



## InterMet Resources Limited

ACN 112 291 960

### Supplementary Target's Statement

This is a supplementary target's statement issued by InterMet Resources Limited (**InterMet**) under section 644 of the Corporations Act 2001. It is the first supplementary target's statement issued by InterMet in response to a conditional off market takeover offer for the shares in InterMet by Hillgrove Resources Limited ACN 004 297 116 (**Hillgrove**). This statement supplements and is to be read together with the Target's Statement dated 4 July 2008, and lodged with ASIC and ASX on 8 July 2008 (**Target's Statement**). A copy of this statement has been lodged with ASIC. Neither ASIC nor any of its officers take any responsibility for its contents.

This is an important document and requires your immediate attention. If you are in any doubt about what to do with this document, you should contact your broker, financial adviser or legal adviser immediately.

All capitalised terms in this supplementary target's statement have the same meaning given to them in the Target's Statement, and the rules of interpretation in the Target's Statement also apply to this statement, unless the context requires otherwise.

Dear InterMet Shareholder

The hostile takeover offer for your shares in InterMet by Hillgrove Resources Limited (**Hillgrove**) has now been open for over two weeks. Hillgrove has not notified InterMet that any shareholders have accepted its offer. This clearly reflects the market's view, which is shared by InterMet, that the Hillgrove Offer is **GROSSLY INADEQUATE** and falls well short of InterMet's fair value.

There has been a number of documents sent to you in relation to the takeover offer by Hillgrove for your InterMet Shares. In fact, Hillgrove has lodged a third supplementary bidder's statement on 11 July 2008 (**Third Supplementary Bidder's Statement**).

The Hillgrove Offer is now trading **less than the current market price of InterMet**. Your Directors (excluding Mr David Archer, who has a conflict of interest) believe there is absolutely no incentive for shareholders to accept the hostile offer. InterMet has had a number of significant exploration developments since the Hillgrove Offer was made which have applied upward pressure to the InterMet share price.

Your Independent Directors have considered the Third Supplementary Bidder's Statement and maintain their recommendation to **REJECT** the Hillgrove Offer, for the same reasons as set out in the Target's Statement namely, the Offer is **GROSSLY INADEQUATE, OPPORTUNISTIC**, presents several **RISKS FOR INTERMET SHAREHOLDERS** and would result in **DILUTED PARTICIATION** in InterMet's highly prospective assets.

In addition, your Independent Directors clarify, in this response, a number of incorrect statements in Hillgrove's Third Supplementary Bidder's Statement:

1. **Offer at a discount**

Aside from being at a 48% discount to the \$0.50 per share midpoint value determined by the Independent Expert, KPMG, the Hillgrove Offer is now at a **discount to the current trading prices of InterMet shares**. On Friday 11 July 2008 (being the last whole trading day before the date of this statement), the closing price of Hillgrove's Shares was \$0.28. The Offer of four Hillgrove Shares for every five InterMet shares that you hold therefore implied a value of \$0.224 on that day, representing a 2.6% discount to InterMet's \$0.23 closing price on that same day. The Hillgrove Offer therefore remains **GROSSLY INADEQUATE** and is not at all attractive.

2. **InterMet's sound management credentials**

In its Third Supplementary Bidder's Statement, Hillgrove has made a number of broad and unsubstantiated claims about the experience of InterMet's management team. Hillgrove's desperate tactic of attempting to undermine InterMet's very experienced, professional and well-credentialed management team is disingenuous and hypocritical. It has become necessary for Hillgrove to resort to such tactics given that its **GROSSLY INADEQUATE** offer has very limited prospects of success.

Hillgrove's comments are also inconsistent with statements that it made in the original bidder's statement. When outlining its intentions for InterMet in the event that it took control of the company, Hillgrove said that it would retain all of InterMet's existing employees. If Hillgrove's concerns about the InterMet management team are genuinely held (which InterMet doubts), then it would make no sense for Hillgrove to retain that management team in the event that it took control of the company.

The Independent Directors have every confidence in the abilities of InterMet's experienced and dynamic management team. The team is led by managing director, Gary Ferris, who is ably supported by an exploration manager and a project geologist. Between them, the three have approximately 35 years of geological experience and have a clear vision to create value for InterMet shareholders by acquiring acreage, delineating mineral resources and ultimately mining those tenements. InterMet's recent acquisition of extensive exploration acreage in Queensland has complimented and diversified its South Australian holdings and InterMet has been very active in executing its exploration program on those tenements.

Conversely, InterMet has very little confidence in Hillgrove's management capabilities. Despite having been listed on the ASX (in its current form) for over five years, Hillgrove's share price is trading only marginally above its original \$0.20 listing price. Further, as outlined in the Target's Statement, InterMet has some considerable concerns about Hillgrove's key project, the Kanmantoo project – not the least of which is the \$130 million funding hurdle which Hillgrove has to overcome, as well as the substantial uncertainty around whether or not Hillgrove will succeed with its mining lease application, particularly in light of the considerable community concerns that exist in relation to the project.

There is little doubt in the minds of the Independent Directors that it is the InterMet management team, rather than Hillgrove, that is best placed to maximise value in InterMet's diversified asset portfolio, given InterMet's familiarity with the projects. A change of control brings with it some substantial risks, as noted by the Independent Expert, KPMG:

*"The merging of two businesses creates inherent integration risk, including loss of key management, delays in implementing necessary changes and delays in integrating operations, management and information systems in an efficient and timely manner."*

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### 3. InterMet's recent positive announcements

The Independent Directors believe that the reason why InterMet's share price has appreciated during recent months is not due to the existence of the Hillgrove Offer, but due to the recent positive announcements that InterMet has made to the ASX. InterMet has been very active with its exploration program during the relevant period and has made a number of very positive announcements, as outlined below.

Date	Announcement
7 April 2008	option over two tenements in Hodgkinson Basin gold province
9 April 2008	further drilling results from Lake Gillies project extend the base metal mineralisation at 'Triumph' prospect
11 April 2008	option over an area containing a major extension of iron mineralisation at 'Paddy' iron prospect
22 April 2008	InterMet provides iron ore exploration update
28 April 2008	commenced drilling at Percyvale gold prospect
1 May 2008	magnetic surveys indicate possible extensions to high grade mineralisation
8 May 2008	stockbroker roadshow presentation, promoting the prospects of the company
16 May 2008	sale of Mt Lucy Mining License in northern Queensland (yielding gross proceeds of \$3.83 million on completion)
19 May 2008	joint venture partners to Fund Exploration on Wanilla Iron Ore Project
20 May 2008	maiden drilling program at Percyvale gold project
23 May 2008	drilling commences at Forsayth gold project
26 May 2008	option for additional leases at Forsayth gold project
13 June 2008	drilling results from Percyvale Gold Project
16 June 2008	metallurgical testing confirms Paddy Iron may be of suitable quality for direct shipping operations
26 June 2008	inferred resource announced at Percyvale gold project
30 June 2008	company formulates a conceptual iron ore target at Munderra project

In addition, during that period, InterMet has also announced the findings of the Independent Expert Report prepared by KPMG, which concluded that the *"assessed fair value per fully diluted InterMet share...[is] between approximately \$0.41 AND \$0.60, with a 'preferred value'*

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of \$0.50". Hillgrove's bidder's statement fails to mention that the InterMet share price has outperformed the Hillgrove share price in the 5 trading days leading up to this statement, leading to InterMet now trading at a premium to the value offered by the Hillgrove bid.

#### 4. **Reasons for InterMet's price rises**

Hillgrove states that the InterMet Share price rose significantly after it "*discuss[ed] possible offer with [Gary] Ferris and [Neville] Alley*", and appears to be inferring that the confidential discussions contributed to the share price rise.

The Independent Directors did not discuss Hillgrove's incomplete and indicative offer with anyone except InterMet's advisers, none of whom disclosed that information. InterMet wholly rejects that the discussions of Hillgrove's incomplete and indicative proposal had any influence on InterMet's share price. The Independent Directors **strongly deny** these inferences, having maintained confidentiality in line with ASIC and ASX requirements and corporate governance standards.

The Independent Directors believe that the price rise was due to the numerous positive announcements made to the ASX, as outlined above, such as the commencement of drilling at the Percyvale gold project (28 April 2008), a major market update on the position of the Company's iron ore assets (1 May 2008) and an Australia-wide broker presentation roadshow conducted by InterMet's managing director prior to the bid that highlighted InterMet's prospects.

#### 5. **Kanmantoo risks**

In touting its strategy to develop its key asset at Kanmantoo, Hillgrove has again failed to mention that there are significant risks associated with the project, as outlined in the original Target Statement.

#### 6. **InterMet complies with ASX listing rules and industry codes**

Hillgrove has made wide ranging allegations regarding non compliance with various ASX listing rules or industry codes. However, Hillgrove does not provide any evidence, or even examples, of these alleged instances of non compliance. The Independent Directors note the regulators have not made any allegations, investigations or findings of any non compliance in relation to the Target's Statement and InterMet vehemently denies the allegations.

#### 7. **Takeover response expenses**

In response to the **UNINVITED** and **HOSTILE** Hillgrove Offer, the Independent Directors have been compelled to make a number of decisions to ensure InterMet shareholders are fully informed about the value and prospects of InterMet including the preparation of a detailed target's statement for the benefit of all shareholders.

The process of responding to the takeover has necessarily incurred a number of costs, including the engagement of legal and corporate advisers, the engagement of an independent expert (a requirement under the Corporations Act), the engagement of an independent geologist and the various other ancillary costs of communicating with shareholders to ensure that they are fully informed about the Offer.

Shareholders can rest assured that all expenditure that has been incurred in connection with the takeover response process has been done on a reasonable basis and your Independent Directors are very conscious of their duties to manage shareholder funds in a prudent and responsible manner in the best interest of shareholders.

In relation to Hillgrove's comments about InterMet's cash position, as outlined in the original Target's Statement, InterMet intends to undertake a capital raising by way of a private placement of shares as soon as it is permitted to do so under the ASX Listing Rules (12 August 2008). InterMet has had very strong interest in such a capital raising from a number of stockbroking firms and would have undertaken the raising several months ago if Hillgrove hadn't triggered the capital raising restrictions under the ASX Listing Rules with its low-ball Offer.

The Independent Directors' decisions have been appropriate in response to a process that was instigated by Hillgrove's **OPPORTUNISTIC** and **GROSSLY INADEQUATE** offer.

## 8. Takeovers Panel

Following the **refusal** of Hillgrove to provide complete information and correct misleading information in its bidder's statement, your Independent Directors initiated Takeovers Panel proceedings to rectify these problems. The Independent Directors had no choice but to initiate Takeovers Panel proceedings to increase the quality and completeness of information provided by Hillgrove to InterMet shareholders.

The Takeovers Panel **only** declined to make a declaration of unacceptable circumstances against Hillgrove **after Hillgrove complied** with the Takeovers Panel's requests (as a result of InterMet's submissions) to undertake corrective disclosure. In particular, the Panel stated:

- 8.1 "...[the Panel] did not consider Hillgrove had adequately explained in the bidder's statement why it had adopted its chosen valuation methodology";
- 8.2 "...it was **unacceptable** that Hillgrove did not include the most recent share prices of both itself and InterMet";
- 8.3 "...**further disclosure** of the funding arrangements and progress of the [Kanmantoo] project was necessary";
- 8.4 "...the risk disclosure in the [Hillgrove] bidder's statement was **general and vague**... it was potentially **misleading** for a bidder to discuss risks in general terms, without apparent regard to the risks particular to its business...".

## YOUR DECISION

Ultimately, it is up to you as a shareholder in InterMet to decide whether to accept or reject Hillgrove's Offer. In assisting you to decide, your Independent Directors have engaged an Independent Expert to provide an assessment as to the appropriate value of your InterMet Share. The Independent Expert concluded:

- the "assessed fair value per fully diluted InterMet share...[is] between approximately \$0.41 and \$0.60, with a 'preferred value' of \$0.50";
- the value of the consideration offered by Hillgrove is "\$0.23 to \$0.30 per InterMet Share under the Offer with a midpoint of \$0.26".

Taking into account the above, and noting that the value of Hillgrove shares offered by the Hillgrove Offer is **LESS** than the value of your current InterMet shareholding (as at the date of this statement) your Independent Directors continue to recommend you **REJECT** Hillgrove's Offer. To **REJECT**

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Hillgrove's grossly inadequate offer, **DO NOTHING** and **IGNORE ALL HILLGROVE'S CORRESPONDENCE**.

This statement has been approved by a resolution of the Independent Directors of InterMet Resources Limited

Dated 14 July 2008

Signed for and on behalf of InterMet Resources Limited



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.....  
Gary Ferris  
Managing Director



.....  
Neville Alley  
Non-executive Director

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