1 August 2014

LETTER TO SHAREHOLDERS

Dear Shareholder,

Blackthorn Resources Recommends Shareholders Vote In Favour of the Resolution to Sell its Interest in the Perkoa Project

As you will be aware, the Company has entered into a legally binding conditional sale and purchase agreement with Glencore to sell its remaining 27.3% share of the Perkoa Project to Glencore for US$10 million. The agreement, which is subject to the approval of Blackthorn Resources' shareholders, also provides for the conditional sale of Blackthorn Resources' interest in the Northern Tenement exploration licences in Burkina Faso for US$2 million.

You will by now have received the Notice of General Meeting and Explanatory Statement for the Extraordinary General Meeting to be held on 14 August 2014, where shareholders will be asked to approve the sale of our interest in the Perkoa Project and the adjacent exploration licences to Glencore.

Recommendation of the Board of Directors

The Board (other than the Glencore nominee director who is not voting on the transaction) unanimously recommends that Blackthorn Resources' shareholders vote IN FAVOUR of the transaction.

The factors which influenced the Board's considerations and recommendation to shareholders to vote in favour of the transaction are addressed in the Notice of General Meeting and Explanatory Statement, including the Independent Expert's Report that was distributed to shareholders as part of the Notice of General Meeting. We feel that it is important at this time to clearly and succinctly restate the reasoning behind the decision to sell, the opportunity that it provides us, and the possible consequences should the resolution not be approved.

The situation we needed to resolve

Six months ago the future of Blackthorn Resources' (BTR) 27.3% interest in the Perkoa Project was unclear. Between 1 August 2013 and 31 December 2013, Glencore had contributed an additional US$30M to meet the working capital requirements of the project (over and above the additional US$80M of equity funding provided by Glencore in early 2013), and BTR was presented with the choice of contributing its US$9M share of the US$30M funding in order to retain its 27.3%

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interest in the project, or face a substantial and uncertain further dilution of its interest in the project. In addition, operations at the open pit had been suspended by Glencore early in 2014, as a response to ongoing resource under performance, lower than expected metal prices, and the resulting unacceptable open pit financial results.

Prior to making any decision on how BTR should manage these developments, we asked Glencore to provide a revised business plan to enable us to carry out a thorough assessment of the project. The key task for the BTR team was to quickly understand the true performance, underlying problems, risks and opportunities presented by the Perkoa mine operation.

Glencore provided the revised business plan in February 2014. It identified a downgrade of the Perkoa ore reserve, and projected higher operating and capital costs. In addition, Glencore forecast that during CY2014 substantial additional working capital would be required for the Perkoa Project, implying a further equity contribution would be required by BTR.

BTR moved into a phase of due diligence on the Glencore revised business plan. The results of this work suggested some adjustments to the mine operating plan but effectively supported the revised business plan and model put forward by Glencore.

In summary, the key facts arising from the revised business plan were:

- BTR would be required to contribute substantial additional equity to maintain its 27.3% ownership interest in the Perkoa Project, including the US$9M already required in respect of the US$30M of funding provided by Glencore to 31 December 2013.
- The project debt of US$90M plus interest costs would need to be repaid before any ordinary dividend could be paid to the JV partners. This needed to be considered in any formal valuation.
- At the zinc price prevailing in April 2014 (the LME spot was around US$2000/t and the LME forward curve was below US$2100/t) modelling indicated that cash flows generated from mine operations would not be able to pay back the project debt and so a return on any new capital contributed to the project would not occur.

An additional key factor and consideration during our verification exercise was our expectation of future zinc prices. Clearly an assessment of the performance of the Perkoa business needed to **and did** consider the potential for higher zinc prices than those prevailing in April 2014.

Our assessment

BTR had three clear options in April 2014:

- Raise and commit the additional capital required by the project
- Deal with the capital funding requirement by further diluting ownership in the project
- Negotiate an exit from the project.

BTR did not have sufficient cash on hand to commit to the project. If we wanted to maintain our ownership interest, we would need to raise the funds. A capital raising at this time would have been extremely dilutive, assuming such a large number of shares could be approved and placed. The modelling also showed that the operation required a substantially higher zinc price to pay this capital back, let alone generate a reasonable return for the associated risk. This option was discounted.

To manage the funding requirement through further dilution would most likely see BTR's residual interest in the project substantially reduced, potentially to zero, with no prospect of any meaningful payment for BTR's involvement.

In addition, BTR was exposed to a contingent liability under its guarantee of a share of the US$20M Working Capital Facility provided by Glencore to the Perkoa Project, and there was a risk that the lender could allege that an event of default has occurred (whether by reason of existing or future circumstances) and seek to accelerate the repayment of and enforce its security in respect of the US$70M senior secured loan facility provided to the Project (without recourse to BTR). This was not considered an acceptable position.

The third option, and the one chosen, was to negotiate an exit from the project. The aim was to realise a reasonable amount of cash now rather than risk BTR's existing business and potentially lose the project through further dilution.

The agreement

BTR determined early in the process that a substantially higher zinc price (well above the prevailing zinc price at the time) was needed to ensure we could extract reasonable value for the project for BTR shareholders. We also decided that we would not risk the future of the remainder of the business on the outcome of an assumption that is not in our control, and where there was a risk of the Project's debt facilities going into default and a call being made on our guarantee of the US$20M Working Capital Facility.

This approach underpins the successful negotiation of a higher zinc price assumption into the project valuations used to determine an exit value, resulting in what we consider to be an excellent outcome.

The negotiated outcome is supported by the Independent Expert's Report which also used higher zinc prices than those prevailing at the time of the study and determined fair value for the project to be between US$3.3M and US$7.1M, including the value ascribed to the exploration licences.

Taking into consideration all the matters detailed in the Independent Expert's Report, the independent expert concluded that the transaction is fair and reasonable to shareholders.

The key aspects of the final agreement with Glencore are:

- US$10M for BTR's equity interest in the Perkoa Project

- US$2M for BTR's exploration licences in Burkina Faso
- BTR will not be required to contribute its US$9M share of the working capital funding requirement announced in August 2013
- BTR will be released from all claims and contingent liabilities under agreements relating to the Perkoa Project, including its contingent liability under the Working Capital Facility Agreement.

What will we do if the resolution is passed?

BTR will continue its current focus on an orderly progression of the Kitumba Project and deliver a higher intensity exploration program on the surrounding Mumbwa exploration licence package.

The cash to be received from the disposal of Perkoa allows us to begin the Definitive Feasibility Study and fund exploration without the immediate need to find a development partner for the Kitumba Project.

BTR will continue to look for the right development partner but we do so from a position of relative financial strength.

Cash that may ultimately be realised from a development agreement for the Kitumba Project can be used to identify and pursue the next generation of projects for BTR.

What will we do if the resolution fails?

If the resolution is not passed, BTR will find itself in a very difficult situation.

The additional working capital funding required for Perkoa will need to be funded either through raising new equity capital or agreeing to a substantial dilution of our ownership interest in the Perkoa Project (potentially zero). Any capital raising will be done under stress, with shareholders asked to contribute cash themselves or face substantial dilution. There is also no assurance that Glencore will continue to provide its share of additional equity to the Project, as opposed to assuming control of the project through its position as senior secured lender and calling on the guarantee of the Working Capital Facility Agreement.

The current positive work on the Kitumba Project and Mumbwa exploration program will need to be cut short to conserve existing cash. BTR will be under pressure to do a deal to fund the Kitumba Project to survive and can expect the terms of a deal to be less than optimal.

Our ability to create a future for BTR will be determined by our ability to raise sufficient capital to progress our projects.

Recommendation

The Independent Directors of Blackthorn Resources unanimously recommend that you to vote in favour of the resolution to sell the Company's remaining interest in the Perkoa Project and adjacent exploration licences to Glencore.

Yours sincerely,

Mark Mitchell
Chief Executive Officer

Mike Oppenheimer
Chairman

Should you require further information please contact:

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