



# METALLICA MINERALS LIMITED

Subsidiary Companies

NORNICO Pty Ltd ACN 065 384 045 | Oresome Australia Pty Ltd ACN 071 762 484 | Greenvale Operations Pty Ltd ACN 139 136 708  
Lucky Break Operations Pty Ltd ACN 126 272 580 | Scandium Pty Ltd ACN 138 608 894 | Phoenix Lime Pty Ltd ACN 096 355 761

ABN: 45 076 696 092

24 October 2013

Dear Shareholder,

Metallica Minerals Limited is pleased to provide you with our Audited Annual Financial Report for the financial year ended 30 June 2013 and a letter from our Managing Director, Mr Andrew Gillies and myself providing you with an update of our progress.

Whilst not reflected in our share price, which is consistent with junior resource companies in the current market, we did achieve considerable progress during the year on both our SCONI and Mineral Sands Projects. Both projects are at the stage of requiring funding, however, this may be delayed until global market conditions are more receptive to funding of mining projects and investor confidence returns in the Resource Sector within Australia, particularly for junior resource companies.

In regards to our projects, our Managing Director, Andrew Gillies, will give a more detailed update on these. However, I would like to acknowledge the expertise and dedication of Management and staff, which are reflective of the milestones we have achieved. It has been a challenging year and we remain focused on pursuing project funding and securing our various resources under mining lease tenure, for when market conditions improve.

I would also like to thank our shareholders for their continued support and also the Board for their assistance in maintaining the Company in good standing and following good corporate governance.

Yours Truly

**METALLICA MINERALS LTD**

**DAVID K BARWICK**  
*Chairman*



## MANAGING DIRECTOR'S UPDATE

24 October 2013

### KEY POINTS

- Two milestones were recently achieved for developing our Urquhart Point zircon-rutile mineral sands project near Weipa – Granted mining lease and Queensland Government environmental approval to allow mining operations
- These approvals give added confidence in seeking and potentially securing off-take agreement and progressing funding options for Urquhart Point's proposed development; earliest production is targeted for late 2014 (subject to project funding)
- 2013 has been a very challenging year for the exploration and junior resources sector generally - and for Metallica This is reflected in the ASX small resources index and our company's share price, currently at record low levels.
- Adapting to difficult market conditions with further reduction in company costs as part of our cash preservation strategy pending market turnaround - Chief Executive Officer's position and most SCONI project staff positions recently made redundant, with intention of securing contract arrangements on an as required basis to maintain project marketplace activity, key SCONI project experience, scandium market knowledge bank, and progressing the permitting (already at an advanced stage) of our remaining mining lease applications over all of our mineral resources.
- Sound current cash position of approximately \$3.9 million (and no debt) after receiving the Research & Development (R&D) Tax Rebate of \$3.056 million.
- Seeking Project offtake arrangements, funding arrangements and permitting for SCONI and Weipa projects will continue. Other than a modest size drilling programme on a regional mineral sands exploration target - no significant field work is planned or required until at the second quarter of 2014.
- Proposed merger between MetroCoal Ltd (MTE) and Cape Alumina Ltd (CBX) is expected to be implemented by year's end, Metallica will emerge with an estimated 21% direct holding in this new diversified ASX listed bauxite and thermal coal business.

### Going into 2014 - Metallica's core project & financial assets:-

- **100% SCONI (Scandium-Cobalt-Nickel)** project northwest of Townsville in North Queensland, with successful Prefeasibility Study (PFS) completed in March 2013. Further work on the Definitive Feasibility Study has been deferred pending an improvement in market conditions. The SCONI project has high integrity in its feasibility, resource development potential and ability to produce substantial quantities of high purity scandia (scandium oxide) at more than 50 tonnes per annum for 20 years. Metallica continues to seek strategic partners and funding. The permitting of mining leases to secure SCONI resources is at an advanced stage.
- **100% Weipa zircon-rutile heavy mineral sands (HMS)** project in far north Queensland, which includes the Urquhart Point HMS deposit just 3 kms from Weipa, remains on track (subject to funding) for development in 2014. The key environmental approvals and granting of a mining lease have now been secured, allowing full focus to secure zircon-rutile product offtake agreements(s) and adequate project funding.

- **Cash position of approximately \$3.9 million (and no debt)** after just receiving the Research & Development (R&D) Tax Rebate of \$3.056 million.
- **ASX Investments** – Metallica holds 30% of MetroCoal Ltd (ASX:MTE) and 17% of Cape Alumina Ltd (ASX:CBX) – this currently represents a combined listed market value of approximately A\$4.5 million (30/9/2013). The current proposed merger between MetroCoal and Cape Alumina (see combined MTE & CBX ASX Release 25<sup>th</sup> September), is tentatively targeted, subject to shareholder approval, for completion by year's end.

As part of the merger, MetroCoal will offer approximately 1.12 MetroCoal shares for every 1 Cape Alumina share, resulting in Cape shareholders holding 55% and MetroCoal shareholders holding 45% of the merged entity. The merger is anticipated to be effective by late December 2013, pending necessary approvals.

### **Direct interest in diversified bauxite and thermal coal business**

On completion of the proposed merger between MetroCoal and Cape Alumina, Metallica will emerge with an estimated 21% direct holding in this new diversified bauxite and thermal coal business with a staged development pipeline. The merger can diversify the asset base and risk profile of the new entity across two bulk commodities (export-grade bauxite and export quality Surat Basin thermal coal), providing increased resilience to commodity price and demand fluctuations (once relevant projects are in production), while indirectly adding to Metallica's asset pool of resource development projects including mineral sands, scandium and nickel-cobalt.

### **Mineral sands mining lease approval (key milestone towards development)**

The approval of a mining lease, (ML 20669), over the Company's 100% owned Urquhart Point Zircon-Rutile Mineral Sands Project, is an important development in Metallica's push to build shareholder value and progress our first proposed mining operation within the current tight market for junior commodities developers. The Mining Lease covers 366 hectares and has been granted for a 10 year term and means that Metallica is now in a stronger position to seek the funding of, and mining of, Urquhart Point's high grade mineral sands from surface to an average depth of 2 to 3 metres. Metallica believes that the project (see ASX Release dated 21<sup>st</sup> and 15<sup>th</sup> October 2013 for Indicated Mineral Resource estimates) remains an appealing commercial opportunity. Metallica has been well assisted in its endeavours on this project by traditional owners in the area, and we thank them sincerely for their ongoing support and partnership.

### **Staff Restructuring and Chief Executive's position**

Under our ongoing cash preservation strategy, Metallica has undertaken significant staff restructuring and has already made redundant the position of Chief Executive Officer and several other staff positions. The outgoing CEO, Mr Gavin Becker, is being retained by Metallica as a consultant and General Manager for the SCONI project, and the Company's broader scandium marketing campaigns. Mr Becker is a passionate driving force behind bringing SCONI to its advanced stage and it is essential Metallica retains the professionalism and experience of Mr Becker. Similarly, several other staff members are now expected to be working on a contract consulting and as required basis.

### **Corporate fact file**

Metallica's current financial position remains sound with net cash of approximately \$3.9 million (and no debt) and listed investments (MetroCoal and Cape Alumina) of around \$4.5 million (30 September 2013).

## **Scandium Marketing**

Metallica has also invested significantly in scandium marketing and firmly believes that the size and growth of the potential global scandium market cannot be underestimated. The two key focus sectors of our scandium marketing have been Solid Oxide Fuel Cells (SOFCs) and Aluminium Alloy industries.

Your Company is focused on entering into additional binding off-take agreements and / or strategic alliances with world leaders in SOFC and aluminium alloy developers and end users (most particularly the aerospace and motor vehicle industries).

### **Overview - Metallica Managing Director, Mr Andrew Gillies:-**

*"While there remains continued weakness in current and expected market and business conditions, making it still challenging to attract sufficient project funding and strategic investor partnerships for SCONI and Weipa, Metallica has achieved key advances for Urquhart Point by the much anticipated granting of a mining lease and the exposure to new accelerated development of bauxite and thermal coal projects in Queensland. The SCONI project activity has been mostly deferred but remains well positioned to become the premier scandium producer, servicing the emerging next generation aluminium alloy and fuel cell technologies".*

*"The SCONI project is a unique project that requires strategic partners to fully implement a new and exciting critical metals market - scandium. This takes time and business confidence. The Company seeks to enhance shareholder value through continued efforts to complete necessary permitting and to develop important relationships with interested parties for offtake and project participation".*

*"Metallica is actively pursuing all opportunities towards the funding and commercialisation of its 100% owned Urquhart Point Heaving Mineral Sands (HMS) Project, so it can achieve its first mining operation targeted for late 2014".*

*"I offer my sincere thanks to the staff for their commitment and loyalty, as in many cases they have had to, like the company, adapt to the changing employment and market conditions."*

*"I also would like to thank our shareholders for their ongoing support during this challenging period".*

Yours Truly

**METALLICA MINERALS LTD**



**Andrew L Gillies**  
**Managing Director**

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