

16 February 2017

Chairman's letter to Shareholders

MHM Directors recommend you **REJECT** the Mercantile takeover offer

Dear Shareholder,

I am writing to you today in relation to the unsolicited off-market takeover offer for MHM Metals Limited (**MHM**) by Mercantile OFM Pty Ltd (**Mercantile**) (**Mercantile Offer**). Mercantile is a wholly owned subsidiary of Mercantile Investment Company Limited (ASX:MVT).

You should have now received the Replacement Bidder's Statement from Mercantile in the post. MHM will dispatch a Target's Statement to you by no later than 1 March 2017, which will respond to the Mercantile Offer in detail.

The recently appointed Board of MHM recommends shareholders to **REJECT** the Mercantile Offer and take **NO ACTION** in relation to the Mercantile Offer or any document received from Mercantile.

In forming this view, the Board have considered matters including the following:

- the offer price of \$0.04 per share is lower than the offer price of \$0.0435 per share proposed under the intention to make an off-market takeover offer received by MHM from Cadmon Ventures Pty Ltd. The offer price under the Mercantile Offer was the first and final offer;
- the offer price fails to take into account the value of MHM's ASX listing, which could be realised by MHM via a back-door listing in partnership of another entity; and
- given the previous experience and track record of the current Board of MHM, there is a possibility that MHM under its current management may be able to identify alternate opportunities that provide value to shareholders in excess of the offer price.

The Board will provide further information regarding their recommendation in its Target's Statement. MHM has also engaged leading financial services firm BDO Corporate Finance as an Independent Expert to assist in considering the merits of the Mercantile Offer. A report by BDO will be included in the Target's Statement.

The Board will keep shareholders fully informed of further developments as they occur.

Regards



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