



ASX RELEASE

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FLOAT OF CLEANER ENERGY ASSETS IS FOCUS OF NEW QUEENSLAND COAL DRILLING PROGRAM

The resources group Metallica Minerals (ASX:MLM) has acquired significant coal assets in the Surat Basin and intends to setup its subsidiary, MetroCoal Ltd, as a stand alone company as part of its strategy to add value while it focuses on its core business as a developing nickel producer.

The potential for a float of coal-based clean energy assets by resources group, Metallica Minerals Ltd (ASX "MLM"), has moved a step closer with the announcement today of a major drilling campaign over the Company's extensive coal rich tenements within the Surat Basin.

Metallica said today the new drilling campaign was expected to provide sufficient confirmation of the coal seams targeted from historical exploration data to underpin a float of its significant Surat Basin assets in the first half of next year.

This would see Metallica join Australia's emerging Underground Coal Gasification (UCG) sector as part of the group's investment and growth strategy of building cornerstone revenue contributors across a range of higher demand mineral and energy commodities.

UCG is becoming an established energy process worldwide but is making only its first inroads into Australia's energy and fuel markets with a number of now successful demonstration and commercial size projects underway, primarily in southern Queensland coal basins.

The process heats coal at depth so that gasification of the seams takes place underground instead of at surface, with the resultant gas stream utilised at surface into power generation, clean diesel, other fuels or feedstock for the fertiliser and explosives industries.

"The climate change impetus, sustained high energy, threat of peak oil and fuel prices and current economic uncertainty have created a far more receptive market awareness of coal's broader potential as a cleaner energy contributor," Metallica's Managing Director, Mr Andrew Gillies, said today in announcing the drill campaign.

"Against this backdrop, thermal coal prices are now exceeding US\$100 per tonne and oil has found a home lately around an unprecedented US\$128 per barrel and with our Metrocoal strategy we have plans to produce both coal and fuels generated from coal – we have an excellent coal footprint for this objective." Mr Gillies said.

"The impact of these price pressures is being immediately and alarmingly felt across the cost of transport, production, farming, basic food necessities and household budgets.

"This is hastening government and industry attention on energy options and delivering new value to our significant Surat Basin coal assets, so much so that subject to the drill results, we believe they will now underpin a substantial Initial Public Offer (IPO) within 12 months."



Metallica's coal assets are held within its wholly owned subsidiary, MetroCoal Ltd, which in December last year was granted six coal exploration permits covering more than 4,000 square kilometres of coal bearing strata in the Surat and Ipswich Coal Basins in southern Queensland. Application for a seventh permit in the Surat Basin was submitted in April this year – see *Figure 1*.

All of the tenements were acquired to specifically explore for conventional coal targets (for open cut and underground mining) and evaluate UCG as coals in the Surat Basin have a high hydrogen content and have been shown to be highly amenable to gasification to produce syngas (coal gas).

“Metallica is very familiar with southern Queensland coal areas as it previously held a substantial portfolio of coal properties which were sold to Cockatoo Coal Ltd (ASX COK) in mid 2007 and holds 25 million shares Cockatoo.” Mr Gillies said.

The exploration program announced today will also target seams that have conventional underground coal mining potential.

“Metallica's view is that the Surat Coal Basin has the potential to host a world class petrochemical industry producing clean diesel and other fuel by-products,” Mr Gillies said.

“Several companies in Australia, including ASX-listed Linc Energy and Metex/Carbon Energy, are now well advanced with plans for pilot plants based on UCG in areas close to the MetroCoal tenements.

“The recent announcement in the United States have proposed a mandate on the production of Coal to Liquids (CTL) fuels, paired with the current high oil price, provides further impetus to the commercial application of the conversion technology.”

2008 coal drill campaign

Metallica has continued with its assessment of the coal deposits identifying a number of prospective target areas within the tenements focused on the Macalister seam, in the Juandah coal measures.

The exploration program announced today will comprise initial percussion drilling to test seam thickness and continuity of previously identified coal seams from historical drilling. Where capacity allows, the entire Juandah section will be tested as there is potential for multi seam resources. Seams identified will be cored to allow for higher confidence. Approximately 5,000 m of drilling for about 15 holes drilled to a depth of between 250-400m is planned for.

Most of the drilling is expected to be completed on key areas in the Surat Basin this year, to provide the confirmation of attractive large targets and expand the Surat coal and UCG-CTL project data base for a proposed MetroCoal IPO proposal in the first half of 2009.

MetroCoal Development

MetroCoal's funding will be sought from seed capital raisings in the next couple of months. This seed raising will conserve Metallica's existing cash reserves of over \$5m and its listed share investment in Cockatoo Coal worth (on current prices) over \$23 million.

Metallica continues to look for opportunities to enhance its core nickel projects and to divest or joint venture its non-core mineral properties, such as its Metrocoal assets to enable it to maintain focus on and fund its key NORNICO nickel project.



Yours sincerely,

Andrew Gillies – Managing Director/CEO

