommending the Shandong Gold transaction to you for your approval (subject to no superior proposal arising and an independent expert opining that the transaction is reasonable), because we believe this will deliver the best value going forward and in an accelerated manner.

We have only developed 4% of our land holdings through the current approach that has been constrained by capital. The only deviation was to purchase Crescent. That was an opportunistic transaction as mentioned, that we assessed would produce considerable value for shareholders once we could generate the cash flow from its operations. We knew when we purchased it, that we would eventually have to be in charge of our own processing destiny, just like we did at Three Mile Hill in 2009 after we had raised funds to refurbish the mill. That has been a very successful undertaking. We have never resiled from the fact that in order to be successful at Laverton, we would need to eventually fund a similar situation there with the mill.

In all of the years I have been associated with Focus, we have never had enough funding to explore our tenements on much more than a hand-to-mouth basis. We have tended to just keep ahead of ourselves on a development basis and have had to be more production focussed in order to keep our mill fed. Yes, we nearly did get there during the last capital raising, but the funds were subsequently diverted towards the Crescent acquisition, which will pay off. Pure exploration has had to wait until we have had excess free cash, or the market is positive enough to raise funds for the purpose.

Choosing to Raise Funds at a Premium Rather than a Discount

As you all know, when we raise funds, the market is the determinant of price and of course to encourage investors to provide their cash, a price discount is always expected. These are the market's expectations, but I would prefer another way and I'm certain you would as well.

One of the criteria we set ourselves in looking at a way to fund the Strategic Plan, was to raise funds at a premium. A normal capital raising to sophisticated investors would not do this, nor would a rights issue – especially if you could buy on market at a lower price. The world capital markets have dried up for raisings of this nature and cash is king. CEO Campbell Baird, recently presented at the Denver Gold Conference and it was made clear by North American capital market members, that the market for capital raisings was currently difficult.

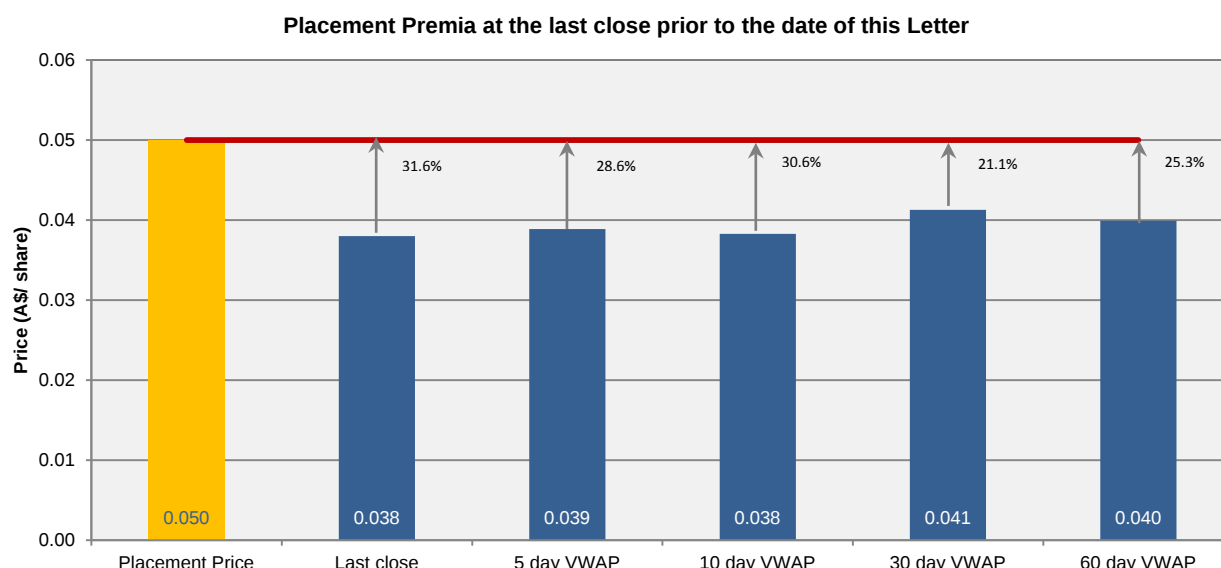
We wanted a premium for this transaction to reasonably compensate shareholders for where they had brought the Company with their invested capital and we wanted a cornerstone investor who had a significant enough holding to ensure complete focus on their investment and support for the team as the drivers for the Strategic Plan's success were implemented.

Why 5 cents?:

This subscription price equated to a premium of 13.6% to the last close price before the transaction was announced, but more importantly, a strong premium to recent VWAPs, including a premium of 28% to the 60 day VWAP of 3.91 cents per share at the time of making the announcement of the Shandong Gold transaction. Focus' share price only began to move again in the last 30 days before the announcement on

the back - most likely - of a move in the price of gold. These are risks that one takes in negotiations of this kind, as the deal is about the bigger, longer term picture and not focussed just on the now.

Based on the market pricing for Shares at the last close prior to the date of this letter, the subscription price represents a premium of 31.6% to the last close price of 3.8 cents, and a premium of 28.6% to the 5 day volume weighted average price of 3.9 cents.



In addition, you should keep in mind that this was not meant to be a premium for a 100% takeover, but it was definitely argued that Focus was seeking a control premium for its Shareholders. It was reasoned that with 49% of the capital in the market and knowing that Focus was a liquid stock, that Shareholders would be able to go to and from the stock with no significant disadvantage, but, be a part of an exceptionally capitalised company.

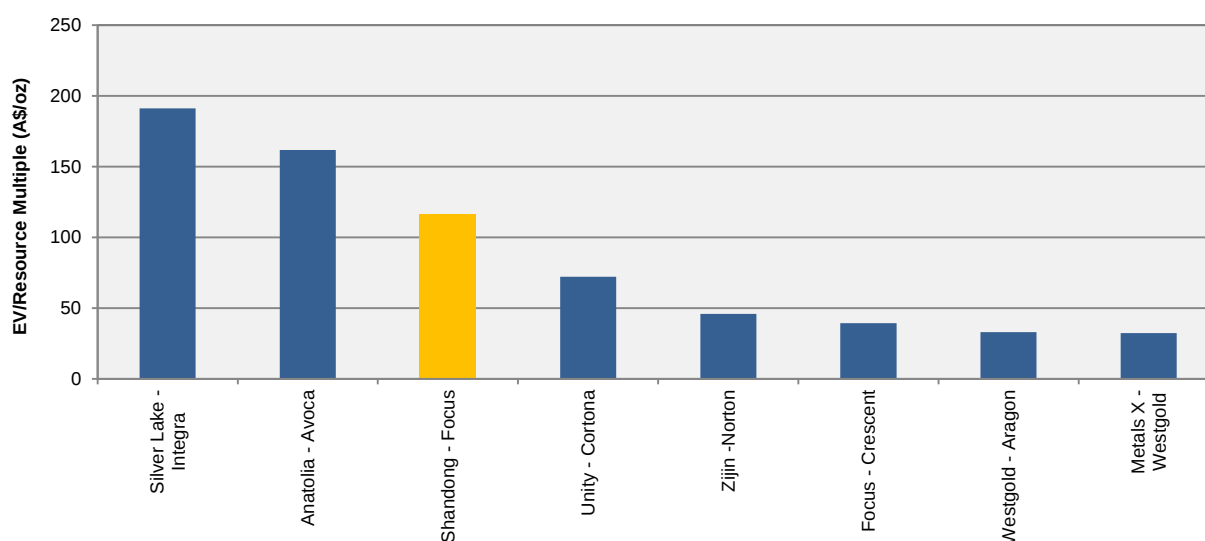
Consistent with conventional deal protection measures, the transaction enables the Board to entertain an unsolicited better proposal if it were to arise, and Shandong Gold has the first right of refusal to better that competing proposal and if your Board deems Shandong Gold's counterproposal to be superior to the competing proposal, the Company would then enter into good faith negotiations with Shandong to put this new deal to you for your approval. If the board was to recommend an alternative superior proposal, the cost would be to pay the \$600,000 break fee – reasoned a small price to pay, relative to the size of the transaction. This amount was struck to compensate Shandong Gold for its out of pocket costs in those circumstances and not for Shandong Gold to make money from Focus.

As this is Shandong Gold's first investment in Australia and a large investment for it outside of China, I would expect that Focus will be a catalyst for future upside growth in mining investment with a considerable "war chest", which all of our shareholders will be part of.

I also do not wish you to think that this proposal is about creating a "global gold company" or the like, or some ego trip of the Board, or Management Team. It is about a transaction that unlocks value quickly in a rising gold price environment, provides funds now, allows Focus to address the issues raised by you and the market discussed at the beginning of this letter and above all, gives you a choice and the final say and provides a vehicle for future value creation as opportunities are presented.

Some of you might be tempted to simply look at our resource table and say there goes half of the ounces to China for a pittance! By any reasonable measure that could not be concluded in this situation as demonstrated by the chart below, which shows an analysis of the relevant transactions in the gold sector in recent times:

EV/Resource Multiple Implied by Recent Comparable Australian Gold Transactions



The relevant take away here is that Shandong Gold has paid a strong value per ounce of gold in Mineral Resource in comparison to recent comparable transactions involving ASX listed gold companies. It is also evident from this table that Focus bought the Crescent resources for a relatively low value per Mineral Resource ounce.

The Question of Control

Why 51%:

The idea behind seeking pricing that represented a premium to the then market was to minimise the dilution of the capital raised, and to let current shareholders know that their patience and support was being recognised, but you would all be aware, that in order to get something, you need to give up something. In this case, the objective sought by Shandong Gold was a 51% interest in Focus. The serious level of funding that this proposal delivers, would by any investor's assessment, require a level of ownership to put them in a position to assess how things are going and to be directly involved in areas where they possess certain elements of expertise. Shandong Gold have advised me that they have no interest in running the Company, nor taking over the Board. Circumstances can always change in the future, but I believe they are as much investing in these people and processes as they are in the potential of the company's resource base. There are many examples in the market of previously poor execution by foreign investors and I think Shandong Gold have thought very seriously indeed about the model for success, which also sees good relations with existing shareholders. The objective also of a knowledgeable cornerstone investor, was to ensure that the Company was not left vulnerable as its working capital position grew considerably, during the time it would take to implement the important drivers of the Strategic Plan.

The people at Shandong Gold have proved themselves to be good faith negotiators and people of their word. I fully understand the risks that one takes with regard to majority ownership and so on – naivety does not play any part here. I believe Shandong Gold to be an honourable Company and this proposal is very much about a coming together of two parties for great mutual benefit. Both parties need for much time to come, the input of the other. Very few transactions would proceed if we worried too much about relative might and influence. At the end of the day they will be a controlling shareholder, reliant upon an independent Board and Management Team. In this regard, immediately following implementation of the transaction Shandong Gold will have 3 of the proposed 7 Board positions. Shandong Gold are not wanting to invest in Focus to see it fail.

China's success of the last 20 years and more has been about the opportunity, the people and the funds. This proposal is no different.

I and the rest of your Board recommend this transaction to you (subject to no superior proposal arising and an independent expert opining that the transaction is reasonable) as a sound and best way forward for Focus and its current shareholders. With our currently open share register, informal control of Focus could theoretically be achieved by holding less equity than the Shandong Gold proposal is based upon, where no premium to the current share price would be obtained.

The Board has discretion to do a 15% placement of the Company's equity, but such a placement would only raise around \$30 million and would not give you the outcomes discussed earlier, or address the market's concerns.

Your Board considers the proposed transaction to be a very strong opportunity for Focus, and also a choice for you. I hope this letter has been helpful to let you see the reasoning we went through, but also an acknowledgement that it is your Company and we want you to be a part of the process as the magnitude of the deal requires your views to be expressed.

The Board has brought choices to you, but did not want to bring a choice in this market that requires placements or a rights issue at a further discount to the prevailing share price. The Company's real value requires the unlocking of its resource base. To do so properly requires significant funding. We can do it as we have been doing to date, or we can structure the business to implement the Strategic Plan with strong growth at an accelerated pace. The discussion on funds required to develop this Strategic Plan outlined earlier is confronting, but so is the potential cash and value enhancement anticipated to be delivered from it.

In addition to the views of your Board, you will also receive an independent expert's report (which also includes reports by independent technical experts) that will accompany the Notice of Meeting to assist you.

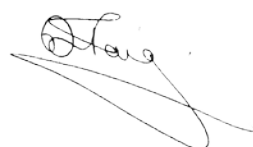
I think if you take into account all of the considerations that I have reasoned through here with you, that you will appreciate why we have put the transaction together, but more importantly, that we have put it to YOU for your approval as owners and will eventually have given you independent commentary to enable you to make an informed decision on our recommendation to vote **YES** (subject to no superior proposal arising and an independent expert opining that the transaction is reasonable).

You have a Board that takes its stewardship of the Company's assets very seriously. We want to make a step change in the way the Company is funded, valued and how it is perceived in the market place.

We ask you to support the Shandong Gold proposal with a YES vote (subject to no superior proposal arising and an independent expert opining that the transaction is reasonable) and to come with all of us in the Company on what should be a pretty exciting journey with a funding partner that understands the gold mining business as well.

Kind regards, good luck and thank you for taking the time to consider this message.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Don Taig", with a long, sweeping underline.

DON TAIG
Chairman

Annexure A

Mineral Resource Tables

	Measured Resources			Indicated Resources			Inferred Resources			Total Resources		
	Tonnes '000t	Grade Au g/t	Ounces	Tonnes '000t	Grade Au g/t	Ounces	Tonnes '000t	Grade Au g/t	Ounces	Tonnes '000t	Grade Au g/t	Ounces
COOLGARDIE GOLD PROJECT												
Tindals Project Total	739	4.7	112,000	9,143	2.6	766,000	3,354	2.8	298,000	13,236	2.8	1,176,000
Mount Project							2,090	5.5	370,000	2,090	5.5	370,000
Lindsays Project				4,350	1.7	238,000	3,562	2.0	233,000	7,912	1.8	471,000
Three Mile Hill Project				1,386	1.9	86,000	138	3.0	13,000	1,524	2.0	99,000
Norris Project							1,870	2.1	124,000	1,870	2.1	124,000
Total Coolgardie	739	4.7	112,000	14,879	2.3	1,090,000	11,014	2.9	1,038,000	26,632	2.6	2,240,000
LAVERTON GOLD PROJECT												
Laverton - UG				2,037	6.5	426,000	619	7.1	141,000	2,656	6.6	567,000
Laverton - Surface	1,619	2.2	113,000	12,093	2.0	759,000	10,171	1.8	589,000	23,883	1.9	1,461,000
Total Laverton	1,619	2.2	113,000	14,130	2.6	1,185,000	10,790	2.1	730,000	26,539	2.4	2,028,000
TOTAL COMBINED RESOURCES	2,358	3.0	225,000	29,009	2.4	2,275,000	21,804	2.5	1,768,000	53,171	2.5	4,268,000
<i>Coolgardie Mineral Resource (as at 30 September 2011)</i>												
<i>Laverton Mineral Resource (as at 30 June 2011)</i>												

Mineral Resources for the Laverton Gold Project are owned by Focus Minerals (Laverton) Limited. Focus owns 81.57% of this subsidiary company.

Competent Person's Statement

The information in this announcement that relates to Exploration Results and Minerals Resources is based on information compiled by Dr Garry Adams who is a member of the Australian Institute of Geoscientists. Dr Adams is employed by Focus Minerals and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Adams consents to the inclusion in this announcement of the matters based on the information compiled by him in the form and context in which it appears.