



# TARGET'S STATEMENT

Issued by

**Alto Metals Limited**

ACN 159 819 173

in relation to the off-market takeover bid by

**Middle Island Resources Limited**

ACN 142 361 608

to acquire all of your shares in Alto Metals Limited for 5 MDI shares for every 1 Alto Share you hold.

Alto Metals Limited's Directors unanimously recommend that you

 **REJECT**

Middle Island Resources Limited's Offer

Legal Adviser:

**BELLANHOUSE**

L A W Y E R S

Corporate Adviser:



**LONGREACH**  
CAPITAL

**THIS IS AN IMPORTANT DOCUMENT**

If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.

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## LETTER FROM THE CHAIRMAN

Dear Fellow Shareholder

On 1 March 2019, Middle Island Resources Limited (MDI or Middle Island) announced an unsolicited, off-market, all-scrip takeover offer for all the Shares in Alto Metals Limited (Alto). Under the terms of the proposed takeover, MDI is offering five (5) MDI Shares for every one (1) Alto Share (Offer Consideration).

This Target's Statement sets out your Directors' formal response to the Offer.

For the reasons set out on the following pages, your Directors unanimously recommend that you REJECT the Offer.

Importantly, Alto has already received separate written notices from Alto's three major shareholders, who collectively own or control 68,608,175 Alto Shares<sup>1</sup> (which is anticipated to be equal to, in aggregate, 25.37% of Alto's Shares on issue, on completion of the placement of the Shortfall to the Entitlement Offer), that they do not intend to accept the Offer of five (5) MDI shares for every one (1) Alto Share.

As announced on 6 May 2019, Alto's Board is extremely pleased with the interest and support from investors for a capital raising of \$2.6 million, which represents a strong endorsement of Alto's Sandstone Gold Project, technical capabilities and ongoing strategy to generate and drill test a pipeline of highly prospective exploration targets.

Your Directors believe that the Offer is fundamentally opportunistic and timed to suit MDI's best interests without reference to the inherent value of Alto or to the Sandstone Gold Project and the 818km<sup>2</sup> of the historic Archaean Sandstone Goldfield controlled by Alto.

MDI's Offer is designed to secure early control of these assets and capture value that we believe would otherwise flow to you. Your Directors believe that the Offer does not reflect the short, medium and long-term unrealised potential that Alto offers you. Your Directors urge you not to dilute your exposure to that value by prematurely passing control of Alto to MDI at a price that does not adequately reflect Alto's unrealised potential.

While there are certain advantages associated with MDI's Offer, there are also a number of disadvantages. The Directors have extensively analysed the competing considerations in making their recommendation and, on balance, have decided that the disadvantages outweigh the advantages and therefore:

the Directors unanimously recommend that you REJECT MDI's Offer on the basis that:

- the Offer fails to recognise Alto's unrealised potential;
- Middle Island needs Alto, however Middle Island's proposal offers little benefit to Alto Shareholders;
- Alto's 3 largest Shareholders do not intend to accept the Offer;
- your Directors believe this is likely to be Middle Island's first move;

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<sup>1</sup> Windsong Valley Pty Ltd and Marymount Pty Ltd (being related parties of Alto's Chairman, Terry Wheeler) (40,708,175 Alto Shares), Sinotech (Hong Kong) Corporation Limited (15,900,000 Alto Shares) and Enterprise Metals Ltd (12,000,000 Alto Shares). Shareholders should note that, as at the date Alto announced that it had received the above intention statements, the Shareholders listed above held 32.12% of Alto Shares. Following the successful placement of the shortfall to the Entitlement Offer announced on 6 May 2019, the above Shareholders' interests in Alto will, naturally, be diluted once the shares under the shortfall are issued. We note, however, that Mr Wheeler has agreed to subscribe for 16,666,666 Shares (and 8,888,888 free attaching options) on the same terms as the Entitlement Offer, subject to Shareholder approval.

- the Offer is highly conditional and uncertain; and
- there may be tax implications for you if you accept the Offer.

Shareholders can **REJECT** the Offer by **TAKING NO ACTION**.

Further information, including the detailed reasons for your Directors' recommendation, is set out in this Target's Statement.

We appreciate your support by first investing in Alto, and we look forward to your continuing support as the Board and management team take our investment forward and deliver the returns you are entitled to receive.

In assessing whether or not to accept the Offer, you should consider the information provided to you in this Target's Statement, the risks and potential rewards of remaining an Alto Shareholder versus becoming an MDI shareholder, and your own personal circumstances. I encourage you to read this document carefully. If you have any questions in relation to your position as a Shareholder, I encourage you to seek either financial or legal advice without delay.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Terry Wheeler', written in a cursive style.

**Terry Wheeler**  
**Non-Executive Chairman**

**Alto's Directors unanimously recommend that you REJECT MDI's Offer by TAKING NO ACTION, given:**

|   |   |
|---|---|
| 1 | <p><b>THE OFFER FAILS TO RECOGNISE ALTO'S UNREALISED POTENTIAL</b></p> <ul style="list-style-type: none"> <li>• The Offer does not adequately recognise the exploration potential of Alto's Sandstone Gold Project and the 818km<sup>2</sup> of the historic Archaean Sandstone Goldfield controlled by Alto</li> <li>• You should not allow MDI to profit to your detriment</li> </ul>   |
| 2 | <p><b>MDI NEEDS ALTO, HOWEVER MDI'S PROPOSAL OFFERS LITTLE BENEFIT TO ALTO SHAREHOLDERS</b></p> <ul style="list-style-type: none"> <li>• MDI needs long term growth</li> <li>• Control of Alto will create an exciting growth story for MDI's shareholders, however that growth story will come at the expense of Alto Shareholders</li> <li>• Alto Shareholders face immediate further dilution - dilution will be further exacerbated to the extent that Alto Shareholders don't or are unable to participate in future capital raising initiatives conducted by MDI. In addition, MDI has a large number of options, which will considerably dilute Alto Shareholders in the event that the options are exercised</li> <li>• Alto controls 818km<sup>2</sup> of the historic <b>Archaean Sandstone Goldfield</b> - providing the ability to progress exploration of Alto's Sandstone Gold Project on a standalone basis</li> </ul> |
| 3 | <p><b>ALTO'S 3 LARGEST SHAREHOLDERS DO NOT INTEND TO ACCEPT THE OFFER</b></p> <ul style="list-style-type: none"> <li>• Alto's three major shareholders, who will collectively own or control 25.37%<sup>2</sup> of Alto, have stated that they <u>do not intend</u> to accept the Offer</li> <li>• MDI will be unable to meet the 90% compulsory acquisition threshold under the current Offer</li> <li>• In addition, MDI will be unable to secure a shareholding of greater than or equal to 75% of Alto Shares, being the required threshold to pass special resolutions and to seek delisting of Alto from ASX (without shareholder approval)</li> <li>• Accordingly, there are likely to be limited synergies generated from the transaction</li> </ul>  |
| 4 | <p><b>YOUR DIRECTORS BELIEVE THIS IS LIKELY TO BE MDI'S FIRST MOVE</b></p> <p>Your Directors believe that:</p> <ul style="list-style-type: none"> <li>• MDI is determined to secure a foothold shareholding in Alto, irrespective of whether or not it is able to secure a 100% takeover - that is why it has reduced the minimum acceptance condition to 50.1%</li> <li>• MDI is unlikely to secure control of Alto in this first takeover attempt and it is, therefore, possible that MDI will return with a higher offer in the future, on the basis that Alto represents a highly valuable asset which your Directors believe is very important to MDI's long-term growth aspirations</li> </ul>  |
| 5 | <p><b>THE OFFER IS HIGHLY CONDITIONAL AND UNCERTAIN</b></p> <ul style="list-style-type: none"> <li>• You cannot assume that the Offer will proceed</li> </ul>   |

<sup>2</sup> Windsong Valley Pty Ltd and Marymount Pty Ltd (being related parties of Alto's Chairman, Terry Wheeler) (40,708,175 Alto Shares), Sinotech (Hong Kong) Corporation Limited (15,900,000 Alto Shares) and Enterprise Metals Ltd (12,000,000 Alto Shares). Shareholders should note that, as at the date Alto announced that it had received the above intention statements, the Shareholders listed above held 32.12% of Alto Shares. Following the successful placement of the shortfall to the Entitlement Offer announced on 6 May 2019, the above Shareholders' interests in Alto will, naturally, be diluted once the shares under the shortfall are issued. We note, however, that Mr Wheeler has agreed to subscribe for 16,666,666 Shares (and 8,888,888 free attaching options) on the same terms as the Entitlement Offer, subject to Shareholder approval.

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**THE TAX OUTCOMES OF ACCEPTING THE OFFER MAY BE DISADVANTAGEOUS TO YOU**

- If you accept the Offer, there is potential for a tax liability if scrip-for-scrip roll-over relief is not available

The full basis for the Directors' recommendation is provided in Section 1.3 of this Target's Statement.

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## IMPORTANT INFORMATION

### Important Information

This is an important document. If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.

### Shareholder Information

If Shareholders have any queries in relation to MDI's Offer, they may call Alto on +61 (08) 9381 2808 on weekdays between 9.00am and 5.00pm (Perth time) or visit Alto's website at [www.altometals.com.au](http://www.altometals.com.au)

### Nature of this document

This Target's Statement is dated 6 May 2019 and is given under Part 6.5 Division 3 of the Corporations Act by Alto Metals Limited ACN 159 819 173 (Alto) in response to the Bidder's Statement lodged by Middle Island Resources Limited ACN 142 361 608 (MDI) with ASIC and served on Alto by MDI on 10 April 2019.

### ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and ASX. Neither ASIC or ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

### No account of personal circumstances

The recommendations of the Directors contained in this Target's Statement do not take into account the individual investment objectives, financial situation or particular needs of each Shareholder. You may wish to seek independent professional advice before making a decision as to whether to accept or reject the Offer.

### Defined terms

This Target's Statement uses a number of capitalised terms that are defined in Section 12 which also contains some of the rules of interpretation that apply to this Target's Statement.

### Forward-looking statements

This Target's Statement contains various forward-looking statements. Statements other than statements of historical fact may be forward-looking statements. Shareholders should note that such statements are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of Alto. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward-looking statement.

These forward looking statements are based on present economic and business conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Target's Statement, are considered reasonable.

None of Alto, its officers, any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any results, values, performances or

achievements expressed or implied in any forward-looking statement, except to the extent required by law. Shareholders should not place undue reliance on any such statement.

The forward-looking statements in this Target's Statement on behalf of Alto only reflect views held as at the date of this Target's Statement.

### Notice to foreign shareholders

The distribution of this Target's Statement may, in some countries, be restricted by law or regulation. Persons who come into possession of this Target's Statement should inform themselves of and observe those restrictions.

### Information on MDI in this Target's Statement

Except where disclosed otherwise, the information on MDI in this Target's Statement has been obtained from the Bidder's Statement and other publicly available information. Alto and its Directors are unable to verify the accuracy or completeness of the information on MDI. Subject to the Corporations Act, neither Alto, nor its officers make any representation or warranty, express or implied, regarding such information and disclaim any responsibility in respect of that information.

### Privacy statement

Alto has collected your information from the Share Register for the purpose of providing you with this Target's Statement. The type of information that Alto has collected about you includes your name, contact details and information on your shareholding in Alto. The Corporations Act requires the name and address of Shareholders to be held in a public register.

Alto has also provided or will provide personal information about its Shareholders to MDI in accordance with the Corporations Act and the ASX Settlement Operating Rules.



## KEY POINTS

- The Directors recommend that you **REJECT** the Offer for your Shares. Accordingly, you should **TAKE NO ACTION**.
- Your choices are to:
  1. **REJECT** the Offer and do nothing;
  2. Sell your Shares on market to a third party (unless you have previously accepted the Offer and not validly withdrawn your acceptance); or
  3. Accept the Offer and sell your Shares off-market to MDI for the Offer Consideration.
- The Offer is off-market. If you do accept the Offer or otherwise sell your Shares, you will not be able to participate in any other Superior Offer or other offer that may emerge.
- The Offer will expire on 5pm (AWST) on 31 May 2019 (unless extended or withdrawn by MDI beforehand).

## IMPORTANT DATES

| Event   | Date          |
|---|---------------|
| Offer received <sup>3</sup>                                 | 10 April 2019 |
| Offer Period commences                                      | 24 April 2019 |
| Date of this Target's Statement                             | 6 May 2019    |
| Close of the Offer Period<br>(unless extended or withdrawn) | 31 May 2019   |

### Note:

The above dates are indicative only and may change without notice.

<sup>3</sup> A first supplementary bidder's statement was received by Alto on 15 April 2019.

## 1. Recommendations of the Directors

### 1.1 Summary of the Offer

The consideration being offered by MDI under the Offer is five (5) MDI Shares for every one (1) Alto Share.

The Offer is an all-scrip offer and subject to a number of conditions being satisfied or waived during the period commencing on the Announcement Date and ending on the expiry of the Offer Period.

### 1.2 Directors recommendation

The Directors unanimously recommend you **REJECT** MDI's Offer for your Shares.

In making this recommendation, each Director has considered the merits of the Offer and weighed up the factors for and against acceptance.

When making your decision, you should:

- (a) read the Bidder's Statement in its entirety;
- (b) read this Target's Statement in its entirety, in particular the risks of holding Shares as set out in Section 7;
- (c) be aware that the Offer is conditional on a number of conditions being satisfied or waived during the period commencing on the Announcement Date and ending on the expiry of the Offer Period; and
- (d) be aware of the consequences of becoming a minority Shareholder, as set out in Section 3.4.

The Directors' recommendation is given as at the date of this Target's Statement. The Directors reserve the right to change their recommendation should new circumstances arise.

### 1.3 Key considerations for **REJECTING** the Offer

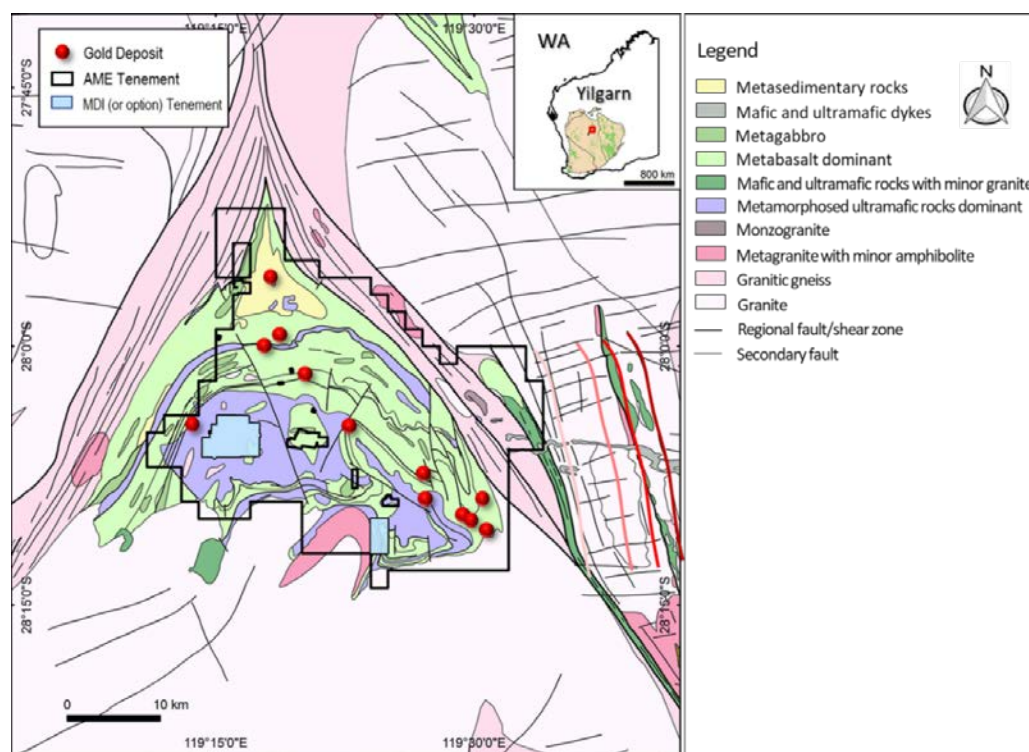
#### (a) The Offer fails to recognise Alto's unrealised potential

Alto controls ~818km<sup>2</sup> 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 261,000 ounces (JORC 2012) at Lord Henry, Lord Nelson, Indomitable Camp and Vanguard Camp. This is soon to be increased with a maiden mineral resource estimate for Havilah and Ladybird prospects.

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.

By comparison, the MDI tenure is completely surrounded by, or immediately adjoins, Alto's Sandstone Tenements, within a confined area, per MDI, of approximately 191km<sup>2</sup> (or 118km<sup>2</sup> according to the Dept of Mines and Petroleum records) and contains a current Mineral Resource of a modest 125,300 ounces of gold (JORC 2012).<sup>4</sup>



In the opinion of your Directors, the MDI Offer does 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 is expected to provide a significant uplift in Alto's resource position, and the Offer fails to recognise Alto's unrealised potential.*

**(b) MDI needs Alto, however MDI's proposal offers little benefit to Alto Shareholders**

Your Directors believe that, through its presence in the Sandstone Goldfield, MDI now fully appreciates that Alto's Sandstone Project, and the 818km<sup>2</sup> of the historic Archaean Sandstone Goldfield that is controlled by Alto, is in one of the most prospective gold provinces in Western Australia today, with enormous upside potential.

That is why your Directors believe that MDI has made its unsolicited offer at this time.

**(i) MDI needs long term growth - MDI seeks to take control over the development of their geographically stranded Sandstone gold project**

<sup>4</sup> Refer to MDI ASX Announcements dated - 8 December 2017, 14 December 2017 and 29 November 2017.

Control of Alto will create an exciting growth story for MDI shareholders, at the expense of Alto Shareholders, through the opportunity to develop new gold mines and utilise the MDI processing plant at Sandstone.

Through MDI's own admission in the Bidder's Statement:

*"If, as MDI anticipates, the consolidated tenement holdings justify the recommissioning of MDI's wholly-owned Sandstone Gold Plant"<sup>5</sup>; and*

*"MDI has determined that its current gold resource base, in isolation, applying current economics, does not justify the expense of refurbishing and recommissioning the Sandstone Gold Plant."<sup>6</sup>*

Only by taking control of Alto can MDI control the development of Alto's Sandstone Gold project and capture the exploration upside of Alto's extensive 100% owned ground position.

Alto Shareholders deserve this upside and should not have it diluted through acceptance of MDI's Offer.

Alto's control of the area gives it the ability to progress Alto's Sandstone Gold Project on a standalone basis. Shareholders should not hand over project control by accepting MDI's Offer.

**(ii) Alto Shareholders face immediate further dilution**

MDI believes (and Alto agrees) that Alto's current Mineral Resources do not currently justify a new stand-alone plant. As such, MDI considers its proximal Sandstone gold plant represents the only viable opportunity to realise near-term value from Alto's deposits.

MDI has estimated that the refurbishment cost of their existing Sandstone gold plant and associated infrastructure is approximately \$10.3 million, excluding contractor mobilisation, pre-production mining and working capital.

Contingent on the successful outcome of the Offer, MDI has:

*"a high level of confidence that they have broker support to raise up to \$5M, via a placement, to provide funds to pursue the Sandstone Gold Plant re-commissioning decision. In addition, and again contingent on the successful outcome of the Offer, MDI Directors intend to undertake a simultaneous share purchase plan to ensure all MDI Shareholders, including AME Shareholders who accept the Offer, have an opportunity to participate."<sup>7</sup>*

Even if the Offer is successful, MDI can provide no guarantee that the merged operations will lead to a re-commissioning decision.

Your Directors believe that there are significant benefits for MDI and its shareholders in securing additional mineral resources and

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<sup>5</sup> Refer page iv of the Bidder's Statement

<sup>6</sup> Refer page iv of the Bidder's Statement

<sup>7</sup> Refer page 6 of the Bidder's Statement

spreading its funding requirements and risk, to the detriment of Alto Shareholders.

According to section 2.7 of the Bidder's Statement, MDI's capital structure comprised:

- 1,046,852,156 MDI shares;
- 30,000,000 MDI options (exercisable at \$0.03, expiry 8 November 2021); and
- 348,950,719 MDI options (exercisable at \$0.008, expiry 31 January 2022).

Alto's Directors note that the exercise of the above options would considerably dilute the voting power of other holders of MDI shares if these options converted into MDI shares.

Furthermore, MDI acquired a 100% interest in its Sandstone gold project from Black Oak Minerals Limited (in Liquidation) (Receivers & Managers appointed) in July 2016 for \$2.5 million. A final payment of \$500,000 is contingent on first production from the recommissioned Sandstone Gold Plant.

By accepting the Offer, your exposure to the Alto Sandstone gold project will be significantly diluted. The dilution will be further exacerbated to the extent that Alto Shareholders either don't or are unable to participate in future capital raising initiatives conducted by MDI or in the event that MDI options are exercised.

*Alto Shareholders should not accept this funding risk and dilution uncertainty and should REJECT MDI's Offer.*

#### (c) Alto's three largest shareholders do not intend to accept the Offer

Supporting your Directors' position, Alto has received separate shareholding intention statements from Alto's three major shareholders (together, Major Shareholders):

- Windsong Valley Pty Ltd and Marymount Pty Ltd (being related parties of Alto's Chairman, Terry Wheeler);
- Sinotech (Hong Kong) Corporation Limited; and
- Enterprise Metals Ltd,

who collectively own or control 68,608,175 Alto Shares (equal to, in aggregate, 25.37%<sup>8</sup> of Alto's shares on issue), that they do not intend to accept the Offer of 5 MDI shares for every 1 Alto Share.

*On the basis of the statements made by the Major Shareholders, MDI will be unable to secure 100% control of Alto under the current Offer. In addition, MDI will be unable to secure a shareholding of greater than or equal to 75% of Alto Shares, being the required shareholding threshold to*

<sup>8</sup> Shareholders should note that, as at the date Alto announced that it had received the above intention statements, the Shareholders listed above held 32.12% of Alto Shares. Following the successful placement of the shortfall to the Entitlement Offer announced on 6 May 2019, the above Shareholders' interests in Alto will, naturally, be diluted once the shares under the shortfall are issued. We note, however, that Mr Wheeler has agreed to subscribe for 16,666,666 Shares (and 8,888,888 free attaching options) on the same terms as the Entitlement Offer, subject to Shareholder approval.

*pass special resolutions and to seek delisting of Alto from ASX (without shareholder approval).*

**(d) Your Directors believe this is likely to be MDI's first move**

Your Directors believe that MDI understood that, when it first announced its unsolicited offer, it was unlikely to secure 100% control of Alto via this takeover bid and that one or more further takeover bids would be required to secure 100% control. Accordingly, your Directors believe that this may be just the first step in MDI's plan to take 100% control of Alto.

MDI has indicated that it recognises Alto as a continuation of its strategy to pursue growth opportunities, in particular as Alto is adjacent to its current core operations in Western Australia. However, this unrealised potential, including development optimisation, will not be fully available to MDI unless it acquires 100% control of Alto.

When MDI announced its intention to make a takeover bid, the offer was subject to a 90% minimum acceptance condition which was subsequently amended on 10 April 2019. The Offer is now subject to a 50.1% minimum acceptance condition.

Your Directors believe that if MDI fails to acquire 100% of Alto in its first attempt (i.e. under the Offer), which is a likely outcome given holders of 25.37%<sup>9</sup> of Alto's shares have provided intention statements indicating that it is their intention to not accept the Offer at the current price, it is possible that MDI may return in the future with a separate, follow-on, offer in order to acquire 100% of Alto Shares. If your Directors' views regarding the potential enhancements to the value and economics of the Sandstone Gold Project are realised, it is possible that any follow-on offer by MDI would be at a higher price than the current Offer.

Alto Shareholders should note that your Directors are not aware of any specific intention on the part of MDI to make any follow-on offer in the event that it fails to secure 100% of Alto Shares (or sufficient interests to allow it to proceed to compulsory acquisition) under the Offer, and there can be no guarantee as to what action MDI might take in these circumstances.

However, if you do accept the current Offer and it becomes unconditional, you will be unable to benefit from any future offers that MDI may make.

*Your Directors urge you not to sell to MDI at a price that does not, in the opinion of your Directors, reflect the medium and long-term potential upside that Alto offers you.*

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<sup>9</sup> Windsong Valley Pty Ltd and Marymount Pty Ltd (being related parties of Alto's Chairman, Terry Wheeler) (40,708,175 Alto Shares), Sinotech (Hong Kong) Corporation Limited (15,900,000 Alto Shares) and Enterprise Metals Ltd (12,000,000 Alto Shares). Shareholders should note that, as at the date Alto announced that it had received the above intention statements, the Shareholders listed above held 32.12% of Alto Shares. Following the successful placement of the shortfall to the Entitlement Offer announced on 6 May 2019, the above Shareholders' interests in Alto will, naturally, be diluted once the shares under the shortfall are issued. We note, however, that Mr Wheeler has agreed to subscribe for 16,666,666 Shares (and 8,888,888 free attaching options) on the same terms as the Entitlement Offer, subject to Shareholder approval.



**(e) This Offer is highly conditional and uncertain**

The Offer is subject to **13 conditions**, which make it uncertain whether the Offer will ever become unconditional.

These conditions include that MDI receives acceptances in respect of more than 50.1% of the sum of the number of Alto Shares on issue, which is entirely beyond Alto's control.

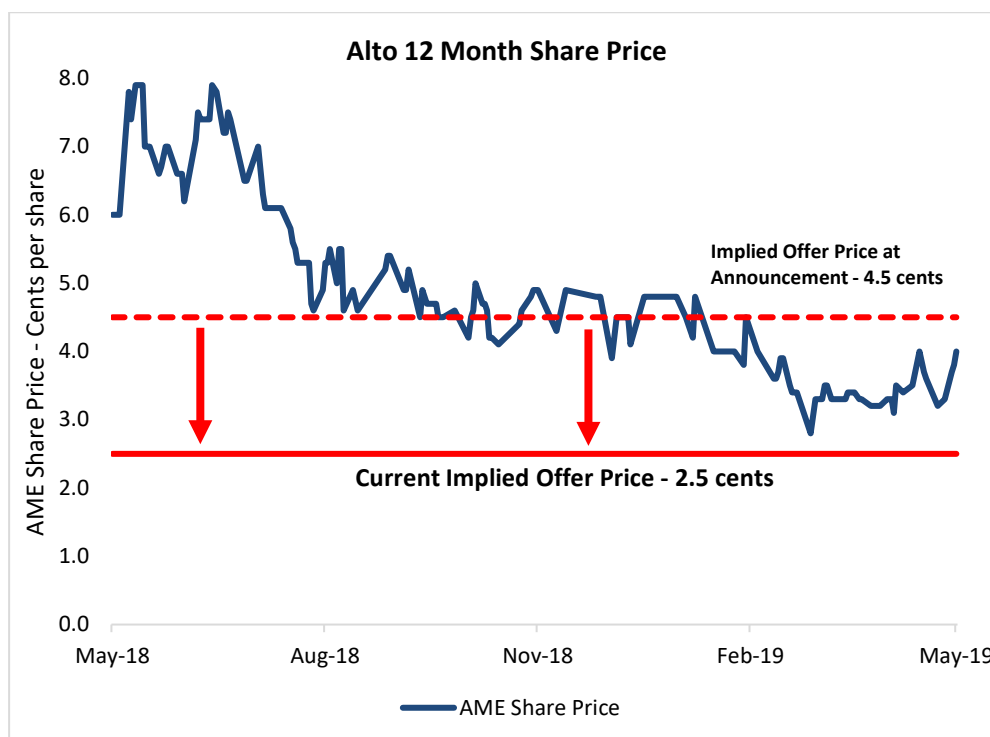
There are also Conditions which restrict Alto from issuing shares (other than Alto Shares issued as a result of the exercise of Alto options or the Alto performance rights). There are also restrictions on the conduct of Alto's business.

As announced on 6 May 2019, Alto has successfully completed the placement of the shortfall from the Entitlement Offer undertaken in early 2019. The issue of Shares pursuant to that placement by Alto during the Offer Period is a "prescribed occurrence" (see section 9.10 (h)(d) of MDI's Bidder's Statement), such that the Offer Conditions could not be met (and therefore MDI would be required to directly waive that condition of the Offer).

If you accept the Offer while it is still conditional, there will be no certainty that the Offer will proceed. In addition, you will also be unable to sell your Alto Shares on market and may also be unable to participate in any alternative proposal, if one arises.

As at 3 May 2019, the last practicable day prior to lodgement of this Target's Statement, the Alto share price was trading at a premium to the implied offer price. The MDI share price has fallen from a 3-month high of 0.9 cents at the time of MDI announcing its intention of make the takeover Offer, to the current share price of 0.5 cents. Under the Offer of 5 MDI shares for each 1 Alto share, this implies that the Offer value has fallen from 4.5 cents to 2.5 cents per share.

Alto's closing share price on 3 May 2019 was 4.0 cents, implying Alto Shares are trading at a 60% premium to the current implied Offer price.



*Your Directors urge you not to sell to MDI in circumstances where, in the opinion of your Directors, the Offer does not reflect the medium and long-term potential upside that Alto offers you.*

**(f) There may be tax implications for you if you accept the Offer.**

Please refer to the summary of taxation implications in Section 9.

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

Alto Shareholders should be aware of the uncertainty regarding the availability of scrip for scrip roll over relief. In order for Alto Shareholders to benefit from scrip for scrip roll over relief from capital gains tax, MDI must own at least 80% of the voting shares at the conclusion of the MDI Offer (as set out in section 6 of the Bidder's Statement).

Given the intention statements received from Alto's three major shareholders, MDI is unlikely to become the holder of greater than or equal to 80% of Alto's Shares. Accordingly, scrip-for scrip rollover is unlikely to be available to Alto Shareholders who accept the Offer. This may result in further CGT liability in relation to the scrip component of the Offer Consideration for Alto Shareholders who accept MDI's Offer.

## 1.4 Further developments

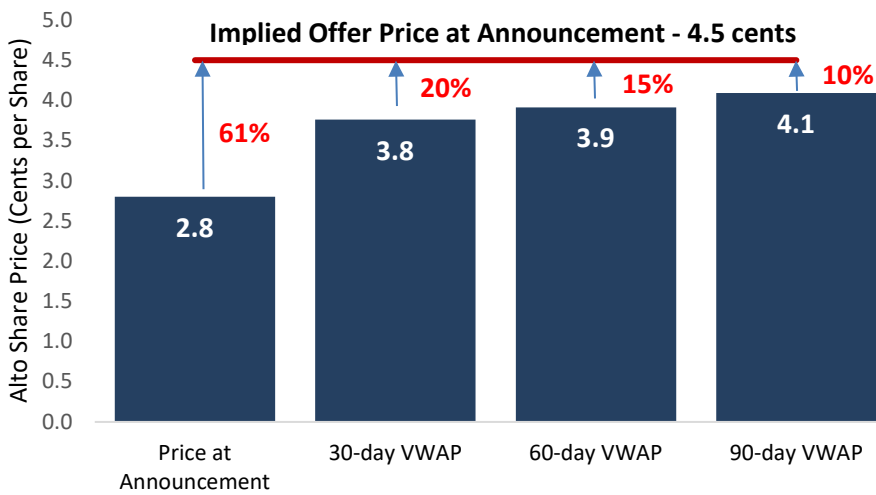
Should there be any developments during the Offer Period (for example, the emergence of a Superior Offer from another bidder) which would alter the Directors' recommendations in relation to the Offer, you will be notified through an ASX announcement and/or a supplementary target's statement.

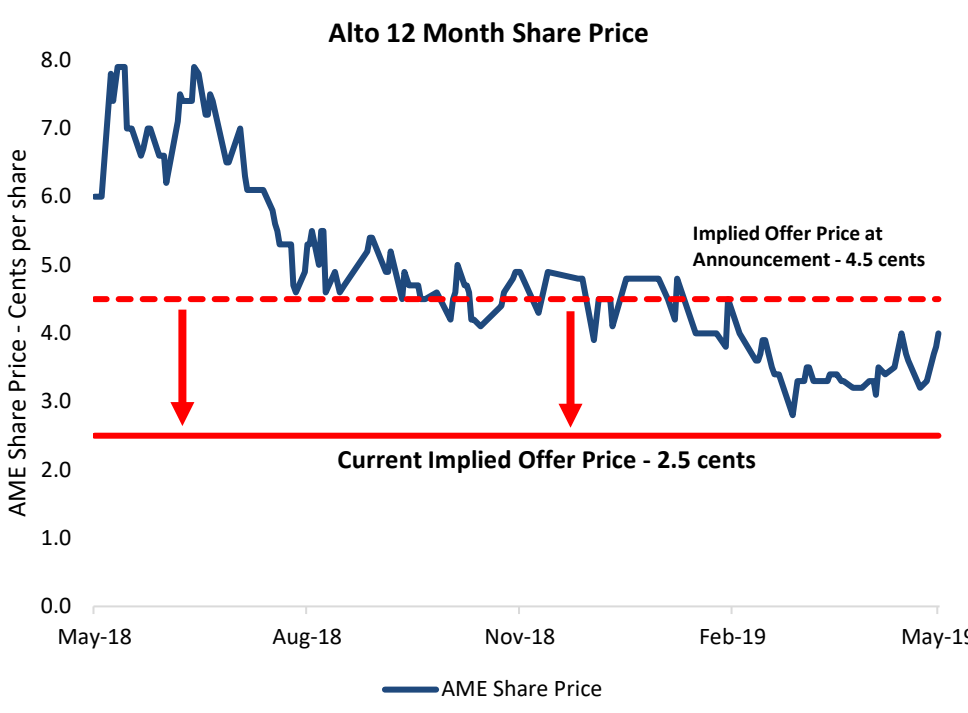
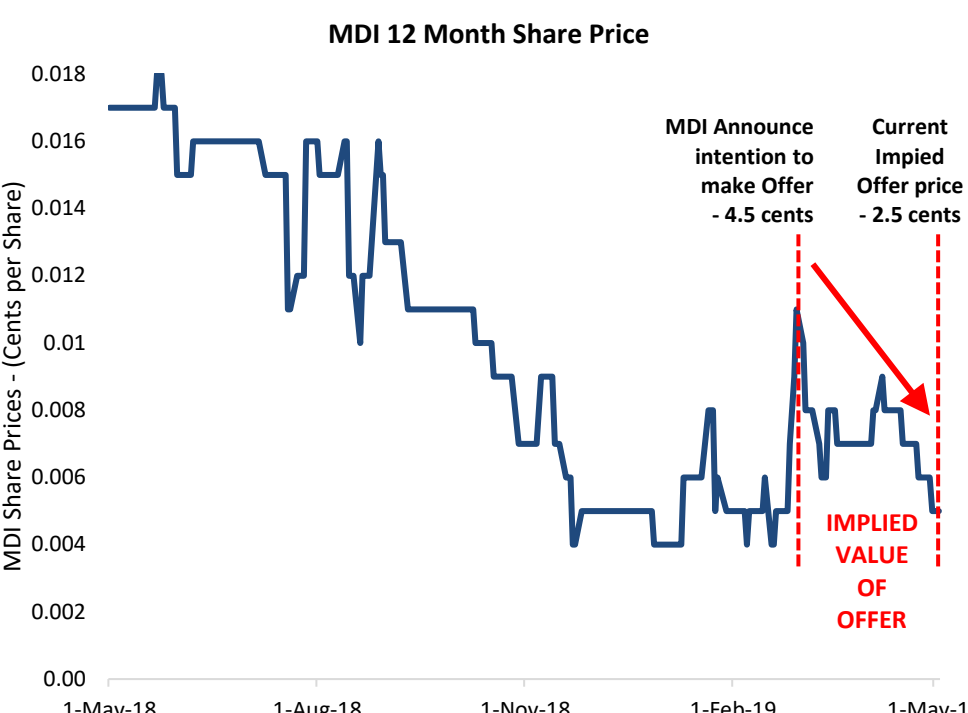


## 2. Your Directors' response to MDI claims

All Alto Shareholders can be assured that your Directors intend to do whatever they can to ensure that, if control of Alto is to pass to MDI or any third party, it will be on terms which recognises the medium and long-term potential upside of Alto.

The Alto Directors make the following responses to claims in the MDI Bidder's Statement.

| MDI claims that....  | Alto's response to these claims is...   |  |                         |  |                       |     |     |             |     |     |             |     |     |             |     |     |
|--|---|--|-------------------------|--|-----------------------|-----|-----|-------------|-----|-----|-------------|-----|-----|-------------|-----|-----|
| Significant growth potential through the consolidation of ownership of highly complementary assets   | <p>MDI needs long term growth and recognise the potential associated with Alto's 100% owned tenure of 818km<sup>2</sup> in the historic Archaean Sandstone Goldfield.</p> <p>Alto Shareholders face immediate further dilution, as MDI will need to secure additional funding. In addition, to the extent that Alto Shareholders don't or are unable to participate in future capital raising initiatives and the MDI options are exercised, Alto Shareholders will be even further diluted.</p> <p>The Offer will significantly dilute all Alto Shareholders' interests in Alto's assets and diminishes Alto Shareholders' participation in potential future increases in the value of Alto's assets.</p>  |  |                         |  |                       |     |     |             |     |     |             |     |     |             |     |     |
| Based on the closing prices of AME and MDI Shares on the date of announcement of intention to make the Offer, the offer represented a premium to AME shareholders of 61%; at the date of this Bidder's Statement the premium was 17.64%. | <p>At the time of MDI announcing its intention to make a takeover bid on 1 March 2019, the implied offer price was 4.5 cents. The implied premium of 61% was illusory, selective in timing and not reflective of trading in Alto's shares in the 3 months prior to the announcement of the Offer.</p> <div><table><caption>Alto Share Price (Cents per Share) Data</caption><thead><tr><th>Period</th><th>Price (Cents per Share)</th><th>Premium to Implied Offer Price (4.5 cents)</th></tr></thead><tbody><tr><td>Price at Announcement</td><td>2.8</td><td>61%</td></tr><tr><td>30-day VWAP</td><td>3.8</td><td>20%</td></tr><tr><td>60-day VWAP</td><td>3.9</td><td>15%</td></tr><tr><td>90-day VWAP</td><td>4.1</td><td>10%</td></tr></tbody></table></div> <p>As at 3 May 2019, the last practicable day prior to lodgement of this Target's Statement, the implied value of the MDI Offer has fallen to 2.5 cents. Alto's closing share price on the same day was 4.0 cents, implying a 60% premium to the current implied Offer price.</p> | Period                                     | Price (Cents per Share) | Premium to Implied Offer Price (4.5 cents) | Price at Announcement | 2.8 | 61% | 30-day VWAP | 3.8 | 20% | 60-day VWAP | 3.9 | 15% | 90-day VWAP | 4.1 | 10% |
| Period   | Price (Cents per Share)   | Premium to Implied Offer Price (4.5 cents) |                         |  |                       |     |     |             |     |     |             |     |     |             |     |     |
| Price at Announcement  | 2.8   | 61%  |                         |  |                       |     |     |             |     |     |             |     |     |             |     |     |
| 30-day VWAP  | 3.8   | 20%  |                         |  |                       |     |     |             |     |     |             |     |     |             |     |     |
| 60-day VWAP  | 3.9   | 15%  |                         |  |                       |     |     |             |     |     |             |     |     |             |     |     |
| 90-day VWAP  | 4.1   | 10%  |                         |  |                       |     |     |             |     |     |             |     |     |             |     |     |

| MDI claims that.... | Alto's response to these claims is...  |
|---------------------|--|
|                     | <p data-bbox="454 304 1342 338">Alto share price is trading at a premium to the implied offer price.</p> <div data-bbox="454 349 1439 1081">  <p><b>Alto 12 Month Share Price</b></p> <p>The chart displays the AME Share Price in cents per share from May-18 to May-19. The y-axis ranges from 0.0 to 8.0. A blue line represents the share price, which starts at approximately 6.0 cents, peaks near 8.0 cents in late May 2018, and then generally declines with volatility to around 4.0 cents by May 2019. Two horizontal red lines indicate offer prices: a dashed line at 4.5 cents labeled 'Implied Offer Price at Announcement - 4.5 cents' and a solid line at 2.5 cents labeled 'Current Implied Offer Price - 2.5 cents'. Two red arrows point from these lines to the share price line, showing the current price is above the current implied offer price.</p> </div> <p data-bbox="454 1104 1410 1238">The MDI share price has fallen from 0.9 cents at the time of announcing its intention of make a takeover Offer, to the current share price of 0.5 cents - which implies the Offer value has fallen from 4.5 cents to 2.5 cents per share.</p> <div data-bbox="454 1249 1439 1982">  <p><b>MDI 12 Month Share Price</b></p> <p>The chart displays the MDI Share Price in cents per share from May-18 to May-19. The y-axis ranges from 0.00 to 0.018. A blue line represents the share price, starting at approximately 0.017 cents, peaking near 0.018 cents in late May 2018, and then generally declining with volatility to around 0.005 cents by May 2019. Two vertical dashed red lines mark key events: one at approximately Feb-19 labeled 'MDI Announce intention to make Offer - 4.5 cents' and another at May-19 labeled 'Current Impied Offer price - 2.5 cents'. A red arrow points from the current implied offer price line to the share price line, showing the current price is below the current implied offer price. The text 'IMPLIED VALUE OF OFFER' is written in red below the current implied offer price line.</p> </div> <p data-bbox="454 2004 1361 2067">As announced on 6 May 2019, Alto's successfully announced the placement of the shortfall to the Entitlement Offer at a price of 3.6</p> |

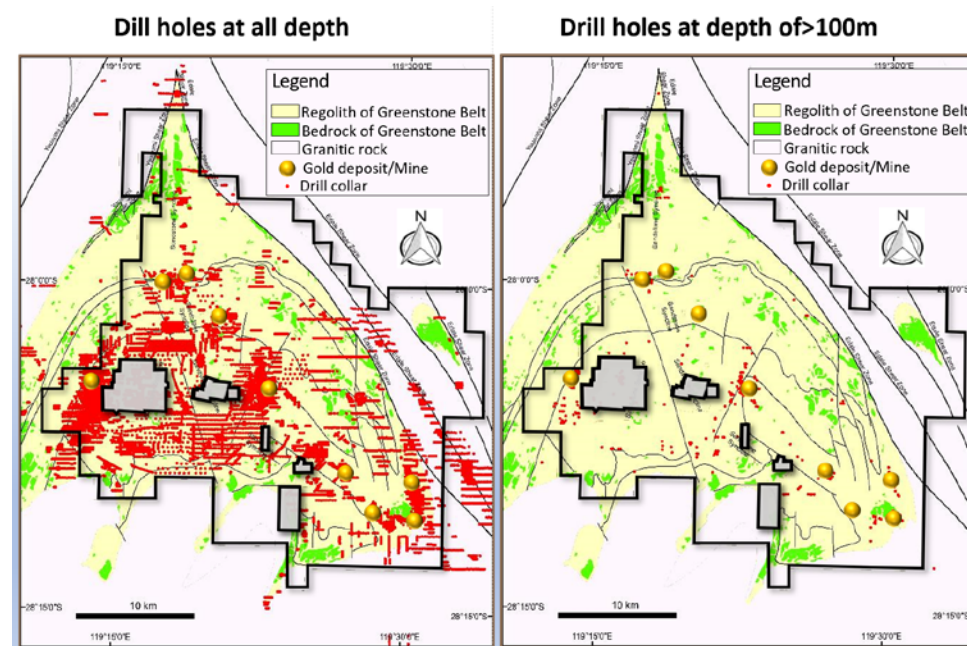
| MDI claims that....  | Alto's response to these claims is...  |
|--|--|
|  | cents per share - representing a significant premium of 44%, to the implied Offer price.   |
| <p>The Combined Entity will have potential near-term production at a modest capital cost and a genuine prospect of funding future exploration from cash flow.</p>  | <p>MDI has estimated that the refurbishment cost of their existing Sandstone gold plant and associated infrastructure is approximately \$10.3 million, <b>excluding contractor mobilisation, preproduction mining and working capital</b>. MDI also state that they will require a 600,000tpa contract crusher on site, and the feed to the mill will be 500,000tpa.</p> <p>Your Directors understand, from MDI's 31 March 2019 quarterly report, that MDI had approximately \$1.16 million cash at bank as at 31 March 2019 and has outlined an expenditure budget of \$661,000 for the next 3 months.</p> <p>Accordingly, if the Offer proceeds, it appears that MDI will need to raise further capital in the short term in order to continue development of the combined group's projects.</p> <p>This may result in further dilution of the interest of Alto Shareholders' in the combined group, should the Offer proceed.</p> |
| <p>The prospect of recommissioning the Sandstone Gold Plant provides AME Shareholders with a realistic short-term, proximal and cost-effective processing solution for the AME Sandstone Tenement deposits; there is no other credible option.</p> | <p>The prospect of successfully recommissioning the Sandstone gold plant needs to be weighed against further exploration success, in order to build Alto's current mineral resource base of 261,000ozs at Lord Henry, Lord Nelson, Indomitable Camp and Vanguard Camp.</p> <p>Middle Island can provide no guarantee to Alto Shareholders that, even if the Offer is successful, it will lead to a re-commissioning decision. Furthermore, the success of Alto's existing exploration program and subsequent exploration across Alto's 100% owned tenements (where more than 15 gold mineralised prospects have been identified) is expected to provide a significant uplift in Alto's resource position.</p> <p>Development scenarios will continue to be evaluated against exploration success, as Alto Shareholders deserve this upside and should not have their interest diluted through acceptance of MDI's Offer.</p>         |
| <p>MDI offers management stability, seasoned corporate and technical expertise with a clear, credible and focused development strategy and vision.</p>   | <p>The Bidder's Statement refers to board and management changes over the past two years at Alto and, by comparison, states that the three current MDI directors, Messrs Thomas, Yeates and Nicholls, are all founding directors of MDI, demonstrating a strong, stable and consistent governance and management platform.</p> <p>Notwithstanding the stability, MDI has not demonstrated a track record of creating shareholder value through material acquisitions, as the market capitalisation of MDI has declined since the completion of the acquisition of the Sandstone gold project from Black Oak Minerals Limited (in Liquidation) (Receivers &amp; Managers appointed) in July 2016 for \$2.5 million.</p> <p>The current Alto Board has a clear vision and strategy for the exploration and development of their Sandstone Gold Project. Alto already has advanced gold deposits at Vanguard and Indomitable and</p>    |

## MDI claims that....

## Alto's response to these claims is...

multiple high priority prospects and targets for drill testing, including Havilah, and Ladybird.

Alto is focused on realising value for Shareholders through systematic exploration of the entire project and drill testing known prospects, many of which have never been adequately tested below 100m.



The 2019 exploration plan will build on the work completed over the past 24 months and includes:

- RC drilling at Vanguard and Indomitable Camp deposits to further define and extend the known Mineral Resources;
- RC drilling at Havilah and Ladybird to further define and extend the known gold mineralisation; and
- AC drill testing of soil and laterite gold geochemical anomalies.

Alto will also continue to progress its resource evaluation work with:

- Maiden mineral resource estimation (JORC 2012) for Ladybird and Havilah using existing available data;
- Updates to Alto's JORC 2012 Mineral Resource inventory; and
- Geotechnical drilling, bulk density measurements and metallurgical test work, where required, to convert Inferred mineral resources into Indicated mineral resources.

Following Alto's successful completion of the placement of the shortfall to the Entitlement Offer, as announced on 6 May 2019, drilling at Vanguard will shortly commence to test for interpreted higher grade mineralisation at depth.

Your Directors believe that both they and the Alto management team, including key consultants, have the necessary skills and experience to realise the full potential of Alto's assets and are best placed to deliver shareholders value over the long term. In this regard, your Directors wish to draw attention to a false statement made by MDI in its letter to

| MDI claims that....  | Alto's response to these claims is...   |
|--|---|
|  | <p>Alto Shareholders dated 26 April 2019, which suggested that Alto "<i>had seen no less than 17 Board changes since June 2016</i>". The tenure of your Directors is set out below:</p> <ul style="list-style-type: none"> <li>• Terry Wheeler (Director since 2 December 2016);</li> <li>• Jingbin Wang (Director since 12 October 2016); and</li> <li>• Matthew Bowles (Director since 27 February 2019).</li> </ul> <p>In addition, Dermot Ryan, who was a director at the time of completion of the acquisition of the Sandstone Gold Project in June 2016 and recently resigned his position as Executive Director of Alto on 27 February 2019, continues to assist Alto on a consultancy basis. Of the remaining 4 directors who have resigned from the Board since June 2016, two of those directors ceased their directorships in 2016 (Anna Mao, Bill Robertson).</p> <p>Like MDI, the Alto Board continues to review and refresh its composition to ensure it constitutes the best possible combination of relevant skills to guide Alto.</p> |
| <p><b>Substantial reduction in the combined administration costs with significant exploration and production synergies.</b></p>                                  | <p>Alto remains focussed on maximising the money spent on exploration and evaluation and is committed to minimise expenditure on corporate administration.</p> <p>Alto acknowledges the potential to consolidate the corporate and administrative functions, but considers the dilution to Alto Shareholders under the current offer outweighs this.</p>  |
| <p><b>Expected increase in market profile, market capitalisation, greater liquidity and improved access to capital markets to fund growth opportunities.</b></p> | <p>The Offer will significantly dilute all Alto's Shareholders' interests in Alto's assets and their participation in potential future increases in value of those assets.</p> <p>Following the successful completion of the placement of the shortfall from the Entitlement Offer (as announced on 6 May 2019) and the additional placement to Director, Terry Wheeler (subject to shareholder approval), Alto will be well funded to pursue the next phase of its exploration activities, including the commencement of drilling at Vanguard to test for interpreted higher grade mineralisation at depth.</p> <p>In addition, the successful completion of the placement is evidence of Alto's ability to raise funds from new investors who clearly support Alto and its portfolio of assets, notwithstanding MDI's Offer.</p>  |
| <p><b>MDI is confident the consolidation of assets will support the raising of up to \$5 million to pursue a decision to re-commission the</b></p>               | <p>As noted above, MDI has estimated the refurbishment cost of their existing Sandstone gold plant and associated infrastructure to be approximately \$10.3 million, <b>excluding contractor mobilisation, preproduction mining and working capital.</b></p> <p>As noted above, MDI's 31 March 2019 quarterly report notes that MDI had approximately \$1.16 million cash at bank as at 31 March 2019 and has outlined an expenditure budget of \$661,000 for the next 3 months.</p>  |

| MDI claims that....  | Alto's response to these claims is...  |
|--|--|
| <b>Sandstone Gold Plant.</b>   | <p>Accordingly, if the Offer proceeds, it appears that MDI will need to raise further capital in the short and medium term in order to continue development of the combined group's projects.</p> <p>This may result in further dilution of Alto Shareholders' interest in the combined group, should the Offer proceed.</p>   |
| <b>Rejecting shareholders may find themselves holding unlisted shares.</b>                     | <p>Alto's three largest shareholders, who currently own or control 25.37<sup>10%</sup> of Alto's Shares, and have indicated that they <b><u>do not intend to accept</u></b> the Offer.</p> <p>On this basis, MDI will be unable to secure a shareholding of greater than or equal to 75% of Alto Shares, being the required threshold to pass special resolutions and to seek a delisting of Alto from ASX (without shareholder approval). Accordingly, it is unlikely that Alto will be delisted, even if MDI's takeover bid is successful.</p>   |
| <b>No Superior Proposal or alternative offer has emerged and it is unlikely that one will.</b> | <p>Alto's three largest shareholders, who currently own or control 25.37<sup>11%</sup> of Alto's Shares, have indicated that they <b><u>do not intend to accept</u></b> the Offer.</p> <p>Following the successful completion of the placement of the shortfall from the Entitlement Offer (as announced on 6 May 2019) and the additional placement to Director, Terry Wheeler (subject to shareholder approval), Alto will be well funded to pursue the next phase of its exploration activities, including the commencement of drilling at Vanguard to test for interpreted higher grade mineralisation at depth.</p>   |
| <b>You may be eligible for CGT rollover relief.</b>  | <p>Refer to Section 9 and section 6 of the Bidder's Statement.</p> <p>In broad terms, MDI must become the owner of at least 80% of the voting shares in AME, as a result of the Offer, before Australian-resident AME Shareholders may be entitled to 'scrip for scrip' CGT rollover relief in respect of the consideration referable to MDI Shares where the exchange of the shares would otherwise realise an assessable capital gain.</p> <p>As outlined above, Alto has received strong messages of support from Alto's three largest shareholders who currently control 25.37<sup>12%</sup> of Alto's shares and have indicated that they <b><u>do not intend to accept</u></b> the Offer.</p> <p>Therefore 'scrip for scrip' CGT rollover relief is unlikely to be available to Alto Shareholders under the current Offer.</p> |

<sup>10,11,12</sup> Windsong Valley Pty Ltd and Marymount Pty Ltd (being related parties of Alto's Chairman, Terry Wheeler) (40,708,175 Alto Shares), Sinotech (Hong Kong) Corporation Limited (15,900,000 Alto Shares) and Enterprise Metals Ltd (12,000,000 Alto Shares). Shareholders should note that, as at the date Alto announced that it had received the above intention statements, the Shareholders listed above held 32.12% of Alto Shares. Following the successful placement of the shortfall to the Entitlement Offer announced on 6 May 2019, the above Shareholders' interests in Alto will, naturally, be diluted once the shares under the shortfall are issued. We note, however, that Mr Wheeler has agreed to subscribe for 16,666,666 Shares (and 8,888,888 free attaching options) on the same terms as the Entitlement Offer, subject to Shareholder approval.



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### **3. Important information for the Shareholders to consider**

#### **3.1 Information about Alto**

Section 8 contains detailed information about Alto.

#### **3.2 Information about MDI**

Section 2 of the Bidder's Statement contains detailed information about MDI.

#### **3.3 Conditions of the Offer**

The Offer is conditional upon each of the Conditions being satisfied or otherwise waived. MDI may waive any Condition under the Corporations Act.

Details of the Conditions are set out in full in section 9.10 of the Bidder's Statement.

#### **3.4 Minority ownership consequences**

If the Offer becomes or is declared unconditional and MDI:

- (a) does not acquire all of the Shares, but acquires the majority of the Shares (i.e. more than 50% of Shares); and
- (b) is not able to compulsorily acquire the rest of the Shares under the Corporations Act,

there may be a number of possible implications for Shareholders, including:

- (a) MDI will be in a position to cast the majority of votes at a general meeting of Alto. This will enable MDI to control the composition of Alto's board of Directors and senior management, determine Alto's fundraising plans and dividend policy as well as to control the strategic direction of Alto;
- (b) if MDI acquires 75% or more of the Shares it may be able to pass special resolutions at meetings of Alto's Shareholders. This may enable MDI to, among other things, change Alto's Constitution;
- (c) MDI has indicated that, if it acquires 50.1% or more but less than 90% of the Shares:
  - (i) subject to the outcome of the Strategic Review, it proposes to seek the appointment of a majority of MDI nominees to the Board so that the proportion of MDI's nominees is at least in line with MDI's voting power in Alto;
  - (ii) it will seek to maintain Alto's listing on the official list of ASX, while Alto continues to meet its ASX listing requirements (noting that liquidity in Alto's shares may be materially decreased);
  - (iii) it may, at some later time, acquire further Shares in a manner consistent with the Corporations Act including compulsory acquisition under Part 6A.2 of the Corporations Act if it becomes so entitled; and
- (d) the liquidity of Shares may be affected, particularly if Alto is removed from the official list of ASX.

Sections 5.3 to 5.9 of the Bidder's Statement sets out the details of MDI's intentions.

### **3.5 Compulsory acquisition**

MDI has indicated in section 5.5 of its Bidder's Statement that, if it is entitled to do so, it will proceed to compulsorily acquire all remaining Shares.

See Section 6.11 for further information.

### **3.6 Dividend issues for Shareholders**

Alto has not paid a dividend to Shareholders since listing on the ASX. The Directors consider it unlikely that Alto will pay dividends in the 2019 or 2020 financial years.

### **3.7 Considerations in favour of accepting the Offer**

MDI has set out its views on the considerations in favour of accepting the Offer in their Bidder's Statement.

The Directors encourage you to review the Bidder's Statement in its entirety.

### **3.8 Alto Share price absent the Offer**

While there are many factors that influence the market price of Alto Shares, your Directors point out that, following the close of the Offer, the market price of Alto Shares may fall if MDI's Offer fails (and there is no alternative to the Offer), if MDI acquires more than 50% (but less than 90%) of Alto Shares or if the takeover is otherwise unsuccessful.

### **3.9 Other alternatives to the Offer**

The Alto Board is not aware of any alternatives to the Offer in order to maximise value for Alto Shareholders. This includes the potential for rival takeover bids for Alto.

At this stage, the Alto Board is not in a position to provide Alto Shareholders with information in relation to the probability of an alternative transaction arising but will keep Alto Shareholders informed of any material developments.

### **3.10 Taxation consequences of a change in control in Alto**

The taxation consequences of accepting the Offer depends on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer is set out in section 6 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

### **3.11 Alto Optionholders and holders of Performance Rights and Performance Shares**

If you are an Alto Optionholder or hold Alto Performance Rights or Alto Performance Shares, the Offer does not apply to your Alto Options, Alto Performance Rights or Alto Performance Shares. However, the Offer extends to any Alto Shares that are issued after the Record Date and during the Offer Period as a result of the exercising of Alto



Options or valid vesting of Alto Performance Rights and Alto Performance Shares that are on issue at the Record Date.

### **3.12 Company announcements**

Alto is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules. Copies of announcements lodged with ASX can be obtained from ASX's website at [www.asx.com.au](http://www.asx.com.au) under the code "AME" or from Alto's website at [www.altometals.com.au](http://www.altometals.com.au).

A list of announcements made by Alto to ASX between 25 January 2019 (the date of release of Alto's last disclosure document, being the Entitlement Offer) and the date of this Target's Statement is set out in Annexure 2. This information may be relevant to your assessment of the Offer.

## 4. Frequently asked questions

This Section is not intended to address all issues relevant to you. This Section should be read together with all other parts of this Target's Statement.

| Question   | Answer  |
|--|---|
| What is MDI's Offer for my Shares?                         | MDI has made an off-market takeover offer to acquire your Shares for consideration of 5 MDI Shares for every 1 Alto Share held.   |
| What choices do I have as a Shareholder?                   | As a Shareholder you can: <ul style="list-style-type: none"> <li>• <b>REJECT</b> the Offer by doing nothing. The Directors recommend that you <b>REJECT</b> the Offer by doing nothing; or</li> <li>• accept the Offer and transfer your Shares off-market for the Offer Consideration; or</li> <li>• sell your Shares on-the ASX (unless you have previously accepted the Offer and not validly withdrawn your acceptance).</li> </ul> |
| What are the Directors recommending?                       | Your Directors unanimously recommend that you <b>REJECT</b> MDI's Offer. The reasons for the Directors' recommendation are set out in this Target's Statement.  |
| How do I accept or reject the Offer?                       | To reject the Offer, simply do nothing. Ignore all documents sent to you by MDI. Do not fill in or send any documents to MDI.<br><br>To accept the Offer, you should carefully follow the instructions in section 9.4 of the Bidder's Statement.  |
| What do the Directors intend to do with their Shares?      | Each Alto Director has advised that they intend to <b>REJECT</b> the Offer in respect of any Alto Shares that they own or control (as set out in Section 8.5).  |
| What happens if a Superior Offer is made by a third party? | If you accept the Offer and you have not validly withdrawn your acceptance: <ul style="list-style-type: none"> <li>• you will not be able to participate in any Superior Offer made by a third party; and</li> <li>• you will not be able to sell your Shares at a higher price quoted on the ASX.</li> </ul>   |
| What are the consequences of accepting the Offer now?      | If you accept the Offer now and do not validly withdraw your acceptance, you will not be able to accept a Superior Offer from any other bidder if such an offer is made or benefit from any higher price on the ASX if the Shares resume trading.   |

| Question   | Answer  |
|--|---|
| If I accept the Offer now, can I withdraw my acceptance?     | Yes, however you may only withdraw your acceptance if the Offer is still subject to any of the Conditions and MDI varies the Offer in a way that extends, by more than one month, the time it has to provide consideration under the Offer.<br><br>See Section 6.7 for further detail.  |
| Can MDI vary the Offer?                                      | Yes. MDI can vary the Offer by waiving any of the Conditions or extending the Offer Period. See Section 6.5 for further detail.   |
| What are the conditions of the Offer?                        | The Offer is subject to a number of Conditions, detailed in section 9.10 of the Bidder's Statement.<br><br>Unless all Conditions are satisfied or otherwise waived, the Offer will not proceed.<br><br>See Section 6.3 for further detail.  |
| What happens if the Conditions are not satisfied or waived?  | If the Conditions are not satisfied or otherwise waived before the Offer closes, the Offer will lapse.<br><br>You would then be free to deal with your Alto Shares even if you had accepted the Offer.  |
| Can I be forced to sell my Shares?                           | You <u>cannot</u> be forced to sell your Shares unless MDI proceeds to compulsory acquisition. If MDI proceeds to compulsory acquisition you will receive the same consideration as if you had accepted the Offer. Given intention statements received by Alto to date, it is not likely that MDI can proceed to compulsory acquisition.<br><br>See Section 6.9 and section 5.5 of the Bidder's Statement for further detail. |
| Will there be any costs associated with accepting the Offer? | No. No brokerage or stamp duty will be payable as a result of your acceptance of the Offer. You may incur brokerage fees if you instruct your Controlling Participant to accept the Offer on your behalf.<br><br>See section 9.17 of the Bidder's Statement.  |
| When does the Offer close?                                   | The Offer is presently scheduled to close at 5pm (AWST) on 31 May 2019, but the Offer Period can be extended in certain circumstances in accordance with the Corporations Act. See Section 6.5 for details on how the Offer Period may be extended.   |
| When will I be sent my consideration if I accept the Offer?  | In the usual case, you will be issued your Offer Consideration on or before the earlier of: <ul style="list-style-type: none"> <li>the day that is one month after the date of your acceptance (if the Offer is, at the time of acceptance, unconditional) or, if at the time of</li> </ul>   |

| Question   | Answer  |
|--|---|
|  | <p>your acceptance the Offer is subject to one or more Offer Conditions, one month after the Offer becomes, or is declared, unconditional; and</p> <ul style="list-style-type: none"> <li>the day that is 21 days after the end of the Offer Period (assuming the Offer becomes, or is declared, unconditional).</li> </ul> <p>Full details of when you will be issued Offer Consideration are set out in section 9.7 of the Bidder's Statement.</p>  |
| <p><b>What are the tax implications of accepting the Offer?</b></p>  | <p>A general outline of the tax implications for certain Australian resident Shareholders of accepting the Offer is set out in Section 9 of this Target's Statement and section 6 of the Bidder's Statement. You should not rely on these outlines as advice on your own affairs. They do not deal with the position of particular Shareholders. You should seek your own personal, independent financial and taxation advice before making a decision as to whether to accept or reject the Offer for your Shares.</p> |
| <p><b>Can overseas Shareholders accept the Offer?</b></p>  | <p>The Offer is not registered in any jurisdiction outside Australia unless an applicable foreign law treats it as registered as a result of the Bidder's Statement being lodged with ASIC. It is your sole responsibility to satisfy yourself that you are permitted by any foreign law applicable to you to accept the Offer.</p> <p>See section 9.8 of the Bidder's Statement.</p>   |
| <p><b>Can I participate in the Offer in respect of my Alto Options, Performance Rights or Performance Shares</b></p> | <p>MDI is not making a separate takeover offer to holders of Alto Options, Alto Performance Rights or Alto Performance Shares. However, the Offer extends to any Shares that are issued after the Register Date and during the Offer Period as a result of the exercise of Alto Options or valid vesting of Alto Performance Rights or Alto Performance Shares.</p> <p>See section 3.5 of the Bidder's Statement.</p>   |

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## 5. Your choices as a Shareholder

### 5.1 Directors recommend that you REJECT the Offer

In considering whether to accept the Offer, the Directors encourage you to read this Target's Statement and seek professional advice if you are unsure as to whether or not accepting the Offer is in your best interests, taking into account your individual circumstances.

The Bidder's Statement contains important information which you are urged to read carefully. Alto has not undertaken investigations to verify the accuracy or completeness of the information contained in the Bidder's Statement and neither Alto nor its Directors or advisers makes any representation as to the accuracy or completeness of information contained in the Bidder's Statement. To the fullest extent permitted by law, each of those parties disclaims liability to any person who acts in reliance of that information.

If you would like further information on Alto before making a decision about the Offer, you are encouraged to exercise your right under the Corporations Act to obtain from ASIC copies of all documents lodged by Alto with ASIC or ASX. You can also find information about Alto and its activities on the Alto website at [www.altometals.com.au](http://www.altometals.com.au).

During the Offer Period you have the following choices:

**(a) REJECT the Offer and retain your Shares**

If you wish to retain your Shares, you need **TAKE NO ACTION** in relation to the Offer.

You should note that if MDI acquires more than 50% but less than 90% of Shares, you will be exposed to the risks associated with being a minority Shareholder. See Section 3.4 for further details.

**(b) Sell your Shares on-market**

During a takeover, shareholders in a target company can generally still sell their shares on the market for cash.

If you sell your Shares on-market, you:

- (i) will lose your ability to accept the Offer and any Superior Offer from another bidder;
- (ii) will lose the opportunity to receive future returns from Alto;
- (iii) may be liable for capital gains tax on the sale (refer to Section 9 for further details); and
- (iv) may incur a brokerage fee.

Please note that you cannot sell your Shares on-market if you have accepted the Offer and have not validly withdrawn your acceptance.

(c) **ACCEPT the Offer**

The Directors unanimously recommend that you reject the Offer. However, if you wish to accept the Offer, you should follow the instructions in section 9.4 of the Bidder's Statement.

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## 6. Key features of the Offer

### 6.1 Off-market takeover bid

MDI has made an off-market takeover bid to acquire all Shares that exist or will exist any time during the Offer Period.

The consideration being offered by MDI is five (5) MDI shares for every one (1) Alto Share.

### 6.2 Offer Period

Unless the Offer is extended or withdrawn, it is open for acceptance from 24 April 2019 until 5pm (AWST) on 31 May 2019. The circumstances in which MDI may vary or withdraw its Offer are set out in Sections 6.5 and 6.6 respectively.

### 6.3 Conditions of the Offer

MDI's Offer, and any contract that results from the acceptance of the Offer, is subject to a number of Conditions. Full details of the Conditions are set out in full in section 9.10 of the Bidder's Statement.

A summary of the Conditions is set out below:

- (a) There being no regulatory action in consequence of or in connection with the Offer between the Announcement Date and the end of the Offer Period (inclusive);
- (b) At the end of the Offer Period, MDI has a Relevant Interest in at least 50.1% of Alto Shares;
- (c) The spot price for gold, as quoted on Bloomberg, not falling below A\$1,600 per ounce at any time during a day for three consecutive days between the Announcement Date and the end of the Offer Period (inclusive);
- (d) No persons exercising certain rights under certain agreements or instruments between the Announcement Date and the end of the Offer Period (inclusive);
- (e) Between the Announcement Date and the end of the Offer Period (inclusive), no person having change of control rights as a result of the Offer;
- (f) There being no Material Adverse Change between the Announcement Date and the end of the Offer Period (inclusive);
- (g) There being no material acquisitions, disposals, cancellations or new commitments (except for any proposed transaction or item fully and fairly disclosed by Alto on the ASX within 6 months prior to the Announcement Date) between the Announcement Date and the end of the Offer Period (inclusive);
- (h) There being no Prescribed Occurrences between the Announcement Date and the end of the Offer Period (inclusive);
- (i) Between the Announcement Date and the end of the Offer Period (inclusive), no information becomes known to MDI which would indicate that information announced by Alto to ASX prior to the Announcement Date and the end of the

Offer Period (each inclusive) is, or is likely to be, incomplete, incorrect, untrue or misleading in a material respect;

- (j) Alto and its subsidiaries conducting its business in the ordinary course;
- (k) There being no litigation, claim, action or proceeding on foot or pending which may result in a judgement of A\$250,000 against Alto or any of its subsidiaries, other than that which is in the public domain at the Announcement Date;
- (l) Between the Announcement Date and the end of the Offer Period (inclusive), Alto not entering into certain contracts in relation to mining tenements; and
- (m) Prior to the end of the Offer Period, no person or persons (other than MDI and its associates) acquire a Relevant Interest in 20% or more of Alto Shares on issue.

#### **6.4 Consequences if the Conditions are not satisfied**

If any of the Conditions are not satisfied or waived before the Offer closes, the Offer will lapse. The means that:

- (a) if you have accepted the Offer, your acceptance is void and you will continue to be a Shareholder, free to deal with your Shares; or
- (b) if you have not accepted the Offer, you will continue to be a Shareholder, free to deal with your Shares.

MDI may free the Offer, and any contract resulting from its acceptance, from a Condition by giving notice to Alto declaring the Offer to be free from the relevant Condition specified in accordance with section 650F of the Corporations Act.

#### **6.5 Variation of the Offer**

MDI may vary its Offer in accordance with the Corporations Act by:

- (a) waiving a Condition of the Offer; or
- (b) extending the Offer Period.

Any variation to the Offer must be announced on ASX.

If, within the last 7 days of the Offer Period, either of the following events occurs:

- (a) the Offer is varied to improve the Offer Consideration; or
- (b) MDI's voting power in AME increases to more than 50%,

then the Offer Period will automatically be extended so that it ends 14 days after the relevant event referred to paragraphs (a) or (b) above, in accordance with section 624(2) of the Corporations Act.

#### **6.6 Withdrawal of Offer**

MDI may be able to withdraw the Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.



## **6.7 Limited rights to withdraw your acceptance**

You have only limited rights to withdraw your acceptance of the Offer. You may withdraw your acceptance of the Offer only if the Offer is still subject to a Condition and MDI varies the Offer in a way that postpones, for more than one month, the time when MDI has to meet its obligations under the Offer.

If you have accepted the Offer and any of the Conditions have not been satisfied or waived by the end of the Offer Period (which may be extended), the Offer will lapse and you will be free to deal with your Shares.

## **6.8 When you will receive the Offer Consideration if you accept the Offer**

In the usual case, you will be issued your consideration on or before the later of:

- (a) the date 1 month after you accept the Offer, if, at the time of acceptance, the Offer is unconditional; and
- (b) 1 month after the date the Offer becomes or is declared unconditional,

but in any event (assuming the Offer becomes or is declared unconditional) no later than the date 21 days after the end of the Offer Period.

## **6.9 Effect of an improvement in consideration on Alto's Shareholders who have already accepted the Offer**

If MDI improves the Offer Consideration, all Alto Shareholders, whether or not they have accepted the Offer before that improvement in the Offer Consideration, will be entitled to the benefit of that improved Offer Consideration.

## **6.10 Lapse of Offer**

The Offer will lapse if the Conditions are not free or fulfilled by the end of the Offer Period, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Alto Shares as you see fit.

## **6.11 Compulsory acquisition**

MDI has indicated in section 5.5 of its Bidder's Statement that if it satisfies the required thresholds it intends to compulsorily acquire any remaining Shares.

MDI will be entitled to compulsorily acquire any Shares in respect of which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period, MDI and its associates have a Relevant Interest in at least 90% (by number) of the Shares.

The consideration per Share issued to a Shareholder whose Shares are compulsorily acquired is the same as the Offer Consideration.

If the 90% threshold is met, MDI will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the Offer. Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Shareholder to establish to the satisfaction of a Court that the terms of the relevant Offer do not represent "fair value" for their Shares. If compulsory acquisition occurs, Shareholders

who have their Shares compulsorily acquired are likely to be issued their consideration approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

It is also possible that MDI will, at some time after the end of the Offer Period, become the beneficial holder of 90% or more of the Shares. MDI would then have rights to compulsorily acquire Shares not owned by it within six months of becoming the holder of 90% or more of the Shares.

*Alto Shareholders who collectively own or control 68,608,175 Alto Shares<sup>13</sup> (equal to, in aggregate, 25.37% of Alto's shares on issue) have provided Alto with shareholder intention statements indicating that they do not intend to accept the Offer in respect of Alto Shares held by them. Accordingly, based on the current Offer, MDI WILL NOT MEET the above thresholds to compulsorily acquire any outstanding Alto Shares within one month after the end of the Offer Period.*

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<sup>13</sup> Windsong Valley Pty Ltd and Marymount Pty Ltd (being related parties of Alto's Chairman, Terry Wheeler) (40,708,175 Alto Shares), Sinotech (Hong Kong) Corporation Limited (15,900,000 Alto Shares) and Enterprise Metals Ltd (12,000,000 Alto Shares). Shareholders should note that, as at the date Alto announced that it had received the above intention statements, the Shareholders listed above held 32.12% of Alto Shares. Following the successful placement of the shortfall to the Entitlement Offer announced on 6 May 2019, the above Shareholders' interests in Alto will, naturally, be diluted once the shares under the shortfall are issued. We note, however, that Mr Wheeler has agreed to subscribe for 16,666,666 Shares (and 8,888,888 free attaching options) on the same terms as the Entitlement Offer, subject to Shareholder approval.

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## **7. Risks**

### **7.1 Risks associated with Shares**

In considering the Offer, Shareholders should be aware of the risks related to Alto, its business and assets.

Alto is subject to a number of investment risk factors, both specific to its business activities and of a general nature which may affect the future operating and financial performance of Alto and the value of Shares.

Many of the risks are outside the control of Alto and the Directors, and there can be no certainty that Alto's objectives or anticipated outcomes will be achieved.

The following list is not intended to be an exhaustive exploration of the risk factors to which Alto is exposed.

### **7.2 Risks Specific to Alto**

A number of specific risk factors that may adversely affect Alto's financial position, prospects and price of its Securities are described below. In particular, Alto is subject to risks relating to the exploration and development of mineral properties which are not generally associated with other businesses. Shareholders should note that this list is not exhaustive.

#### **(a) Exploration stage and success**

Alto is not at the development stage. Exploration is a high-risk activity that requires large amounts of expenditure over extended periods of time. Alto's exploration activities are subject to all the hazards and risks normally encountered in the exploration of minerals, including climatic conditions, hazards of operating vehicles and plant, risks associated with operating in remote areas and other similar considerations. Conclusions drawn during mineral exploration are subject to the uncertainties associated with all sampling techniques and to the risk of incorrect interpretation of geological, geochemical, geophysical, drilling and other data.

There can be no assurance that exploration of the tenements currently held by Alto, or any other tenements that may be acquired in the future by Alto, will result in the discovery of an economic deposit. Investors should understand that mineral exploration and any subsequent development are high-risk undertakings.

Further, the costs of Alto's exploration activities may materially differ from its estimates and assumptions. No assurance can be given that Alto's cost estimates and the underlying assumptions will be realised in practice, which may materially and adversely affect the value of Alto's Shares.

Despite the best efforts of Alto, there is no guarantee of exploration success, and even if there is exploration success, there is no guarantee that development of any such success will be commercially viable. The current and future operations of Alto will be affected by a range of factors. If exploration

is successful, there will be additional costs and processes involved in moving to the development phase.

**(b) Operating and project risks**

The business of mineral exploration and mining involves risks and hazards. For example, in an exploration context no assurance can be given that ore bodies will be detected with preferred or desirable tonnages or grades. High risk and substantial expense can be incurred without the requisite or expected degree of reward. Even if commercial quantities of ore are discovered, unforeseen risks can arise in the development and production phase including mining or processing issues, environmental hazards, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of consumables, labour forced disruption, the unavailability of materials and plant and equipment, mechanical failure or plant breakdown, unusual or unexpected geological formation, pit failures, changes in the regulatory environment and weather conditions. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability.

**(c) Future capital requirements**

Alto's activities will require substantial expenditure. If Alto is unable to use debt or equity to fund development after the substantial exhaustion of existing cash resources, there can be no assurances that Alto will have sufficient capital resources for that purpose, or other purposes, or that it will be able to obtain additional resources on terms acceptable to Alto or at all. Any additional equity financing may be dilutive to Shareholders and any debt financing if available may involve restrictive covenants, which may limit Alto's operations and business strategy.

Alto's failure to raise capital if and when needed could delay or suspend Alto's business strategy and could have a material adverse effect on Alto's activities. However, as noted in Section 2, as a result of the recent placement of the shortfall to the Entitlement Offer, Alto will be well funded to pursue its current exploration program.

**(d) Counterparty and joint venture risks**

Alto may, in the future, become a party to joint venture agreements governing the exploration and development of its projects. There is a risk that one of Alto's joint venture partners may default in their joint venture obligations or not act in the best interests of the joint venture. There is a risk of insolvency or managerial failure by any of the contractors or other suppliers used by Alto in any of its activities, or that any of those agreements are terminated in accordance with their terms. There is also a risk of legal or other disputes between Alto and co-venturers or contractors or others suppliers. This may have an adverse effect on the interests and prospects of Alto.

**(e) Reliance on key management**

The responsibility of overseeing the day-to-day operations and the strategic management of Alto depends substantially on its senior management and its key personnel, including technical personnel and sub-contractors. There can

be no assurance given that there will be no detrimental impact on Alto if one or more of these employees cease their employment or are incapacitated for any length of time.

**(f) Tenement title**

Alto's title to its tenements generally requires Alto to continue to satisfy its expenditure or work commitments. Alto currently has no reason to believe that it will not satisfy those commitments. However, this cannot be guaranteed.

Interests in tenements in Australia are governed by federal and state legislation and are evidenced by the granting of licences. Each licence is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance, such as satisfaction of statutory payments (including land taxes and statutory duties) and compliance with work programmes and public health and safety laws. Consequently, Alto could lose title to or its interest in tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments as and when they arise.

Further, mining and exploration tenements, once granted, are subject to periodic renewal. There is no guarantee that current or future tenement renewals will be approved. Renewal of the term of a granted tenement is at the discretion of the relevant government authority and may include additional or varied expenditure or work commitments or compulsory relinquishment of the areas comprising Alto's projects. The imposition of new conditions or the inability to meet those conditions may adversely affect the operations, financial position and/or performance of Alto.

**(g) Aboriginal Heritage and Native Title**

Alto is a party to a heritage agreement with the Wutha Native Title Claim Group (No. WC 1999/010) in relation to Alto's tenements. The heritage agreement applies to all applications for exploration and prospecting licences applied for by Alto over the native title claim area for the duration of the agreement. The agreement sets out Alto's obligations in respect of the management and preservation of Aboriginal Sites within the Tenements which Alto considers to be on standard terms for an agreement of this type.

In relation to tenements which Alto has an interest in or will in the future acquire such an interest, there may be other areas or objects of Aboriginal heritage. If further Aboriginal heritage sites or objects exist, Alto may need to enter into agreements with the traditional owners of the sites. The ability of Alto to implement its work programme may be adversely affected in both time and cost.

In addition, there may be areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights do exist, the ability of Alto to gain access to tenements (through obtaining consent of any relevant land owner), or to progress from the exploration phase to the development and mining phases of operations may be adversely affected.

**(h) Access and infrastructure risks**

It is also possible that, in relation to tenements which Alto has an interest in or will in the future acquire such an interest, there may be areas over which legitimate rights of Indigenous owners or surface rights holders exist. In this case, the ability of Alto to gain access to tenements (through obtaining consent of any relevant Indigenous owner, body, group or landowner), or to progress from the exploration phase to the development and mining phases of operations may be adversely affected. Alto's mineral titles may also be subject to access by third parties including, but not limited to, the areas' indigenous people. This access could potentially impact Alto's activities and/or may involve payment of compensation to parties whose existing access to the land may be affected by Alto's activities.

**(i) Regulatory risks**

Alto's projects are located in Australia. Changes in legislative and administrative regimes, taxation laws, interest rates, other legal and government policies may have an adverse effect on the assets, operations and ultimately the financial performance of Alto and the market price of Shares.

Exploration and prospective production are dependent upon the granting and maintenance of appropriate licences, permits and regulatory consents and authorisations, which may not be granted or may be withdrawn or by made subject to limitations at the discretion of government or regulatory authorities. Although the authorisations may be renewed following expiry or grant (as the case may be), there can be no assurance that such authorisations will be continued, renewed or granted, or as to the terms of renewals or grants. If Alto cannot obtain or retain the appropriate authorisations or there is a material delay in obtaining or renewing them or they are granted subject to onerous conditions, then Alto's ability to conduct its exploration or development operations may be adversely affected.

**(j) Environmental risks**

Alto's operations and activities are subject to the environmental laws of Australia and any other places Alto may conduct business. As with most exploration projects, Alto's operations and activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds. Alto attempts to conduct its operations and activities to the highest standard of environmental obligation, including compliance with all environmental laws and regulations. However, non-compliance with or breach of any conditions attached to Alto's mining or environmental licences may lead to penalties and/or revocation of the licence, and significant liability could be imposed on Alto for damages, clean-up costs or penalties in the event of certain environmental damage. This would require Alto to incur significant costs and may result in an adverse impact on Alto's cash flows, financial position and performance.

Further, Alto is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase Alto's cost of doing business or affect its operations in any area. There can be no assurances that new environmental laws, regulations or stricter enforcement policies, once implemented, will not oblige Alto to incur significant expenses and undertake

significant investments which could have a material adverse effect on Alto's operations, financial position and performance.

**(k) Resource and reserve estimates**

Resource and reserve estimates are expressions of judgements based on knowledge, experience and industry practice. Estimates that are valid when made may change significantly when new information becomes available through drilling, sampling and similar examinations. In addition, resource and reserve estimates are necessarily imprecise and depend to some extent on geological interpretations, as well as various economic, commercial, technical, environmental and legal assumptions which may prove to be inaccurate. Should Alto encounter mineralisation or formations different from those predicted, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could adversely affect Alto's operations.

### **7.3 General Securities Risks**

The future prospects of Alto's business may be affected by circumstances and external factors beyond Alto's control. Alto's financial performance may be affected by a number of business risks that apply to companies generally and may include economic, financial, market or regulatory conditions.

**(a) Discretion in use of capital**

The Board and Alto's management have discretion concerning the use of Alto's capital resources as well as the timing of expenditures. Capital resources may be used in ways not previously anticipated or disclosed. The results and the effectiveness of the application of capital resources are uncertain. If they are not applied effectively, Alto's financial and/or operational performance may suffer.

**(b) Economic risks**

General economic conditions, movements in interest and inflation rates, the prevailing global commodity prices and currency exchange rates may have an adverse effect on Alto's exploration, development and production activities, as well as on its ability to fund those activities.

As with any mining project, the economics are sensitive to metal and commodity prices. Commodity prices fluctuate and are affected by many factors beyond the control of Alto. Such factors include supply and demand fluctuations for oil and gas, technological advances, forward selling activities and other macro-economic factors. These prices may fluctuate to a level where the proposed mining operations are not profitable. Should Alto achieve success leading to mineral production, the revenue it will derive through the sale of commodities also exposes potential income of Alto to commodity price and exchange rate risks.

Further, share market conditions may affect the value of Alto's Securities regardless of Alto's operating performance. Share market conditions are affected by many factors such as:

**(i) general economic outlook;**



- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

**(c) Market conditions**

General economic conditions, movements in interest and inflation rates, commodity prices and currency exchange rates may have an adverse effect on Alto's operations and any future development activities, as well as on its ability to fund those activities. The market price of Alto's Securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither Alto nor the Directors warrant the future performance of Alto or any return on an investment in Alto.

**(d) Government and legal risk**

Changes in government, monetary policies, taxation and other laws can have a significant impact on Alto's assets, operations and ultimately the financial performance of Alto and its Securities. Such changes are likely to be beyond the control of Alto and may affect industry profitability as well as Alto's capacity to explore and mine.

Other than as previously announced Alto is not aware of any reviews or changes that would affect its permits. However, changes in community attitudes on matters such as taxation, competition policy and environmental issues may bring about reviews and possibly changes in government policies. There is a risk that such changes may affect Alto's development plans or its rights and obligations in respect of its permits. Any such government action may also require increased capital or operating expenditures and could prevent or delay certain operations by Alto.

**(e) Insurance**

Alto will, where possible and economically practicable, endeavour to mitigate some project and business risks by procuring relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by Alto outside the scope of the insurance cover.

Insurance of risks associated with minerals exploration is not always available and, where available, the costs can be prohibitive. There is a risk that insurance premiums may increase to a level where Alto considers it is unreasonable or not in its interests to maintain insurance cover or not to a level of coverage that is in accordance with industry practice. Alto will use reasonable endeavours to insure against the risks it considers appropriate for Alto's needs and circumstances. However, no assurance can be given that Alto will be able to obtain such insurance coverage in the future at reasonable



rates or that any coverage it arranges will be adequate and available to cover claims.

#### **7.4 Investment Speculative**

- (a) The above list of risk factors ought not to be taken as exhaustive of the risks faced by Alto or by investors in Alto. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of Alto and the value of the Shares of Alto.
- (b) You should be cognisant of all the above risks when making your decision whether to accept or reject the Offer. Accepting the Offer will mean that you may reduce your exposure to some of the above risks by receiving the Offer Consideration, whereas rejecting the Offer will see you remain exposed to all the above risks on an ongoing basis.

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## 8. Information relating to Alto

### 8.1 Background of Alto

Alto holds approximately 818km<sup>2</sup> of highly prospective and sought-after exploration ground on a major Archaean greenstone belt at Sandstone.

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.

### 8.2 Company direction and Board changes

Your Board has a clear strategy for exploration success in 2019. Alto already has advanced gold deposits at Vanguard and Indomitable and multiple high priority prospects and targets for drill testing, including Havilah and Ladybird.

Alto is focused on realising value for Shareholders through systematic exploration of the entire project and drill testing known prospects, many of which has never been adequately tested below 100m.

The 2019 exploration plan will build on the work completed over the past 24 months and includes:

- (a) RC drilling at Vanguard and Indomitable Camp deposits to further define and extend the known Mineral Resources;
- (b) RC drilling at Havilah and Ladybird to further define and extend the known gold mineralisation; and
- (c) AC drill testing of soil and laterite gold geochemical anomalies.

Alto will also continue to progress its resource evaluation work with:

- (d) Maiden mineral resource estimation (JORC 2012) for Ladybird and Havilah using existing available data;
- (e) Updates to Alto's JORC 2012 Mineral Resource inventory; and
- (f) Geotechnical drilling, bulk density measurements and metallurgical test work, where required, to assist in conversion of Inferred Mineral Resources into Indicated Mineral Resources.

Following the successful completion of the placement of the shortfall from the Entitlement Offer and the additional placement to Director, Terry Wheeler (subject to shareholder approval), drilling at Vanguard is planned to commence shortly to test for interpreted higher grade mineralisation at depth.

Your Directors believe that both they and the Alto management team, including key consultants, have the necessary skills and experience to realise the full potential of Alto's assets and are best placed to deliver shareholders value over the long term. In this regard, your Directors wish to draw attention to a completely false statement

made by MDI in its letter to Alto Shareholders dated 26 April 2019, which suggested that Alto *"had seen no less than 17 Board changes since June 2016"*.

Dermot Ryan, who was a director at the time of completion of the acquisition of the Sandstone Gold Project in June 2016 and recently resigned his position as Executive Director of Alto on 27 February 2019, continues to assist Alto on a consultancy basis. Of the remaining 4 directors who have resigned from the Board since June 2016, two of those directors ceased their directorships in 2016 (Anna Mao, Bill Robertson).

### 8.3 MDI Takeover Proposal

On 1 March 2019, MDI announced an intention to make an unsolicited takeover bid for Alto. Alto received the Original Bidder's Statement from MDI on 10 April 2019 and the Bidder's Statement on 15 April 2019.

### 8.4 Directors and Senior Management

The names and details of the Directors are as follows:

- (a) Mr Terence Wheeler - Non-Executive Chairman (Director since 2 December 2016);
- (b) Mr Jingbin Wang- Non-Executive Director (Director since 12 October 2016); and
- (c) Mr Matthew Bowles - Non-Executive Director (Director since 27 February 2019).

### 8.5 Interests of Directors in Shares

All Directors have decided to **REJECT** the Offer prior to the date of this Target's Statement. The Relevant Interests of the Directors are detailed in the table below:

| Shareholder    | Shares     | Options   | Performance Rights |
|----------------|------------|-----------|--------------------|
| Terry Wheeler  | 40,708,175 | 1,447,221 | Nil                |
| Jingbin Wang   | Nil        | Nil       | 500,000            |
| Matthew Bowles | Nil        | Nil       | Nil                |

On 11 March 2019, Windsong Valley Pty Ltd (**Windsong Valley**), an entity controlled by Mr Wheeler, acquired 6,382,978 Shares, at an issue price of \$0.047 per Share, following the conversion of a \$300,000 loan provided pursuant to a convertible loan financing facility agreement between Windsong Valley and Alto dated 10 December 2018. Mr Wheeler has also agreed to subscribe for 16,666,666 Shares (and 8,888,888 free attaching options) on the same terms as the Entitlement Offer, subject to Shareholder approval.

On 18 February 2019, Windsong Valley and Marymount Pty Ltd (an entity also controlled by Mr Wheeler), acquired, collectively, 2,894,443 Shares (at an issue price of \$0.036 per Share) and 1,447,221 free-attaching Options, for consideration of \$104,200, following participation in the Entitlement Offer.

## 8.6 No benefits to Directors

No benefit (other than a benefit permitted under sections 200E or 200F of the Corporations Act) is proposed to be given to a Director (or anyone else) in connection with the Director's retirement as a Director (or executive) of Alto.

## 8.7 Other agreements or arrangements with Directors

There are no other agreements or arrangements made between a Director and any other person in connection with or conditional upon the outcome of the Offer.

## 8.8 Interests of Directors in MDI

No Director has a relevant interest in any securities of MDI.

No Director acquired or disposed of any securities in MDI within the four-month period immediately prior to the date of this Target's Statement.

No Director has any interest in any contract entered into by MDI.

## 8.9 Key Statistics

Set out below are some key ratios and statistics extracted from Alto's audited financial statements for the years ended 30 June 17 and 30 June 2018.

| Year Ended 30 June                     | 2017  | 2018  |
|--|-------|-------|
| Basic loss per Share (cents per share) | 1.0   | 0.36  |
| Share Price at year end (\$)           | 0.072 | 0.065 |

## 8.10 Summary of historical financial information

The summary historical financial information below has been extracted from Alto's audited financial statements for the years ended 30 June 2017 and 30 June 2018 and does not take into account the effect of the Offer.

Copies of Alto's annual reports from which the financial information was extracted can be found on Alto's website at [www.altometals.com.au](http://www.altometals.com.au). These reports also contain details of Alto's accounting policies. Shareholders without internet access can obtain copies of these reports by contacting the Company Secretary of Alto on +61 8 9381 2808.

| Statement of Financial Position | 2017 (\$) | 2018 (\$) |
|---------------------------------|-----------|-----------|
| Total Assets                    | 8,236,182 | 9,987,951 |
| Total Liabilities               | 352,246   | 496,904   |
| Total Equity                    | 7,883,936 | 9,491,047 |

| Income Statement    | 2017        | 2018      |
|---------------------|-------------|-----------|
| Net interest Income | 35,172      | 25,561    |
| Other income        | -           | 302,011   |
| Expenses            | (1,306,635) | (951,598) |
| Income tax expense  | (210,979)   | -         |
| Loss for the year   | (1,271,463) | (624,026) |

| Statement of Cash Flows                         | 2017        | 2018        |
|---|-------------|-------------|
| Net Cash Flows used in Operating Activities     | (761,465)   | (818,275)   |
| Net Cash Flows used in Investing Activities     | (2,105,042) | (1,742,634) |
| Net Cash Flows provided by Financing Activities | 2,672,262   | 2,488,808   |

| Statement of Cash Flows                   | 2017      | 2018     |
|---|-----------|----------|
| Net Decrease in Cash and Cash Equivalents | (194,245) | (72,101) |
| Beginning Cash and Cash Equivalents       | 1,122,691 | 928,446  |
| Ending Cash and Cash Equivalents          | 928,446   | 856,345  |

### 8.11 No material change in financial position

Alto's last published financial statements are for the half year ended 31 December 2018, as set out in its Half Year Report lodged with ASX on 15 March 2019. Except as disclosed in this Target's Statement and in any announcement made by Alto to ASX since 15 March 2019 (including the placement of the shortfall to the Entitlement Offer announced on 6 May 2019), the Directors are not aware of any material change to the financial position of Alto since 15 March 2019.

### 8.12 Publicly available information and continuous disclosure

Alto is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules of ASX. Copies of announcements lodged with ASX can be obtained from the ASX's website at [www.asx.com.au](http://www.asx.com.au) under the code "Alto" or from Alto's website at [www.altometals.com.au](http://www.altometals.com.au).

A list of announcements made by Alto to ASX between 25 January 2019 (the date of release of the Entitlement Offer) and the date of this Target's Statement is set out in Annexure 1. This information may be relevant to your assessment of the Offer.

Further announcements about developments on the Offer will continue to be made publicly available on Alto's website at [www.altometals.com.au](http://www.altometals.com.au) after the date of his Target's Statement.

### 8.13 Issued Capital

Alto's issued capital as at the date of this Target Statement comprises:

| Number of Shares | Number of Options <sup>14</sup> | Number of Performance Rights <sup>15</sup> | Number of Performance Shares <sup>16</sup> |
|------------------|---------------------------------|--|--|
| 213,582,055      | 4,571,711                       | 4,500,000                                  | 25,000,000                                 |

It is anticipated that, following the placement of the shortfall under the Entitlement Offer (as announced on 6 May 2019), Alto's issued capital will comprise:

| Number of Shares          | Number of Options <sup>17</sup> | Number of Performance Rights <sup>18</sup> | Number of Performance Shares <sup>19</sup> |
|---------------------------|---------------------------------|--|--|
| 270,457,115 <sup>20</sup> | 33,009,241                      | 4,500,000                                  | 25,000,000                                 |

### 8.14 Substantial Shareholders

The following persons are the registered holders of over 5% of the Shares as at the date of this Target's Statement:

| Shareholder  | Shares     | %     |
|--|------------|-------|
| Windsong Valley Pty Ltd (related party of Terry Wheeler) | 40,241,509 | 18.84 |
| Marymount Pty Ltd (related parties of Terry Wheeler)     | 466,666    | 0.22  |

<sup>14</sup> Unquoted options exercisable at \$0.07 each and expiring 17 August 2020.

<sup>15</sup> 2.25 million Class 3 Performance Rights (expiring 9 December 2019 and convertible upon Alto announcing to the ASX 20,000 oz of gold sold) and 2.25 million Class 4 Performance Rights (expiring 9 December 2020 and convertible upon Alto announcing to the ASX 50,000 oz of gold sold), held as follows:

- Dermot Ryan - 1,250,000 Class 3; 1,250,000 Class 4;
- Jingbin Wang - 250,000 Class 3; 250,000 Class 4; and
- Other employees/contractors - 0.75m Class 3; 0.75m Class 4.

<sup>16</sup> Performance Shares (expiring 23 June 2021) which were issued to the vendors of Sandstone Exploration Pty Ltd and are held as follows:

- Stephen Stone - 12,500,000; and
- Bruce Legendre - 12,500,000.

<sup>17</sup> Unquoted options exercisable at \$0.07 each and expiring 17 August 2020.

<sup>18</sup> See footnote 15 above.

<sup>19</sup> See footnote 16 above.

<sup>20</sup> This includes the Shares to be issued under the placement of the shortfall to the Entitlement Offer (as announced by Alto on 6 May 2019) but excludes the 16,666,666 Shares (and 8,888,888 free attaching options) of which Mr Wheeler has agreed to subscribe for on the same terms as the Entitlement Offer, as the issue of Shares and options to Mr Wheeler is subject to Shareholder approval.

| Shareholder                              | Shares     | %    |
|--|------------|------|
| Sinotech (Hong Kong) Corporation Limited | 15,900,000 | 7.44 |
| Enterprise Metals Ltd                    | 12,000,000 | 5.62 |

Following the placement of the shortfall under the Entitlement Offer (as announced on 6 May 2019), it is anticipated that the following persons will be the registered holders of over 5% of the Shares:

| Shareholder  | Shares     | % <sup>21</sup> |
|--|------------|-----------------|
| Windsong Valley Pty Ltd (related party of Terry Wheeler) | 40,241,509 | 14.88           |
| Marymount Pty Ltd (related parties of Terry Wheeler)     | 466,666    | 0.17            |
| Sinotech (Hong Kong) Corporation Limited                 | 15,900,000 | 5.88            |

<sup>21</sup> This includes the Shares to be issued under the placement of the shortfall to the Entitlement Offer (as announced by Alto on 6 May 2019) but excludes the 16,666,666 Shares (and 8,888,888 free attaching options) of which Mr Wheeler has agreed to subscribe for on the same terms as the Entitlement Offer, as the issue of Shares and options to Mr Wheeler is subject to Shareholder approval.

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## 9. Taxation Implications

### 9.1 Introduction

The following is a general summary of the Australian income tax, GST and duty considerations for Alto Shareholders who accept the Offer by MDI. Under the Offer, each Alto Shareholder will receive 5 MDI shares for every Alto Share held.

This summary does not provide an exhaustive consideration of all possible Australian income tax, GST and duty implications that could apply to Alto Shareholders that accept the Offer. Furthermore, this summary does not consider any tax implications in jurisdictions outside of Australia.

Only Alto Shareholders that are individuals, complying superannuation funds and corporate shareholders that hold their shares on capital account have been considered in this summary. In particular, this summary is not intended to cover Alto Shareholders who:

- are exempt from Australian income tax;
- hold their Alto Shares on revenue account or as trading stock;
- are partnerships or persons that are partners of such partnerships;
- acquired their Alto Shares under an employee share scheme or similar employee incentive plan; or
- are subject to the taxation of financial arrangements rules in Division 230 of the ITAA 1997 in relation to gains and losses on their Alto Shares.

This summary does not constitute tax advice and is intended only as a general guide to the Australian tax implications of accepting the Offer based upon Australian taxation law and administrative practice in effect as at the date of this Target's Statement. It does not consider any specific facts or circumstances that may apply to Alto Shareholders. As the tax consequences of accepting the Offer depend on each Alto Shareholder's individual circumstances, all Alto Shareholders are advised to seek independent professional advice regarding the Australian and foreign tax consequences of accepting the Offer according to their own particular circumstances.

### 9.2 Australian Tax Resident Shareholders

This Section applies to Alto Shareholders that accept the Offer and are residents of Australia for Australian income tax purposes that hold their Alto Shares on capital account.

#### (a) Capital Gains Tax (CGT) Event

By accepting the Offer, Alto Shareholders will dispose of their Alto Shares to MDI in exchange for the Offer Consideration, comprising shares issued in MDI. The disposal of Alto Shares to MDI will give rise to a CGT event. The time of the CGT event should be the date the Alto Shares are disposed of, which will be the date that Alto Shareholders enter into a contract with MDI.



If an Alto Shareholder does not accept the Offer and their Alto Shares are compulsorily acquired in accordance with Part 6A.1 of the Corporations Act, the date of disposal for CGT purposes will be the date when MDI becomes the owner of the Alto Shares.

In the absence of CGT roll-over relief, the following tax consequences are expected to arise for Alto Shareholders:

- (i) A capital gain will be realised to the extent the capital proceeds received by Alto Shareholders from the disposal of their Alto Shares exceed the cost base of those shares; or
- (ii) A capital loss will be realised to the extent the capital proceeds received by Alto Shareholders from the disposal of their Alto Shares are less than the reduced cost base of those shares.

Capital losses can be offset against capital gains derived in the same income year or in later income years. Specific loss recoupment rules apply to companies to limit their availability in future years in certain circumstances. Alto Shareholders should seek their own tax advice in relation to the operation of these rules.

**(b) Capital Proceeds**

The capital proceeds on the disposal of the Alto Shares should be equal to the Offer Consideration received by Alto Shareholders.

The capital proceeds will be equal to the market value of the MDI shares received by Alto Shareholders at the time they enter into a contract with MDI.

**(c) Cost Base and Reduced Cost Base of an Alto Share**

The cost base of an Alto Share will generally be equal to the cost of acquiring the Alto Share, plus any incidental costs of acquisition and disposal (such as brokerage fees and legal costs). The reduced cost base of an Alto Share is determined in a manner similar to the cost base although some differences in the calculation of the reduced cost base may exist depending on the Alto Shareholder's particular individual circumstances. The cost base and reduced cost base of each Alto Share will depend on the individual circumstances of each Alto Shareholder.

**(d) CGT Discount**

The CGT Discount may apply to Alto Shareholders that are individuals, complying superannuation funds or trusts, who have held, or are taken to have held, their Alto Shares for at least 12 months (not including the date of acquisition or the date of disposal) at the time of the disposal of their Alto Shares.

The CGT Discount is:

- (i) One-half if the Alto Shareholder is an individual or trustee; meaning only 50% of the capital gain will be included in assessable income; and

- (ii) One-third if the Alto Shareholder is a trustee of a complying superannuation entity; meaning only two-thirds of the capital gain will be included in assessable income.

The CGT Discount is not available to Alto Shareholders that are companies.

If an Alto Shareholder makes a discount capital gain, any carried forward capital losses will be applied to reduce the undiscounted capital gain before either the one-half or one-third discount is applied. The resulting amount is then included in the Alto Shareholder's net capital gain for the income year and included in assessable income.

The CGT Discount rules relating to trusts are complex. Accordingly, we recommend trustees seek their own independent advice on how the CGT Discount applies to them and the trust's beneficiaries.

**(e) CGT Scrip for Scrip Roll-over Relief**

Alto Shareholders who make a capital gain from the disposal of their Alto Shares may be eligible to choose CGT scrip for scrip roll-over relief (provided certain conditions are met). CGT scrip for scrip roll-over relief enables Alto Shareholders to disregard the capital gain they make from the disposal of their Alto Shares under the Offer.

Broadly, for roll-over relief to be available, MDI must become the owner of 80% or more of the shares in Alto under the Offer and Alto Shareholders must make a capital gain on the disposal of their Alto Shares. If a capital loss arises, no CGT scrip for scrip roll-over relief is available.

Alto Shareholders do not need to inform the ATO, or document their choice to claim CGT scrip for scrip roll-over relief in any particular way, other than to complete their income tax return in a manner consistent with their choice.

Given the intention statements received from Alto's three major shareholders (see Section 1.3(c)), it is unlikely that MDI will become the holder of greater than or equal to 80% of Alto's Shares. Accordingly, scrip-for scrip rollover is unlikely to be available to Alto Shareholders who accept the Offer. This may result in further CGT liability in relation to the scrip component of the Offer Consideration for Alto Shareholders who accept MDI's Offer.

**(f) Consequences of Choosing CGT Scrip for Scrip Roll-over Relief**

If an Alto Shareholder chooses to obtain CGT scrip for scrip roll-over relief, the capital gain arising on the disposal of their Alto Shares under the Offer should be disregarded.

Further, the first element of the cost base for the MDI shares received is determined by attributing to them, on a reasonable basis, the existing cost base of the Alto Shares exchanged under the Offer. The first element of the reduced cost base is determined similarly.

Finally, for the purposes of determining future eligibility for the CGT Discount, the acquisition date of the MDI shares is taken to be the date when the Alto Shareholder originally acquired their Alto Shares.

**(g) Consequences if CGT Scrip for Scrip Roll-over Relief is not Available or is not Chosen**

If an Alto Shareholder does not qualify for CGT scrip for scrip roll-over relief or does not choose to obtain CGT scrip for scrip roll-over relief, the general CGT treatment outlined above at Section 9.2(a) will apply.

If an Alto Shareholder makes a capital loss from the disposal of their Alto Shares, this loss may be used to offset capital gains in the same or subsequent years of income (subject to satisfying certain conditions). The capital loss cannot be offset against ordinary income or carried back to offset against capital gains arising in earlier income years.

### **9.3 Foreign Tax Resident Shareholders**

This Section applies to Alto Shareholders that accept the Offer and are not residents of Australia for Australian income tax purposes (i.e. foreign tax residents) that hold their Alto Shares on capital account. It does not apply to Alto Shareholders who have held their Alto Shares at any time in carrying on a business at or through a permanent establishment in Australia.

**(a) Indirect Australian Real Property Interests**

Foreign tax resident Alto Shareholders who hold their Alto Shares on capital account should generally not be subject to the CGT rules in Australia on the disposal of their Alto Shares, provided their Alto Shares are not an “indirect Australian real property interest” as at the time of the disposal.

Broadly, an Alto Shareholder’s Alto Shares will not be an indirect Australian real property interest unless both of the following conditions are satisfied:

- (i) The foreign tax resident Alto Shareholder and their associates (as defined for tax purposes) together hold 10% or more of the issued shares in Alto at the time of disposal, or held 10% or more of the issued shares for at least 12 months during the 24 months prior to disposal of their Alto Shares (the non-portfolio interest test); and
- (ii) The aggregate market value of Alto’s assets which are taxable Australian property (being direct and indirect interests in real property, including land, leases of land and property affixed to land, situated in Australia) exceeds the aggregate market value of Alto’s assets which are not taxable Australian property (the principal asset test).

The Australian Government has introduced draft legislation to implement a change to the scope of taxable Australian property in Division 855 of the Income Tax Assessment Act 1997. Specifically, certain tests will be applied on an associate-inclusive basis, which are designed to ensure that foreign residents cannot avoid a CGT liability by disaggregating indirect interests in Australian real property. The measure is stated to apply from 9 May 2017.

On the basis that the aggregate market value of Alto’s assets which are taxable Australian property exceeds the aggregate market value of Alto’s assets which are not taxable Australian property, Alto’s shares will pass the principal asset test. However, it is expected that no foreign resident Alto Shareholder holds/held the requisite 10% or more of the issued shares in Alto

at the time of disposal so the non-portfolio interest test is likely to be failed. The Alto Shares would therefore not be an indirect Australian real property interest and no CGT should apply.

A foreign tax resident Alto Shareholder who was previously an Australian resident and chose to disregard a capital gain or loss on ceasing to be an Australian resident will be subject to the CGT consequences on disposal of their Alto Shares as detailed in Section 9.2.

**(b) Foreign Resident CGT Withholding Rules**

In broad terms, a foreign resident CGT withholding tax applies to transactions involving the acquisition of the legal ownership of an asset that is an indirect Australian real property interest from a foreign resident. The current withholding rate is 12.5%.

As noted above, it is unlikely that any foreign resident Alto Shareholders would pass the non-portfolio interest test and no CGT liability should therefore arise. However, to avoid any withholding, foreign resident Alto Shareholders should complete a Foreign resident capital gains withholding – vendor declaration form and provide this to MDI prior to accepting the Offer.

Foreign resident Alto Shareholders should seek their own advice in relation to the vendor declaration and the application of an exemption from CGT withholding in respect of this transaction.

**9.4 GST**

No GST will be payable by Alto Shareholders on the acquisition of their Alto Shares by MDI under the Offer, or on the receipt of MDI shares as consideration for acceptance of the Offer. Alto Shareholders who are registered for GST may not be entitled to input taxed credits (or only entitled to reduced input taxed credits) for any GST incurred on costs associated with the disposal of their Alto Shares.

**9.5 Duty**

No Australian duty should be payable by Alto Shareholders on the acquisition of their Alto Shares under the Offer, or on the receipt of MDI shares as consideration for acceptance of the Offer.

## 10. Other material information

### 10.1 Effect of the takeover on Alto's financing and material agreements

To the best of each Alto Directors' knowledge, there are no material contracts or financing arrangements to which Alto is a party which contain any change of control provisions which may be triggered as a result of, or as a result of acceptances of, the Offer.

### 10.2 Material Litigation

As at the date of this Target's Statement, Alto is not involved in any material litigation.

### 10.3 Consents

The following persons have given, and have not, before the date of issue of this Target's Statement, withdrawn their consent to:

- (a) be named in this Target's Statement in the form and content in which they are named; and
- (b) the inclusion of other statements in this Target's Statement which are based on or referable to statements made in the reports or statements noted next to their names, or which are based on or referable to other statements made by those persons, in the form and context in which they appear:

| Name of Person   | Capacity              | Reports or Statements   |
|--|-----------------------|---|
| Mr Terry Wheeler,<br>Mr Jingbin Wang, and<br>Mr Matthew Bowles | Directors             | Statements made by, or<br>statements based on the<br>statements made by, the<br>Directors |
| Bellanhuse Lawyers   | Legal advisor to Alto | N/A   |
| Automic Pty Ltd  | Alto's share registry | N/A   |
| Longreach Capital  | Corporate Adviser     | N/A   |

Each of the persons named above:

- (a) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this Section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules), including the Bidder's Statement. Pursuant to this Class Order, the consent of persons to whom such statements are attributed to is not required for the inclusion of those statements in the Target's Statement.

Any Shareholder who would like to receive a copy of any of the documents (or parts of the documents) that contain the statements which have been included pursuant to ASIC Class Order 13/521 may obtain a copy free by writing to Alto's Company Secretary.

Copies of all announcements by Alto may also be obtained from its website at [www.Altometals.com](http://www.Altometals.com) or from ASX's website [www.asx.com.au](http://www.asx.com.au) under the code "Alto".

Additionally, as permitted by ASIC Corporations (Consent to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by statements:

- (a) fairly representing a statement by an official person; or
- (b) from a public official document or a published book, journal or comparable publication.

Pursuant to that instrument, the consent of persons to whom such statements are attributed is not required for inclusion of those statements in this Target's Statement.

#### **10.4 No Other Material Information**

This Target's Statement is required to include all the information that Alto Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- (a) only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- (b) only if the information is known to any Director of Alto.

The Alto Directors are of the opinion that the information that Alto Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- (a) the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- (b) the information contained in Alto's releases to the ASX, and in the documents lodged by Alto with ASIC before the date of this Target's Statement; and
- (c) the information contained in this Target's Statement.

The Alto Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Alto Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in the Bidder's Statement.

In deciding what information should be included in this Target's Statement, the Directors have had regard to, amongst other things,

- (a) the nature of Alto Shares;
- (b) the matters which Shareholders (or their professional advisers) may reasonably be expected to know, including information contained in

documents previously sent to Shareholders and information available from public sources such as the ASX, ASIC or Alto's website at [www.altometals.com.au](http://www.altometals.com.au);

- (c) the fact that certain matters may reasonably be expected to be known to Alto Shareholders' professional advisers; and
- (d) the time available to Alto to prepare this Target's Statement.

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## 11. Authorisation

Mr Terry Wheeler, the Chairman of Alto, is authorised to sign this Target's Statement pursuant to a resolution passed at a meeting of Directors held on 6 May 2019.

A handwritten signature in dark ink, appearing to read 'Terry Wheeler', written in a cursive style.

Terry Wheeler  
Non-Executive Chairman  
Dated: 6 May 2019



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## 12. Glossary of terms

### 12.1 Glossary

In this Target's Statement, unless a contrary intention appears, the following expressions have the following meanings:

**Alto or Company** means Alto Metals Limited ACN 159 819 173.

**Announcement Date** means 1 March 2019, being the date on which MDI announced that it intended to undertake an off-market takeover bid for Alto.

**ASIC** means Australian Securities and Investment Commission.

**ASX** means ASX Limited ACN 008 624 691 trading as Australian Securities Exchange.

**ASX Settlement** means ASX Limited ABN 98 008 504 532.

**ASX Settlement Operating Rules** means the settlement rules of ASX Settlement.

**ATO** means the Australian Taxation Office.

**AWST** means Australian Western Standard Time.

**Bidder's Statement** means the first supplementary bidder's statement of MDI dated 15 April 2019 which was served on Alto on 15 April 2019.

**Board** means the board of Directors of Alto.

**Business Day** means a day on which banks are open for general banking business in Melbourne (not being a Saturday, Sunday or public holiday in that place).

**CHESS** means the Clearing House Electronic Sub-register System, which provides for electronic share transfer in Australia.

**CHESS Holding** means a holding of Shares on the CHESS sub-register of Alto.

**Conditions** means the conditions to the Offer as described in section 9.10 of the Bidder's Statement.

**Controlling Participant** means the broker who is designated as the controlling participant for Shares in a CHESS Holding in accordance with the ASX Settlement Operating Rules.

**CGT** means capital gains tax.

**Competing Proposal** means any proposal or transaction, which, if completed, would mean a person (other than MDI or any associate of MDI) would:

- (a) acquire control of Alto, within the meaning of section 50AA of the Corporations Act, or a material part of Alto's business; or
- (b) otherwise acquire or merge (including by a reverse takeover bid or dual listed Alto structure) with Alto.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Director** means a director of Alto and **Directors** means all of the directors of Alto.

**Entitlement Offer** means the non-renounceable entitlement offer detailed in Alto's prospectus dated 25 January 2019.

**GST** means GST within the meaning of the *A New Tax System (Goods and Services Tax) Act 1999*.

**ITAA 1997** means *Income Tax Assessment Act 1997* (Cth).

**Listing Rules** means the listing rules of the ASX.

**Material Adverse Change** has the meaning in section 9.10(f) of the Bidder's Statement.

**MDI or Middle Island** means Middle Island Resources Limited ACN 142 361 608.

**Offer or MDI's Offer** means the offer dated 24 April 2019 made by MDI to acquire all of the Shares on the terms and conditions set out in the Bidder's Statement.

**Offer Consideration** means the offer of 5 MDI Shares for every 1 Alto Share.

**Offer Period** means the period commencing on 24 April 2019 and ending at 5.00pm (AWST) on 31 May 2019 (unless extended or withdrawn) during which the Offer will remain open for acceptance.

**Option** means an option to acquire a Share, with an exercise price of \$0.07 per Share and expiry date of 17 August 2020.

**Optionholder** means the holder of an Option.

**Original Bidder's Statement** means the bidder's statement of MDI dated 10 April 2019 which was served on Alto on 10 April 2019.

**Performance Rights** means performance rights issued to Directors and staff of Alto on the terms and conditions set out in Alto's notice of annual general meeting released to ASX on 28 October 2016.

**Performance Shares** means performance shares on the terms and conditions set out in Alto's notice of meeting released to ASX on 18 April 2016.

**Prescribed Occurrence** has the meaning in section 9.10(h) of the Bidder's Statement.

**Relevant Interest** has the meaning given to that term in the Corporations Act.

**Sandstone Tenements** means the following tenements:

- (a) granted tenements:
  - (i) E57/1029;
  - (ii) E57/1030;
  - (iii) E57/1031;

- (iv) E57/1033;
  - (v) E57/1044;
  - (vi) E57/1072;
  - (vii) P57/1377; and
  - (viii) P57/1378;
- (b) tenements in application:
- (i) P57/1415;
  - (ii) P57/1417;
  - (iii) E57/1101; and
  - (iv) M57/646.

**Section** means a section of this Target's Statement.

**Share Register** means the register of shareholders of Alto maintained by or on behalf of Alto in accordance with the Corporations Act.

**Shareholder** means a person registered as a member of Alto.

**Shares** means fully paid ordinary shares in Alto.

**Strategic Review** means the proposed review, by MDI, of Alto's strategy, operations, activities, assets and employees in light of the information that will become available to it upon completion of the Offer, as detailed in section 5.4 of the Bidder's Statement.

**Superior Offer** means a Competing Proposal which the Board of Alto determines to be more favourable to Shareholders than MDI's Offer, taking into account all terms and conditions of the Competing Proposal or variation to the Offer by MDI.

**Target's Statement** means this Target's Statement, being the statement of Alto under Part 6.5 Division 3 of the Corporations Act.

## 12.2 Interpretation

Various defined terms are used in this Target's Statement. Unless the contrary intention appears, the context requires otherwise, or words are defined in Section 12.1, words and phrases in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

In this Target's Statement, headings are for convenience only and do not affect interpretation and unless the context indicates a contrary intention:

- (a) the expression "person" includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture (whether incorporated or unincorporated), a partnership and a trust;

- (b) a reference to any party includes that party's executors, administrators, successors and permitted assigns, including any person taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (c) a reference to any document (including this Target's Statement) is to that document as varied, novated, ratified or replaced from time to time;
- (d) a reference to any statute or to any statutory provision includes any statutory modification or re-enactment of it or any statutory provision substituted for it, and all ordinances, by-laws, regulations, rules and statutory instruments (however described) issued under it;
- (e) words importing the singular include the plural (and vice versa), and words indicating a gender include every other gender;
- (f) references to parties, clauses, schedules, exhibits or annexures are references to parties, clauses, schedules, exhibits and annexures to or of this Target's Statement, and a reference to this Target's Statement includes any schedule, exhibit or annexure to this Target's Statement;
- (g) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (h) the word "includes" in any form is not a word of limitation;
- (i) a reference to "\$" or "dollar" is to Australian currency; and
- (j) if any day appointed or specified by this Target's Statement for the payment of any money or doing of anything falls on a day which is not a Business Day, the day so appointed or specified shall be deemed to be the next Business Day.

## ANNEXURE 1 - ALTO ASX ANNOUNCEMENTS

| Date     | Announcement   |
|----------|--|
| 29.01.19 | Letter to eligible shareholders- Rights Issue                |
| 29.01.19 | Letter to ineligible shareholders- Rights Issue              |
| 30.01.19 | Exploration update for Ladybird Prospect                     |
| 31.01.19 | December Quarterly Activities and Cashflow Reports           |
| 11.02.19 | Exploration Update - High Grade Gold at Sandstone North      |
| 18.02.19 | Completion of Entitlement Offer                              |
| 18.02.19 | Director Appointment   |
| 20.02.19 | Change of Director's Interest Notice - Wheeler               |
| 20.02.19 | Change of Director's Interest Notice - Ryan                  |
| 21.02.19 | Trading Halt   |
| 26.02.19 | Suspension from Official Quotation                           |
| 27.02.19 | Board Composition  |
| 27.02.19 | Reinstatement to Official Quotation                          |
| 27.02.19 | Results of Meeting   |
| 27.02.19 | Final Director's Interest Notice                             |
| 27.02.19 | Initial Director's Interest Notice                           |
| 01.03.19 | MDI: Intention to Make Takeover Bid                          |
| 01.03.19 | Middle Island Takeover Offer- Take NO ACTION                 |
| 06.03.19 | Appendix 3B  |
| 11.03.19 | Change of Director's Interest Notice                         |
| 15.03.19 | Half-Yearly Report and Accounts                              |
| 19.03.19 | Major Shareholders Do Not Intend to Accept MDI Offer         |
| 10.04.19 | MDI: AME Takeover Offer Variation to Minimum Acceptance Cond |
| 10.04.19 | MDI: Bidder's Statement                                      |
| 11.04.19 | Middle Island Takeover Offer- Take NO ACTION                 |

| Date     | Announcement   |
|----------|--|
| 15.04.19 | MDI: First Supplementary Bidder's Statement              |
| 24.04.19 | MDI: Bidder's Statement Dispatch Confirmation            |
| 26.04.19 | Initial substantial holder notice from MDI               |
| 26.04.19 | MDI: Letter to MDI Shareholders                          |
| 26.04.19 | MDI: Letter to AME Shareholders                          |
| 30.04.19 | Quarterly Activities & Cashflow Report                   |
| 01.05.19 | Letter to AME Shareholders                               |
| 02.05.19 | Trading Halt   |
| 06.05.19 | Alto to raise \$2.6m to fast track drilling at Sandstone |
| 06.05.19 | Supplementary Prospectus                                 |
| 06.05.19 | MDI: Shareholder Briefing                                |

## ANNEXURE 2 -MINERAL RESOURCE STATEMENT (JORC 2012) AND COMPETENT PERSONS STATEMENT

As at 2 October 2018

| Deposit                           | Category  | Reporting cut-off | Tonnage | Grade    | Contained |
|-----------------------------------|-----------|-------------------|---------|----------|-----------|
|                                   |           | (g/t Au)          | (kt)    | (g/t Au) | gold (oz) |
| Lord Henry**                      | Indicated | 0.8               | 1,200   | 1.6      | 65,000    |
|                                   | Inferred  | 0.8               | 110     | 1.3      | 4,000     |
| Lord Nelson*                      | Inferred  | 0.8               | 980     | 2.2      | 68,000    |
| Indomitable and Vanguard Camp *** | Inferred  | 0.5               | 2,580   | 1.5      | 124,000   |
| Total indicated                   |           |                   | 1,200   | 1.6      | 65,000    |
| Total inferred                    |           |                   | 3,670   | 1.7      | 196,000   |
| Total Indicated & Inferred        |           |                   | 4,870   | 1.7      | 261,000   |

### Note

For reporting purposes at a high level, totals have been rounded. Rounding may result in some slight discrepancies in totals reported.

There is a low level of geological confidence associated with Inferred Mineral Resources and there is no certainty that further exploration work will result in the conversion of all Inferred Mineral Resources to Indicated Mineral Resources.

\* Refer AME ASX release 28 April 2017 Lord Nelson Mineral Resource increased to 68,000oz

\*\* Refer AME ASX release 16 May 2017 Lord Henry JORC 2012 Maiden Mineral Resource of 69,000oz

\*\*\*Refer AME ASX release 25 Sept 2018 Maiden Gold Resource at Indomitable and Vanguard Camps, Sandstone WA.

***All material assumptions and technical parameters underpinning the 2017 and 2018 JORC (2012) Mineral Resource estimates in the above ASX announcements continue to apply and have not materially changed since last reported.***

### Competent Persons Statement

Mineral Resource estimates for Lord Nelson and Lord Henry contained in this presentation were estimated in 2017 by Snowden Mining Industry Consultants and are reported pursuant to the 2012 Edition of the JORC Code. The Company is not aware of any new information or data that materially affects the information provided in the 2017 Snowden Mining Industry Consultants Reports on these deposits, and considers that all of the previous assumptions and technical parameters underpinning the Mineral Resources in the previous announcements have not materially changed.

The information in this Target's Statement that relates to 2018 Vanguard Camp and Indomitable Camp Inferred Mineral Resources is based on and fairly represents resource estimation and supporting documentation prepared and approved by Dr Spero Carras of Carras Mining Pty Ltd. Dr. Carras has previously disclosed that a related party of his is a very minor Shareholder of Alto. Dr Carras is a Fellow of the Australasian Institute Mining and Metallurgy (AusIMM) and has over 40 years' experience 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 2012 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Carras has provided his prior written consent as to the form and context in which the 2018 Vanguard Camp and Indomitable Camp Inferred Mineral Resources and supporting information are presented in this Target's Statement. Alto confirms that it is not aware of any new information or data that materially affects the information included in the 2018 Vanguard Camp and Indomitable Camp Inferred Mineral Resources estimate and that all material assumptions and technical parameters underpinning the estimate continue to apply and have not materially changed.



The information in this Report that relates to historical exploration data and Alto's Exploration Results is based on and fairly represents information compiled by Mr Dermot Ryan, who is an employee of XServ Pty Ltd and a Shareholder of Alto. Mr Ryan is a Fellow of the Australasian Institute of Mining and Metallurgy and has sufficient experience of relevance to the styles of mineralisation and the types of deposits under consideration, and to the activities undertaken, to qualify as a Competent Person as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Ryan has provided his prior written consent as to the form and context in which historical exploration data and Alto's Exploration Results are presented in this Target's Statement. Alto confirms that it is not aware of any new information or data that materially affects the information included in the historical exploration data and Alto's Exploration Results and that all material assumptions and technical parameters underpinning the estimate continue to apply and have not materially changed.

## CORPORATE DIRECTORY

### Directors

|                   |                        |
|-------------------|------------------------|
| Mr Terry Wheeler  | Non-Executive Director |
| Dr Jingbin Wang   | Non-Executive Director |
| Mr Matthew Bowles | Non-Executive Director |

### Company Secretary

Mr Graeme Smith

### Registered Office

Suite 9, 12-14 Thelma Street  
WEST PERTH WA 6005

Telephone: +61 8 9381 2808  
Facsimile: +61 8 9321 6084  
Email: [admin@altometals.com.au](mailto:admin@altometals.com.au)  
Website: [www.altometals.com.au](http://www.altometals.com.au)

### ASX Codes

Shares: AME

### Share Registry\*

Automic Pty Ltd  
Level 2, 267 St Georges Terrace  
PERTH WA 6000  
Telephone (local): 1300 288 664  
Telephone (international): +61 2 9698 5414

### Solicitors

Bellanhuse Lawyers  
Level 19, Alluvion  
58 Mounts Bay Road  
PERTH WA 6000

### Auditors\*

Grant Thornton Audit Pty Ltd  
Level 43, 152-158 St Georges Terrace  
PERTH WA 6000

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\* These entities are included for information purposes only. They have not been involved in the preparation of this Target's Statement.