
FIRST SUPPLEMENTARY TARGET'S STATEMENT

1. Introduction

This document is a supplementary target's statement under section 644 of the *Corporations Act 2001* (Cth). It is the first supplementary target's statement (**First Supplementary Target's Statement**) issued by Alto Metals Limited ACN 159 819 173 (**Alto** or **Company**) in response to the unsolicited, off-market, all-scrip takeover offer (**Offer**) made by Middle Island Resources Limited ACN 142 361 608 (**MDI** or **Middle Island**).

This First Supplementary Target's Statement supplements, and should be read together with, Alto's target's statement dated 6 May 2019 (**Target's Statement**). This First Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement.

Unless the context requires otherwise, terms defined in the Target's Statement have the same meaning in this First Supplementary Target's Statement.

A copy of this First Supplementary Target's Statement was lodged with the ASIC on 3 July 2019. Neither ASIC nor any of its officers take any responsibility for the content of this First Supplementary Target's Statement. This First Supplementary Target's Statement was unanimously approved by resolution of the Board of Alto.

2. Offer Update

2.1 Increased Consideration

Alto refers to MDI's Third Supplementary Bidder's Statement dated 21 June 2019, in which MDI extended the Offer Period to 2 August 2019. Alto also refers to MDI's Fourth Supplementary Bidder's Statement dated 27 June 2019, in which MDI varied the Offer by altering the consideration under the Offer from five (5) MDI Shares for every one (1) Alto Share to six (6) MDI Shares for every one (1) Alto Share (**Increased Consideration**).

Alto notes that the Increased Consideration values Alto Shares at \$0.024 each, based on the last trading price of \$0.004 per MDI Share on 27 June 2019, which represents:

- (a) a **discount** of 27% to the closing price of Alto shares of \$0.033 on 27 June 2019; and
- (b) a **discount** of 33% to the issue price of shortfall shares issued on pursuant to the Entitlement Offer (**Shortfall Shares**) of \$0.036 as announced on 6 May 2019 and issued on 13 May 2019.

2.2 Response to Fourth Bidder's Statement

Alto's Directors wish to draw attention to the statement made by MDI in its Fourth Supplementary Bidder's Statement that "*movements in the [Alto] and MDI share prices from and subsequent to the Announcement Date may be interpreted as the market saying MDI is offering too much for each [Alto] Share as MDI's Share price has been marked down relative to [Alto's].*"

Alto's Directors note that, whilst it is possible to draw several interpretations in relation to trading of shares in both MDI and Alto since the Announcement Date, MDI's interpretation completely ignores positive developments in relation to Alto's business and operations since the Announcement Date, namely the placement of the Shortfall Shares and the commencement of an aggressive exploration program of approximately 10,000 metres of RC drilling and the award of a \$150,000 Exploration Incentive Scheme (**EIS**) grant (as announced on 6 June 2019). In addition, MDI's interpretation ignores the obvious lack of traction in relation to the Offer (evidenced by the fact MDI had, as at 21 June 2019, only received acceptances representing a voting power of 1.52% in Alto) and the possibility that the market considers that MDI is continuing to allocate time and resources to the Offer in circumstances where the vast

majority of Alto's shareholders have already made their views regarding the Offer clear (based on the low number of acceptances received by MDI to date).

Alto's Directors also note that MDI stated in its Fourth Supplementary Bidder's Statement that "*MDI has not extended the Offer to the Shortfall Shares and, as at the date of this Fourth Supplementary Bidder's Statement, does not intend to extend the Offer to the Shortfall Shares*". Alto notes that the Shortfall Shares represent 21% of the all Alto Shares on issue as at the date of this First Supplementary Target's Statement.

2.3 Directors' Recommendation

For the reasons explained in the Target's Statement, and notwithstanding the Increased Consideration, your Directors continue to unanimously recommend that you **REJECT** the Offer.

The detailed reasons to Reject the Offer are set out in Section 1 of the Target's Statement. In addition to those reasons, Alto notes that the Company's three largest shareholders, who collectively own or control 68,608,175 Alto Shares (being 32.12% of Alto Shares which are subject to the Offer and 25.37% of all Alto Shares on issue) have provided new shareholder intention statements to the Company advising that they do not intend to accept the Offer, notwithstanding the Increased Consideration¹.

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

3. Other Material Information

In considering the Offer and the Increased Consideration, Alto Shareholders should consider that on 6 June 2019, Alto announced the commencement of an aggressive exploration program of approximately 10,000 metres of RC drilling and the award of a \$150,000 EIS grant (see Alto's ASX announcement dated 6 June 2019).

The Company is currently in the process of finalising the initial results of its drilling program and expects to update the market shortly.

4. Further information

A letter to Alto Shareholders is attached to and forms part of this First Supplementary Target's Statement. We urge all Alto Shareholders to read and consider this letter.

In assessing the Increased Consideration and whether or not to accept the Offer, you should consider the information provided to you in this First Supplementary Target's Statement, the Target's Statement, the risks and potential rewards of remaining an Alto Shareholder versus becoming an MDI shareholder, and your own personal circumstances.

If you have any questions in relation to your position as a Shareholder, including in relation to the Increased Consideration under the Offer, I encourage you to seek either financial or legal advice without delay.

Yours faithfully



Terry Wheeler
Chairman

¹ 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). It is noted that Alto received these separate shareholder intention statements following MDI announcing the Increased Consideration and the shareholder intention statements are in addition to the shareholder intention statements previously received by Alto, as referred to in the Target's Statement.

Dear Fellow Shareholder

THE DIRECTORS OF ALTO UNANIMOUSLY RECOMMEND THAT YOU CONTINUE TO REJECT THE MIDDLE ISLAND OFFER BY TAKING NO ACTION

Your board of Alto Metals Limited (**Alto** or **Company**) is very appreciative of the continued support that we have received from all of our shareholders. As shareholders will appreciate, responding to Middle Island Resources Limited's (**MDI** or **Middle Island**) unsolicited, off-market, all-scrip takeover offer (**Offer**) over the last 4 months has taken up considerable time and resources. We look forward to once again being free to focus 100% of our energy on advancing exploration at our Sandstone Gold Project and creating value for all of our shareholders.

MDI's Offer was originally announced on 1 March 2019 and opened on 24 April 2019. The Offer was originally due to close on 31 May 2019, prior to being extended by MDI to 28 June 2019 on 24 May 2019. Following a further extension of the Offer by MDI on 27 June 2019, the Offer is currently due to close on 2 August 2019 (unless further extended).

There have been a number of positive developments in relation to Alto's business since the announcement of the Offer, namely the:

- commencement of an aggressive exploration program of approximately 10,000 metres of RC drilling to test strike and depth extensions at Vanguard Camp, Indomitable Camp, Lord Nelson and Havilah;
- placement of the "Shortfall Shares" securing approximately \$2.0M and a further commitment of \$600,000¹, to fund drilling, exploration and working capital; and
- the award of a \$150,000 Exploration Incentive Scheme (**EIS**) grant.

The Company is currently in the process of finalising the initial results from its drilling program and expects to update the market shortly.

MIDDLE ISLAND OFFER VARIATION

Alto refers to the announcement dated 27 June 2019, advising that Middle Island has varied its Offer to acquire 100% of the ordinary shares of Alto (**Offer**) by increasing the consideration under the Offer from:

- five (5) Middle Island shares for every one (1) Alto share; to
- six (6) Middle Island shares for every one (1) Alto share (**Increased Consideration**).

Alto notes that the Increased Consideration values Alto Shares at \$0.024 each², which represents a:

- **27% discount** to the closing price of Alto shares of \$0.033 on 27 June 2019; and
- **33% discount** to the price of the Alto shortfall placement of \$0.036 announced on 6 May 2019.

MIDDLE ISLAND OFFER FAILS TO GAIN TRACTION

Middle Island is required to advise both Alto and the market when it receives acceptances for more than 1% of the shares in Alto, and thereafter every further 1% of Alto shares it acquires. The last disclosure made by Middle Island was on 21 June 2019, which noted that Middle Island had a voting power in Alto of 1.52%. It is noted that this represents an increase in voting power of **only 0.02%** from the date of Middle Island's previous disclosure regarding its voting power in Alto dated 24 May 2019.

This indicates that, **in the period of over 2 months since the Offer has been open for acceptance, Middle Island has received acceptances totalling less than 2% of all Alto Shares** which are subject to the Offer. In these circumstances, **Alto's Board considers it is reasonable to infer that the market has formed the view that Middle Island is continuing to allocate time and resources to the Offer in circumstances where Alto's shareholders have made their view clear.** The Increased Consideration does not change the Board's unanimous recommendation..

¹ Subject to shareholder approval at a meeting to be held on 12 July 2019

² Based on the last trading price of \$0.004 per Middle Islands Share on 27 June 2019

ALTO DIRECTORS AND MAJOR SHAREHOLDERS CONTINUE TO REJECT OFFER

Your directors continue to believe the Offer (including the Increased Consideration) should be rejected. These reasons are stated at Appendix 1 of this letter and remain consistent with the original position presented by the Alto directors which is outlined in Alto's Target's Statement released to ASX on 6 May 2019.

Alto has continued to receive strong messages of support from many of its shareholders. In this regard, Alto's three largest shareholders, who currently control 32.12% of Alto Shares which are subject to the Offer (being 25.37% of all Alto shares on issue), have indicated that, notwithstanding the Increased Consideration, they **do not intend to accept** the Offer.

We urge you to read the summary attached at Appendix 1 of this letter carefully and to contact us should you wish to discuss any aspect of this matter.

ALTO'S SHAREHOLDER'S RIGHT OF WITHDRAWAL

Pursuant to the terms of section 650E of the Corporations Act, any Alto Shareholder who has accepted the Offer up to 5.00pm (WST) on 21 June 2019 has the right to withdraw their acceptance by giving a notice of withdrawal ("**Withdrawal Notice**") to the Bidder within one month commencing on 22 June 2019.

For any Alto shareholder who may have accepted the Offer and now wishes to withdraw their acceptance, further information on the process is included in Appendix 2 to this letter.

HOLDERS OF SHORTFALL SHARES

As noted in the Company's announcement on 4 June 2019, Alto was waiting for Middle Island to advise if they will be extending the Offer to the new shares issued as part of the shortfall placement, and if so, when this would be done. As stated in Middle Island's Fourth Bidder's Statement, MDI still does not intend to extend the Offer to the Shortfall Shares, notwithstanding that the Shortfall Shares represent approximately 21% of all Alto Shares on issue.

Unfortunately, assuming MDI does not extend the Offer to the Shortfall Shares, the Shortfall Shares and attaching options, which are currently quoted under the ASX codes AMENA and AMEAJ, respectively, must remain in separate classes to all other Alto shares and options and will remain in suspension until such time as either:

- Middle Island withdraws the Offer; or
- 5pm (AWST) on 2 August 2019 or such later date if the offer period is further extended by MDI.

Your Directors view Middle Island's position with respect to the Shortfall Shares (and resulting restriction on the free trading of all AME Shares) to be a frustrating action, **particularly given the very low level of acceptances in relation to Alto Shares which are subject to the Offer.**

Your Directors are disappointed with the time and resources being allocated to the Offer by MDI given the significant lack of traction and continue to recommend that you **TAKE NO ACTION** in relation to the Offer and continue to **IGNORE ALL CORRESPONDENCE YOU RECEIVE FROM MIDDLE ISLAND.**

Further details of the Directors' recommendation are included in the First Supplementary Target's Statement and the Target's Statement. Copies of these documents are available on the ASX website, www.asx.com.au and Alto's website, www.altometals.com.au, as will news of any further developments in relation to the Offer.

Your Directors look forward to your continuing support as we respond to the Offer.

Yours sincerely



Terry Wheeler
Chairman
Alto Metals Ltd

Please direct enquiries or requests for further information to:

Matthew Bowles
Non-Executive Director
Alto Metals Limited
+61 8 9381 2808
mbowles@altometals.com.au

Darren Martin
Managing Director
Longreach Capital
+61 412 144 719
darrenm@longreachcapital.com

APPENDIX 1 - WHY YOUR DIRECTORS RECOMMEND YOU CONTINUE TO REJECT MIDDLE ISLAND'S OFFER

Your directors believe Alto Shareholders are best served by **REJECTING** the Middle Island Offer:

1	<p>THE OFFER FAILS TO RECOGNISE ALTO'S UNREALISED POTENTIAL</p> <ul style="list-style-type: none"> • The Offer does not adequately recognise the exploration potential of Alto's Sandstone Gold Project and the 818km² of the historic Archaean Sandstone Goldfield controlled by Alto • You should not allow MDI to profit to your detriment
2	<p>MDI NEEDS ALTO, HOWEVER MDI'S PROPOSAL OFFERS LITTLE BENEFIT TO ALTO SHAREHOLDERS</p> <ul style="list-style-type: none"> • MDI needs long term growth • 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 • 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 • Alto controls 818km² of the historic Archaean Sandstone Goldfield - providing the ability to progress exploration of Alto's Sandstone Gold Project on a standalone basis
3	<p>ALTO'S 3 LARGEST SHAREHOLDERS DO NOT INTEND TO ACCEPT THE OFFER</p> <ul style="list-style-type: none"> • Alto's three major shareholders, who collectively own or control 32.12% of Alto Shares which are subject to the Offer (being 25.37%³ of all Alto Shares), have stated that they <u>do not intend</u> to accept the Offer, notwithstanding the Increased Consideration. • MDI will be unable to meet the 90% compulsory acquisition threshold 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 threshold to pass special resolutions and to seek delisting of Alto from ASX (without shareholder approval) • Accordingly, there are likely to be limited synergies generated from the transaction
4	<p>YOUR DIRECTORS BELIEVE THE OFFER IS UNLIKELY TO BE MDI'S LAST MOVE</p> <p>Your Directors believe that:</p> <ul style="list-style-type: none"> • 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 reduced the minimum acceptance condition to MDI having a Relevant Interest in at least 50.1% of all AME Shares (from an original minimum acceptance condition of 90%). • As at 21 June 2019, Alto held a Relevant Interest in Alto Shares of 1.52%. • The ability for MDI to secure a Relevant Interest of 50.1% is exacerbated given Middle Island has stated that "<i>MDI has not extended the Offer to the Shortfall Shares and, as at the date of this Fourth Supplementary Bidder's Statement, does not intend to extend the Offer to the Shortfall Shares</i>". Alto notes that the Shortfall Shares represent 21% of the ordinary shares of Alto Shares currently on issue and, therefore, Middle Island would need to effectively secure ~63% of Alto Shares which are subject to the Offer. • MDI is unlikely to secure control of Alto via the Offer (notwithstanding the Increased Consideration) 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

³ 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.

5	THE OFFER IS HIGHLY CONDITIONAL AND UNCERTAIN <ul style="list-style-type: none">• You cannot assume that the Offer will proceed
6	THE TAX OUTCOMES OF ACCEPTING THE OFFER MAY BE DISADVANTAGEOUS TO YOU <ul style="list-style-type: none">• If you accept the Offer, there is potential for a tax liability if scrip-for-scrip roll-over relief is not available

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

A TARGET'S STATEMENT WILL BE ISSUED BY YOUR DIRECTORS IN THE COMING WEEKS AND WILL CONTAIN ALL OF THE INFORMATION YOU NEED TO CONSIDER THE OFFER.

PENDING RECEIPT OF THE TARGET'S STATEMENT, YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU TAKE NO ACTION IN RELATION TO YOUR ALTO SHARES.

APPENDIX 2 – WITHDRAWAL PROCESS

The recommended methods of giving a Withdrawal Notice are:

(a) Written notice to the Bidder:

This method of giving the Withdrawal Notice is available for shares in a CHESS Holding or an Issuer Sponsored Holding.

The Bidder should receive from the AME Shareholder a notice in writing that sets out the following information and states that the AME Shareholder wants to initiate a withdrawal. The notice in writing should be signed by the AME Shareholder.

The information that should be provided in the Withdrawal Notice is:

- i. the registered name of the AME Shareholder; and
- ii. the AME shareholder's SRN or HIN (as applicable).

The Bidder recommends that you send the Withdrawal Notice to the Bidder at the following address:

Middle Island Resources Limited
C/o Security Transfer Australia Pty Ltd
PO Box 535
Applecross WA 6953

Neither the Bidder nor Security Transfer Australia Pty Ltd will be responsible for any delays in the process of you sending a Withdrawal Notice to the Bidder or Security Transfer Australia Pty Ltd.

(b) Withdrawal Notice for shares in a CHESS Holding by instruction to a Controlling Participant:

If your AME Shares are in a CHESS Holding, a Withdrawal Notice may be given by following the steps set out below. This method is available in the alternative to the method outlined in section 3(a).

- i. you must instruct your broker (the "Controlling Participant") to transmit a valid originating message to ASX Settlement in respect of the AME Shares in that CHESS Holding in accordance with Rule 14.161.1 of the ASX Settlement Operating Rules ("Valid Originating Message"); and
- ii. your Controlling Participant must transmit a Valid Originating Message to ASX Settlement in respect of the relevant AME Shares before the Defeating Conditions are satisfied or waived by the Bidder.

You should ensure your Controlling Participant has sufficient time to satisfy the above requirements for the giving of the Withdrawal Notice. The Bidder nor Security Transfer Australia Pty Limited will be responsible for any delays in your Controlling Participant transmitting a Valid Originating Message.

(c) Withdrawal Notice for shares held beneficially:

Beneficial owners whose AME Shares are registered in the name of a broker, investment dealer, bank, trust company or other nominee should contact that nominee for assistance in initiating a withdrawal.

If an AME Shareholder withdraws an acceptance in this manner, the Bidder must, before the end of 14 days after the day it is given the Withdrawal Notice:

- (a) return to the AME Shareholder any documents that were sent by the AME Shareholder to the Bidder with the acceptance of the Offer; and
- (b) if the shares are in a CHESS Holding, transmit to ASX Settlement a valid Originating Message that authorizes the release of those shares from the Offer Accepted Subposition in which the CHESS Holding has been reserved in accordance with Rule 14.16.3 or 14.16.5 of the ASX Settlement Operating Rules as applicable.

No acknowledgement of valid receipt of a Withdrawal Notice will be given to you by or on behalf of the Bidder.