

ALTO DIRECTORS RECOMMEND SHAREHOLDERS REJECT THE HABROK TAKEOVER OFFERS

Dear Shareholders

I am writing to Alto Metals Limited (**Alto**) shareholders to let you know your directors' views in relation to a further unsolicited takeover offer which has been made for your Company by Habrok (Alto) Pty Limited (**Habrok**) which was first announced to ASX on 22 May 2020 and formalised in the Bidder's Statement released to ASX on 10 July 2020.

The Habrok offers are for your Alto shares and Alto options (**Offers**):

- under the Share Offer, all of your Alto shares for \$0.066 cash per Alto share (**Share Offer**); and
- under the Option Offer, all of your Alto options for cash consideration based on a Black-Scholes valuation as set out in the Bidder's Statement (**Option Offer**).

The Directors of Alto have assessed the Offers, and it is the Directors' very strong view that the unsolicited Offers are opportunistic and undervalue your shares and options, and shareholders and optionholders should reject the Offers.

You will shortly receive a Bidder's Statement from Habrok in relation to the Offers. **To reject the Offers, shareholders should take no action.**

The Company will respond to Habrok's Bidder's Statement with a Target's Statement in due course, which will contain your Directors' formal recommendations. However, we thought it important to let you know the Directors' view before you receive the Bidder's Statement.

In reaching the recommendation that shareholders reject the Offers, the Directors have considered several factors which are outlined below

1. CONTINUED INTEREST IN ALTO AND THE SANDSTONE GOLD PROJECT

As you are aware, the Alto Directors have spent considerable time and resources over the past 15 months responding to three separate unsolicited takeover offers, including from:

- **Middle Island Resources Limited** – announced 1 March 2019 and closed 29 November 2019
- **Goldsea Australia Mining Pty Ltd** – announced 21 February 2020 and closed 8 July 2020
- **Habrok (Alto) Pty Limited** – announced 22 May 2020

It is a clear endorsement from this persistent interest in the Company's Sandstone Gold Project, that third parties can see the long-term value potential associated with the project and extensive +800km² ground position, especially in the current global gold price environment.

Regulatory complexities associated with raising capital whilst under takeover offer has inhibited Alto's ability to fund and undertake exploration activities on the project to create value for the benefit of all shareholders.

Alto is addressing this funding constraint and today Alto has launched a 1 for 4 accelerated pro-rata non-renounceable entitlement offer at \$0.07 per new share, to raise approximately \$5.1 million (before costs) (**Entitlement Offer**).

Major shareholder, Windsong Valley (and related entities), a company associated with Non-executive Director, Mr Terry Wheeler intends to subscribe for its full entitlement, representing \$1 million.

Proceeds of the Entitlement Offer will be primarily applied to fund drilling and exploration at Sandstone Gold Project, with a priority focus on infill and step-out drilling at Lord Nelson, targeting:

- the strike extensions of shallow gold mineralisation 200m south of the Lord Nelson pit; and
- the new zone of high-grade primary mineralisation below the Lord Nelson pit.

Refer to separate ASX announcement released today for further details regarding the Entitlement Offer.

2. SHARE OFFER DOESN'T REPRESENT A PREMIUM TO RECENT TRADING PRICE OF ALTO SHARES

The \$0.066 cash consideration being offered by Habrok represents:

- a **12% discount** to the closing share price of Alto Shares on 10 July 2020 of \$0.075, the day the Bidder's Statement was lodged with ASX; and
- a **5.7% discount** to the Entitlement Offer price of at \$0.07 per new share announced today.

Since the announcement of the proposed Habrok Offers, Alto Shares have consistently traded above the \$0.066 consideration under the Share Offer.

The volume weighted average price (**VWAP**) of all Alto Shares traded from the time of Habrok's announced intention statement (22 May 2020) to the close of trading on 10 July 2020 was \$0.069 per Share. This represents a **4.5% premium** to the Share Offer Price of \$0.066 per Share.



Source: IRESS Limited. This chart contains ASX share price trading information sourced from IRESS Limited without its consent.

3. THE OFFERS FAIL TO RECOGNISE ALTO'S UNREALISED POTENTIAL

Alto controls +800km² of highly prospective Archaean Sandstone Goldfield, 800km north of Perth in the East Murchison Mineral Field of Western Australia. Since acquiring the Sandstone Gold Project in June 2016, Alto has compiled and reviewed a large legacy database ahead of a series of focused exploration and drilling campaigns which commenced in late-2016.

Alto has successfully delineated significant gold Mineral Resources of 331,000 ounces (JORC 2012) at Lord Henry, Lord Nelson, Indomitable Camp and Vanguard Camp.¹

Furthermore, the success of Alto's existing exploration program and subsequent exploration across Alto's 100% owned tenements (where a plethora of additional prospects have been identified) is expected to provide a significant uplift in Alto's resource position.

In the opinion of your Directors, the Habrok Offers do not adequately reflect the unrealised potential of Alto's Sandstone Gold Project and does not recognise the exploration potential at Alto's extensive tenement holdings.

Your Directors believe the success of Alto's existing exploration program and subsequent exploration across Alto's 100% owned tenements, including the 2,000m drilling program currently underway at Lord Nelson, are expected to provide a significant uplift in Alto's resource position. The Offers fail to recognise any of Alto's unrealised potential.

4. IF YOU ACCEPT THE OFFERS, YOU ARE UNABLE TO ACCEPT A SUPERIOR PROPOSAL IF ONE EMERGES

Habrok currently has a relevant interest in 12.55% of Alto Shares and section 10.1 of the Bidder's Statement indicates that Habrok may seek to acquire Alto Shares on-market at or below \$0.066 per Alto Share during the Bid Period (as defined in the ASIC Market Integrity Rules).

The Directors believe this reflects Habrok's commitment to the Share Offer and Habrok is determined to secure a foothold shareholding in Alto, irrespective of whether or not it is able to secure a 100% takeover.

Although you may sell your Alto Shares on-market, by selling your Alto Shares on-market you will not be entitled to the benefit of any price increase under the Share Offer (in the event that Habrok determines to increase the Share Offer price) or superior proposal from any third party.

As the Habrok Share Offer is unconditional, once you accept you will not be able to withdraw your acceptance (see Section 11.5(a) of the Bidder's Statement). You will also give up your right to deal with your Shares (or Options, if you have accepted the Option Offer) whilst the Offers remains open. If you accept the Share Offer, you will be paid within the earlier of one month of your acceptance and 21 days after the close of the Offer Period.

As at the date of this letter, Alto has not received any competing proposal which may be considered a superior proposal. Alto cautions that there is no certainty of any further proposals being received by the Company for the remainder of the Offer Period which may be considered a superior proposal.

5. THE TAX CONSEQUENCES OR IMPLICATIONS OF ACCEPTING THE OFFERS MAY NOT SUIT YOUR FINANCIAL POSITION OR CIRCUMSTANCES

No capital gains scrip-for-scrip rollover relief is available under Habrok's cash Offers.

If you are an Australian resident for tax purposes, you may stand to make a capital gain by accepting the Offers and depending on your personal circumstances, you may be required to pay tax (in cash) on any gains.

¹ Refer ASX announcement dated 27 May 2020

The Bidder's Statement provides an overview of the tax consequences for accepting the Offers. Shareholders and optionholders should not rely upon the taxation considerations in these overviews as being advice on their own affairs.

The Directors encourage shareholders and optionholders to consult with their own independent taxation advisers regarding the taxation implications of accepting the Offers given their own particular circumstances.

Further detail regarding the reasons for the Directors' recommendation to reject the unsolicited Offers from Habrok will be set out in the Target's Statement which we expect to dispatch to shareholders in the coming weeks.

What should I do?

For the reasons set out above, **we recommend shareholders simply take no action** in response to the Bidder's Statement and any documentation sent to you by Habrok until you have received the Target's Statement from the Directors. You should then consider the Director's recommendation in relation to the Offers before making a decision.

The Directors thanks you for your support and we look forward to further communicating with you during the course of the process of the Offers and will keep securityholders fully informed of further developments.

The Directors has appointed Longreach Capital as corporate adviser and HWL Ebsworth as legal adviser to assist the Directors to respond to the Offers.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R. Monti'.

Richard Monti
Non-Executive Chairman
Alto Metals Limited

This announcement has been authorised by the Board of Alto Metals Limited.

Please direct enquiries or requests for further information to:

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Mineral Resource Estimate for Sandstone Gold Project

Deposit	Category	Cut-off (g/t Au)	Tonnage (kt)	Grade (g/t Au)	Contained gold (oz)
Lord Henry ^(b)	Indicated	0.8	1,200	1.6	65,000
TOTAL INDICATED			1,200	1.6	65,000
Lord Henry ^(b)	Inferred	0.8	110	1.3	4,000
Lord Nelson ^(a)	Inferred	0.8	1,820	1.9	109,000
Indomitable & Vanguard Camp ^(c)	Inferred	0.3-0.5	2,580	1.5	124,000
Havilah & Ladybird ^(d)	Inferred	0.5	510	1.8	29,000
TOTAL INFERRED			5,020	1.7	266,000
TOTAL INDICATED AND INFERRED			6,220	1.7	331,000

The references in this announcement to Mineral Resource estimates for the Sandstone Gold Project were reported in accordance with Listing Rule 5.8 in the following announcements:

- Lord Nelson: announcement titled "Alto increases Lord Nelson Resource by 60% to 109,000 ounces at 1.9 g/t Gold" dated 27 May 2020;
- Lord Henry: announcement titled: "Maiden Lord Henry JORC 2012 Mineral Resource of 69,000oz." dated 16 May 2017;
- Indomitable & Vanguard Camp: announcement titled: "Maiden Gold Resource at Indomitable & Vanguard Camps, Sandstone WA" dated 25 September 2018; and
- Havilah & Ladybird: announcement titled: "Alto increases Total Mineral Resource Estimate to 290,000oz, Sandstone Gold Project" dated 11 June 2019.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the previous market announcement noted above and that all material assumptions and technical parameters underpinning the Mineral Resource estimates in the previous market announcement continue to apply and have not materially changed.