



30<sup>th</sup> July 2015

**CENTREX FOCUS ON POTASH DEVELOPMENT AND METALS EXPLORATION**

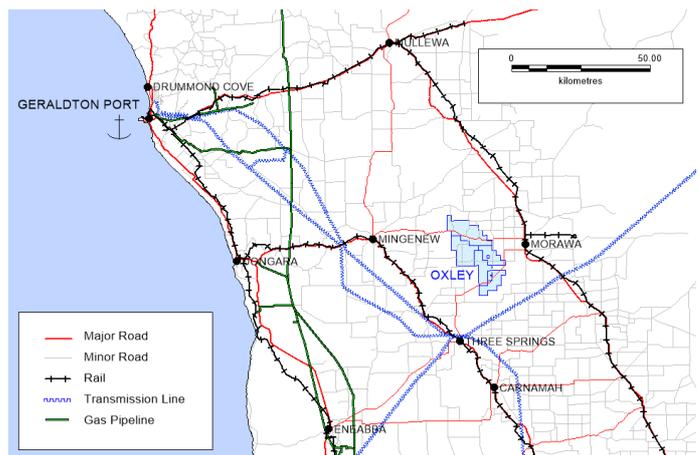
Dear Shareholders,



It is an appropriate time to write to you as our Company shifts its focus towards growth commodities outside of iron ore. From listing in 2006 Centrex set out to develop a number of iron ore assets on the Eyre Peninsula in South Australia during what was at the time a rapidly growing market for the commodity. Great progress was made in this pursuit including the completion of two major joint ventures with Chinese steel mills that resulted in a strong balance sheet and the Company’s ability to return \$31 million in dividends to shareholders.

Centrex commenced a diversification strategy in 2013 to lower its portfolio risk, historically weighted solely to the iron ore market. The iron ore price collapse over the past 12 months, which resulted in the asset impairments announced to the market last month, has shown this to have been a prudent strategy. The Company also deferred the development of its Wilgerup hematite project from original plans to export out of Port Lincoln in an effort to investigate lower cost port options such as Port Spencer, which could make the project more robust against potential future price declines. Had we pushed Wilgerup into production as originally intended we would have suffered the same fate as many of our peers which have since gone into administration.

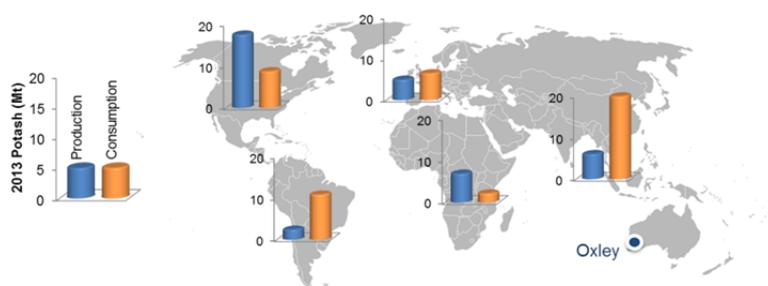
It has taken over two years for the Company to find the right flagship project acquisition, with grass roots metals exploration occurring in parallel in NSW, to complete the diversification away from iron ore and into other growth commodities. We have reviewed many assets over that time, and have resisted the urge to complete an acquisition for acquisitions’ sake. With the Oxley Potash Project in Western Australia, we believe we have finally found the right acquisition at the right price, with potential for significant revenue generation in the medium-term.



Unlike our iron ore developments we are starting after significant price adjustments in the potash market, with potash prices and demand forecast to rise steadily over the long-term. We are concentrating on higher value potash products such as potassium nitrate that has a rapidly growing market as a water soluble fertiliser for micro-irrigation, and with lower price volatility than standard potassium chloride. The high-margin low-volume nature of the



potassium nitrate market means a significantly reduced capital entry point compared to most other potash projects proposed, given the smaller scales required. Oxley has many unique attributes that make it favourable for development, and much of our bulk commodities knowledge from iron ore can be readily applied to it. Oxley's surface mining conditions, existing infrastructure and very short logistics scenarios make it a strong contender to supply Asia, the largest potash market, which is currently reliant on American and European imports for its needs. We have a major freight advantage to our Asian neighbours over the current suppliers. Access to cheap gas from the North West Shelf for nitrate production also provides for a compelling case into the potassium nitrate market. We believe the project has the potential to be a low cost producer in this market, resilient to commodity price cycles.



We are on a development path for Oxley that has a clear direction and project milestones, but we are starting from the beginning once more. We believe the majority of shareholders wish us to focus on building real and sustainable value via a path to significant revenue generation.

The current market places little to no value on blue sky potential or exploration gains and seeks feasibility studies demonstrating clear viability to consider value uplifts. We hope to achieve these uplifts at the completion of the current project scoping study in the first half of 2016. In the interim we have commenced our approvals applications to progress the initial resource drilling on the project that is to be carried out over the next few months. We envision the announcement of a resource at Oxley as a turning point with our value recognition in the market, which will signal we are no longer just another "iron ore hopeful". We ask that all shareholders bear with us during this transition period while we develop Oxley to the advanced level we had reached on our iron ore assets.

While Oxley is our focus we have made further progress on our NSW metals projects in the past year and continue to do so. Goulburn in particular has provided encouraging results with the discovery of a new massive sulphide prospect during our recent drilling program. Our geophysical studies since this discovery show good potential to expand this mineralisation along strike and we will review further drilling options over the coming months.



In terms of our current cash position your Board regularly reviews the Company's capital management requirements, and where surplus cash is identified it is returned to shareholders. Your Board has formed a view that it does not currently have surplus capital for distribution as it progresses Oxley towards a Bankable Feasibility Study, reviews options for further metals exploration in NSW, and is considering additional non-ferrous acquisitions



that could also provide near term value. Consideration is also being given to options available to recoup value from our iron ore portfolio. As it has done in the past your Board will continue to review its capital position and when prudent reward shareholders with further special dividends. An option considered by the Board is to pay a third dividend and raise any further development funds required for Oxley from the market. The Board has rejected this given the poor appetite for funding junior explorers until Bankable Studies are completed, and it should be noted that substantially all franking credits that were available to the Company (following the tax paid on completion of the transaction with WISCO in 2010) were distributed to shareholders in the previous two dividend rounds. Distributing un-franked dividends can result in an unsatisfactory tax outcome for individual shareholders. The crystallisation of any gains from assets divested by the Company could result in tax being paid that would make available more franking credits for distribution in the future.

The Company welcomes the views of all its shareholders on the matters raised in this letter and encourages shareholders with strong views to contact the Company Secretary who will relay them to your Board. I look forward to sharing success with you over the coming years as we progress our new ventures and gain the market recognition Centrex deserves.

Yours sincerely

Mr David Klingberg AO  
Chairman  
Centrex Metals Limited

