

# Metallica joins select few junior explorers building a new Australian mine

Just three kilometres south of Weipa on the western coastal strip of Queensland's Cape York, a modest but historic new mine and processing plant project is underway.

**A**t a fully funded joint venture CAPEX of around \$6 million (of which about \$4 million has already been expended), the Metallica Minerals-owned Urquhart Point Heavy Mineral Sands and Bauxite project will not loom large among Australia's mining icons – but it carries much more significance in its small surface mining and processing footprint.

It will deliver maiden heavy mineral sands (HMS) and potentially bauxite revenues to Brisbane-based Metallica – a veteran exploration and development company entrenched in evolving Queensland's multi-resources commodities into commercial realities.

Bauxite is emerging as one of the quiet equity market success stories of recent times in globally traded bulk mineral commodities.

And Metallica is rich in bauxite potential – from high-grade results emerging in and around its HMS holdings near the new Weipa operation, to much larger and higher-ranging contiguous bauxite prospective areas stretching over 200 kilometres well north of Weipa along the Cape's western coast – one of the world's richest bauxite provinces. This ground area covers some 2000 square kilometres, with more than 10 priority targets for HMS and 15 bauxite targets already identified.

Metallica's achievements are all the more flag-raising, as they have been locked down despite some of the most negative and damaging equities market sentiment seen in years towards the junior resources sector – a sentiment fuelled in no small measure by the side-by-side collapse of the prices of big commodities iron ore, coal and oil.



The Weipa shipping channel immediately north of the strategically located Urquhart Point HMS project where it plans to have a short barge ship operation for its zircon and rutile HM concentrate and later much larger bauxite shipments.

The collapse continues to fuel a rash of mine closures and mass sackings, as higher-cost producers struggle to stay open.

Yet, come the third quarter of this year, the HMS operation – construction of which has been fully funded by Metallica's joint venture (JV) partner – will deliver first zircon-rutile concentrate product. The site offers simple, low-cost, shallow mining (less than three metres' depth), conventional wet gravity processing, and a barging operation to export ships anchored in deeper water just offshore.

The irony of the turnaround in the company's fortunes is not lost

on founder and long-time Metallica Managing Director Andrew Gillies.

Gillies has successfully evolved a suite of advanced projects within the company that cover zircon-rutile, bauxite, nickel-cobalt and scandium, in addition to limestone quarrying and various direct equity investments in Queensland's coal sector.

But he sees the greatest near- to medium-term upside in bauxite – and particularly Weipa's highly advantageous geographical positioning in relation to burgeoning demand markets to our north in South-East Asia.

'The reality is that equity markets have ignored the green shoots for bauxite because of their preoccupation with the tsunami of negativity swamping iron ore, and the parlous position that onslaught has left many Australian iron ore players in,' Gillies says.

'For all of 2015, market attitudes towards the plight of iron ore have skewed appreciation of project gains being made elsewhere in the resources sector.

'There is a major commodity downturn in iron ore, but it is historically – and no doubt will be in the future – a cyclical industry.

'We are seeing a severe downturn emerge for highly geared iron ore miners, but it is ridiculous for the markets to ignore the significant upside in global trading opportunities for Australian-based emerging bauxite miners and developers.

'The current bauxite seaborne trading opportunities are the most favourable for Australia since the first bauxite exports from Weipa decades ago.

'The solid fundamentals for bauxite are now hard to ignore, regardless of what's happening in iron ore (and other bulks); and the equity markets to this point don't seem to be aware of bauxite's resurgence as most probably one of the best – if not the best – positioned resources commodities over the past six months or more, and we expect bauxite's status to get stronger.

'On current forecasts and industry trends, that position will also only get better through 2015 and 2016.'

The Metallica head cited China's growing demand for bauxite as precipitating the bulk commodity's resurgence, along with Indonesia's long-foreshadowed decision to ban bauxite exports (unprocessed ores including nickel laterite ore) early in 2014.

'China has gone from importing three-quarters of its annual bauxite needs, or around 45 million tonnes, from Indonesia, to now none under Indonesia's bauxite export ban,' Gillies notes.

'The chances of Indonesia reversing this stand, I believe, are very low.

'China's bauxite stockpiles built up ahead of the Indonesian ban are almost exhausted, and there is uncertainty around the quality and quantity

of bauxite behind new Malaysian producers keen to step in, and partially try and fill that supply gap to China. China has lost its main bauxite supplier and, as time goes by and as remaining stockpiles continue their decline further, there could be a scramble.

'There have also been difficulties [for] existing suppliers in quickly scaling up to replace such a large lost sea-traded volume.

'Any new large-scale supply will be slow, as, for example, it will have to come from existing major operators. Existing operations such as at Weipa and Gove can only produce so much under their current mining and infrastructure loads, and existing internal and external market requirements.

'Critically, this supply chain disruption is occurring at a time when China's total bauxite demand is forecast to increase 50 per cent by 2019.

'There are few large bauxite operators able to fill some of this void – mainly Rio in Australia or new potential supply out of Guinea – but that West African source has distance cost impacts and poor bulk export infrastructure, so this underpins the emerging window of opportunity for smaller bauxite suppliers – particularly in northern Australia.'

Gillies notes that the global use of aluminium – the main source of which is bauxite – is also increasing, taking market share from steel use and particularly enhancing its appeal in automobile, marine and aerospace applications.

'Against this market environment, you now have bauxite reversing its image of being the poor cousin for investment dollars (as other bulk commodities such as iron ore and coal boomed in the 2004–2013 period), and [it] is now an exciting time for bauxite,' Gillies says.

'This environment favours the handful of Australian junior bauxite entities, such as Metallica (MLM), Australian Bauxite (ABX), Bauxite Resources (BAU) and Metro Mining (MMI), who are now globally among the few bauxite players with new projects actually in the pipeline.

'In simple terms, bauxite has exhibited sustained and solid market fundamentals, and has achieved gains

that most commodity-related forecasts expect to continue,' he said.

'Even if the landed China bauxite price remains around the current US\$60 per tonne, including cost, insurance and freight (CIF) components, this offers robust margins for new Australian supply contributors – particularly as bauxite mining and exporting is a very simple and relatively low CAPEX operation. MLM has drill-defined very marketable-grade, Weipa-type pisolitic bauxite in its Urquhart project. Western Cape York is well known to Chinese and other bauxite importers, and is the world's best bauxite province, all things considered.

'Any price above US\$60 per tonne is simply cream on the cake for Australia's new bauxite plays, which can, in the market conditions outlined above, make heady cash flow, even with just a 1.5-million-tonne-per-annum operation.

Metallica continues to drill and evaluate its wholly owned and high-grade direct shipping bauxite (DSB) project at Urquhart Point, in areas close to where it is currently constructing a new zircon-rutile HMS mine and plant operation, which is due for commissioning later this year.

The company has deliberately kept the Urquhart Point HMS project a modest-sized, low-CAPEX, quick-payback one, concentrating on high grades (around 14 per cent HM, of which more than 30 per cent is zircon and rutile) to obtain adequate margins.

Metallica is complementing that project by expanding its local bauxite-focused exploration and delineation drilling around the mine site, in mineralisation adjoining Rio Tinto's South of Embley bauxite deposit.

'From a cash preservation view, Metallica is being free-carried in this new drive through our agreement with JV partner, private Chinese-backed Ozore Resources Pty Ltd.

'The adjoining areas to our HMS deposits and regional targets have Weipa-style pisolitic and high-alumina bauxite,' Gillies says.

The two key bauxite deposits have been dubbed Area A and Area B, and high-grade drilling results to date clearly point to synergistic and cost-saving opportunities within the new Urquhart

HMS mine undertaking, granted a mining lease last year.

The Urquhart HMS project's modular gravity processing plant was constructed in South Africa by Consulmet, and is expected to be shipped in mid-May and delivered to Urquhart Point late in July. Site clearance works are well progressed for plant site, infrastructure and initial mining areas.

Gillies expects the first zircon-rutile concentrate production to commence in September.

The plant will feature a simple dry mining (less than three metres' depth) and wet sand mineral processing using standard gravity (spiral concentrators) HMS separation and zircon-rutile heavy mineral concentration (HMC) operation.

The mineral processing essentially involves the separation of the heavy minerals (>4 specific gravity (SG) density) including zircon-titanium minerals and iron oxide minerals of the sand, which averages approximately five to 15 per cent HMS. The lighter (<3 SG) quartz and calcareous sands (in essence, normally averaging less than 85 per cent HMS). No chemicals are required for HMS processing or HM concentration.

A revised feasibility model has calculated that the project will generate approximately \$6 million after tax in cash flow in the first seven quarters of production. Metallica will receive 50 per cent of this cash flow.

The project's DS bauxite is planned to be trucked approximately eight to 12 kilometres through the JV's 100 per cent owned tenements to a stockpile point within the Urquhart HMS mining lease near the shipping channel for barge loading onto a ship moored less than one kilometre offshore in the sheltered deep waters of the Embley River/Weipa Port.

Alternatively, it may also be feasible (subject to a cost benefit study and other considerations) to truck the ore to the Hey Point area held by Greencoast Resources, for barging.

Gillies says the Cape York HMS and Bauxite JV expect to have a maiden bauxite resource estimate and conceptual development or scoping

study for the project completed by the end of June.

Subject to JV funding, there will be increasing focus on the JV's extensive tenements in Western Cape York within the world-class Weipa bauxite province, with tenements hosting predominantly two geological types – sand and laterite/ bauxite – with Metallica keen to add to the company's HMS and bauxite inventory.

Gillies is proud that his company has developed the first deposit HMS project of its type on Cape York Peninsula, and expects to add to the Urquhart mine by discovering other deposits.

Metallica has had to adapt by making its Urquhart Point HMS project a modest-sized project, and by concentrating on high grades to obtain adequate margins. With money tight, Metallica is looking at low-CAPEX, quick-payback projects and the HMS, and, more recently, the bauxite projects fit that to a tee,' he says.

Further south in Queensland, near Greenvale, north-west of Townsville, Metallica is proactively looking for partners for its SCONI Scandium-Cobalt-Nickel tri-metal project, and is optimistic with regard to securing an agreement by mid-year, based on current progress with negotiations.

There is also a modest revenue stream from Queensland Nickel's open-pit mining of Metallica's 100 per cent held Dingo Dam nickel mining lease, with the nickel laterite ore being trucked 140 kilometres to the coastal Palmer Nickel and Cobalt Refinery.

The company is also evaluating opportunities to add or realise the value of its limestone assets in Queensland.

Gillies says that key priorities for Metallica heading towards the 30 June balance date are to continue site preparations at the Urquhart HMS Project, to conduct an inspection of the processing plant in South Africa prior to trial assembly and then shipment to Australia (scheduled arrival on site in July), to finalise a JORC-compliant resource for the Urquhart bauxite project in May, and to commence the bauxite permitting process by lodging a mining lease application.

The tenements further north will also be put through the wringer to identify the next regional bauxite and HMS targets for drilling. 

## SNAPSHOT

### ASX:MLM

#### Issued capital (31/03/15)

- ▶ 166.9 million ordinary shares
- ▶ 2.0 million options

#### Shareholders (31/03/15)

- ▶ 2056 shareholders
- ▶ Top 20 shareholders hold 59.46 per cent

#### Largest shareholders

- ▶ Jien Mining Pty Ltd – 24.0 per cent
- ▶ Victorian Ferries Pty Ltd – 10.4 per cent
- ▶ Golden Breed Pty Ltd – 5.3 per cent
- ▶ Bondline Ltd – 2.9 per cent

#### Directors

- ▶ David K. Barwick – Non-Executive Chairman
- ▶ Andrew Gillies – Managing Director
- ▶ Barry Casson – Non-Executive Director
- ▶ Shu Wu – Non-Executive Director
- ▶ (Shu Zhang – Alternate Director to Dr Wu)

#### Senior Management

- ▶ John Haley – Chief Financial Officer and Company Secretary
- ▶ Stewart Hagan – General Manager, Oresome Australia Pty Ltd

#### Cash balance

As at 31/03/15, MLM's cash balance was approximately \$2.11 million. No debt.

#### Media contact:

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