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Dear Shareholder,

I wrote to shareholders in January last year indicating that I expected 2008 to be a year of commercialisation for our technology and I can confirm that this was indeed the case. We have made excellent progress with our products in the marketplace, particularly with non paper applications. Our further project developments have also advanced, a number to the pre joint venture feasibility stage. However with the changing financial circumstances, we have still to complete the financing for our first plant at Leuna, Germany.

As shareholders know we have made considerable efforts to finance and build our first full commercial scale plant at Leuna incorporating our patented technology. The building of such a plant by a large company would normally be financed by the use of project finance. This of course assumes the builder's bankers are well known to them and that a number of similar plants are, and have been fully operational for some time.

This is not the case with new technology and however one defines the project it is clearly "the first of a kind". This financing construction does not change despite the availability of a substantial non-refundable grant of up to 50% and originally available state guarantees of up to 80% of the project finance portion. In fact the requirement to secure these benefits in the financing of a "house bank" sign off, makes the due diligence all the more critical. CalciTech has been working diligently for some years to develop the combination of criteria to meet a satisfactory funding package.

The earlier planned 40ktpa plant resulted in financing banks requiring a strong contracting partner with the right industrial credentials to build the plant, not easy to find with new technology, especially when requiring their financial assistance in the project also. However, we succeeded in finding such a partner and we have jointly carried out the substantial work required to develop a 100ktpa plant, where profitability at such a scale is much greater.

We were thus substantially in this position by late 2006 with, as reported, permitting confirmed during 2007. The ability to deliver dried product from the planned plant was a major development for us, in that our efforts in non paper areas were producing more and more high value applications with potential major international customers and this was fast improving the overall economics of our proposed plant and significantly improving all elements and the quality of the due diligence.

During this time our small scale plant has continued to operate to provide a continuous supply of samples, allowing our technical market people to work with potential customers in a range of industrial applications and clearly identify the benefits, both in improved properties and performance with cost saving benefits, justifying our next generation specialty materials claims.

Over the last two years we have mandated three different House Banks to conduct the due diligence and provide the funding required. We have failed to close in each instance due to sub prime and liquidity problems with these banks, widely experienced in Germany. The first drastically revised its due diligence conditions, resulting in an unrealistic change of the project model. This was coupled with Brussel's review of State guarantee availability to companies like CalciTech.

The second House Bank arose out of a reference by the Secretary of State for the Economy and Labour in Sachsen Anhalt of three further banks that had previously funded projects in the region. CalciTech developed a relationship with the one interested in proceeding without a State guarantee. By early last year the bank had satisfactorily completed its due diligence and secured credit committee approval of the project, but was then unable to use its credit lines to provide the funding. They were prepared to underwrite a third of the debt and take the lead, if a number of other banks were included in the financing.

Thus CalciTech set out to bring together a consortium of banks with a specific interest to participate. As a result five seriously interested banks were brought together at a joint meeting with the house bank in Leipzig in late summer of 2008. Unfortunately the position of the House Bank had deteriorated further and they would no longer take the lead and perform the house bank role.

From the consortium a new house bank was appointed and although they had previously experienced serious sub prime problems leading to their absorption by a Federal State bank, they were able to assure us of their ability to perform, allowing participation of other consortium banks at the Leipzig meeting. This mandate was short lived and cancelled by the bank for invalid reasons, but coincided with a change of ownership with the bank. CalciTech is advised that the termination was unlawful and the matter is under review.

Despite these extended difficulties CalciTech has continued to work in the market with customers and its products while also reviewing and refining the plant plan to ensure pricing stayed within the parameters set by the grant. This has been exceedingly challenging with the world surge in steel and other commodity prices. We consider our project, both from a technical point of view as well as our market position, is now at an excellent stage with regard to the quality of due diligence on risk reward assessment. The current environment has significantly changed the perception of our project.

We see a more serious interest from the German banking sector, now sub prime debt positions have largely passed. We are told that an 80% State guarantee is now likely to be available to us with some modification in grant attributable. This is very attractive as, although a guarantee fee is due, interest rates will be in line with the State borrowing level. We are also advised that the same grant program is available until the end of 2010. We can also expect to see a material reduction in the cost of the plant and civil engineering work, while commodity prices remain low, although this will necessitate yet a further pricing exercise.

It has always been our strategy to partner further plant builds. A principal consortium bank, has indicated that they would look favourably on our project now, if we were to introduce a strategic partner into the Leuna project. Whereas this was not an option in earlier days, we consider our establishment in the marketplace is greatly enhanced and our project now sufficiently refined to be very attractive to strategic partners. We have therefore decided to proceed on this basis to ensure an early closing of the Leuna financing and discussions are underway.

Besides bringing plant-operating experience behind CalciTech, the partner would subscribe their share of the equity expected to be €4 million, which would give them 40% of the capital of Newco to be established for this purpose. The partner may be required to provide certain other support to be determined in each instance. I do not expect the fundamental financial structure to vary from that originally projected.

To finally accomplish this task, CalciTech has brought in two exceptional businessmen at senior management level as has been reported this last year. Thomas Livingstone Learmonth, our new Chief Operating Officer, joined us on 1<sup>st</sup> January, 2008. He has now taken on the key responsibility for completion of the Leuna building and since joining us has also been fully involved with other projects conducting feasibility studies with potential partners. During the summer of 2008, Michael Watts joined us in the capacity of Marketing Director. Michael has considerable experience, particularly relative to our industrial sectors and will work closely with Thomas both in Germany and other territories, where we are working on potential projects. On arrangement of new finance we hope to appoint a new Chief Financial Officer. I believe this team will be able to accomplish the objectives we have set. In addition to these important appointments, in 2008 we were granted the very important patents in the US and Canada, which allows us to accelerate our project development efforts in these territories.

We will now concentrate on concluding a partnership and the closing of the financing in the first half of 2009. To accomplish this we must reconstruct our balance sheet and arrange additional funds to deal with creditors and our forward operating costs for 2009.

We have proposed to our debenture holders, amounting to \$4.64 million, that they should convert 50% of their holdings into shares of the company and agree a new rate of interest and conversion on the balance in line with current market conditions. This will lead to a major reduction of cost of interest. Most debenture holders have agreed in principle and details are being negotiated.

Our use of the Epsom working capital facility was fully utilized earlier this year and alternative financing arrangements have failed to deliver. Epsom and some shareholders have

continued to assist us through this difficult year in anticipation of finally completing on the finance for Leuna. Our facility of \$2.5 million is overdrawn by further agreement with Epsom and current the balance stands at \$5,159,059. Your company has been run on a low overhead basis for a number of years, but we have been able to make significant cuts to take account of new circumstances.

To be able to deal with our immediate working capital needs and to execute on our forward strategy through 2009, we require further funding of \$ 2.5 million. Epsom has agreed to substantially convert its debt, which will result in the issue of 52,632,000 shares at a price of USD 0.095 per share and place with its clients up to 50% of this, provided that other shareholders are prepared to underwrite the remaining 50%, some 26 million shares. This will provide the \$2.5 million funding needs indicated above by way of renewed facility. Epsom will make available free trading shares for investment purposes.

It is essential that we complete this placing urgently, if we are to capitalize on the massive efforts made in the past and it is essential for the first plant to start building to allow other projects to proceed. The price proposed is very dilutive, but well above the current OTC Bulletin Board price, which reflects no recent trade volume in the company's stock, as is the case with most OTC listed companies. At this price I very much hope shareholders will see this as an opportunity to be taken, to allow the chance to finally meet our objectives.

I am very confident that, with the changed circumstances relating to our project in Leuna, we will now finally complete the financing with a partner. Our project will generate wealth and thus employment in the local community and there is now a more concerted drive to assist to bring such projects to fruition. Despite the severity of the recession I am confident that, with very little additional working capital, CalciTech is well placed to take advantage of developing projects while the marketplace will retain the same high interest to take our specialty products.

Yours sincerely,

R A Leopard  
President