

Metallica Minerals Limited ACN 076 696 092

## Notice of General Meeting and Explanatory Statement

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Date of Meeting: 3 May 2011

Time of Meeting: 10am (Brisbane time)

Place of Meeting: HopgoodGanim Lawyers, Level 7 Waterfront Place, 1 Eagle Street, Brisbane QLD 4000

# Notice of General Meeting

Notice is given that an Extraordinary General Meeting of shareholders of Metallica Minerals Limited ACN 076 696 092 (**Company**) will be held at the offices of HopgoodGanim Lawyers, Level 7 Waterfront Place, 1 Eagle Street, Brisbane QLD 4000 on 3 May 2011 commencing at 10am (Brisbane time).

## Agenda

### Ordinary business

#### 1. Resolution – Approval of return of capital

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To consider and, if thought fit, pass the following Ordinary Resolution, without amendment:

*“That, in accordance with Section 256B of the Corporations Act 2001 (Cth) and for all other purposes approval be granted for the Company to reduce its issued share capital by the value of the Cape In-specie Shares with such capital reduction to be effected and satisfied by the Company distributing in specie to Shareholders the Cape In-specie Shares and otherwise on the terms and conditions in the Explanatory Statement accompanying this Notice of Meeting.*

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| Terms used in this Notice of Meeting are defined in the Explanatory Statement which accompanies this Notice of Meeting. |
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### General business

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

By order of the board



John Kevin Haley  
Company Secretary  
1 April 2011

# Explanatory Statement

## 1. Introduction

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This Explanatory Statement is provided to Shareholders of Metallica Minerals Limited ACN 076 696 092 (**Company**) to explain the Ordinary Resolution to be put to Shareholders at the General Meeting to be held at the offices of HopgoodGanim Lawyers, Level 7 Waterfront Place, 1 Eagle Street, Brisbane QLD 4000 on 3 May 2011 commencing at 10am (Brisbane time).

The Directors recommend Shareholders read the accompanying Notice of Meeting and this Explanatory Memorandum in full before making any decision in relation to the Ordinary Resolution.

Terms used in this Explanatory Statement are defined in Section 3.

The Notice of Meeting sets out the details of the following Ordinary Resolution to be put to Shareholders:

## 2. Resolution: Approval of return of capital

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### 2.1 Introduction

Shareholders are being asked to consider an Ordinary Resolution authorising the Company to reduce its issued share capital by undertaking a return of capital and distributing in specie to Shareholders the Cape In-specie Shares.

Any in specie distribution of Cape Shares will be to Shareholders on a pro rata basis (subject to fractional entitlements being rounded down) by way of an equal capital reduction under section 256B of the Corporations Act.

Shareholders would not be required to pay any consideration for the Cape In-specie Shares as the Company would make an appropriate capital reduction to reflect the distribution. As a result of the return of capital the Company's paid-up share capital (contributed equity) will be reduced by the Capital Reduction Amount.

The terms of the capital reduction are the same for each Shareholder. The date for determining which Shareholders are entitled to participate in the return of capital is the Record Date.

For the purposes of the Corporations Act, the proposed return of capital is an "equal" reduction of capital which requires the approval of Shareholders by Ordinary Resolution in a general meeting. Accordingly, for the return of capital to proceed, a majority of votes must be cast in favour of the resolution.

### 2.2 Reasons for the return of capital

The primary purpose of the return of capital is to distribute to Shareholders that part of the Company's capital that represents the Cape In-specie Shares.

The Company currently holds 38,427,967 Cape Shares, which represents a 29.78% interest in Cape Alumina. The return of capital will mean that Shareholders' indirect interest in Cape Alumina will become a direct interest.

The effect of the return of capital is outlined in the pro forma statement of financial position at 31 December 2010 set out below.

### 2.3 Entitlement to participate

All Shareholders who hold Shares at 5pm Brisbane time on the Record Date will be entitled to participate in the return of capital.

#### 2.4 Amount of Entitlement

Each Shareholder who is entitled to participate in the return of capital will receive the Return Per Share.

#### 2.5 Timetable for return of capital

Set out below is an indicative timetable for the return of capital. These indicative dates are subject to change at the Board's discretion (subject to the Listing Rules).

| <b>Event</b>  | <b>Date</b> |
|---|-------------|
| Meeting of Shareholders                                   | 3 May 2011  |
| Trading in Shares on an "ex return of capital" basis      | 5 May 2011  |
| Record date   | 11 May 2011 |
| Anticipated date of distribution of Cape In-specie Shares | 18 May 2011 |

#### 2.6 Trading in Shares

Shares will trade on an "ex return of capital" basis on 5 May 2011 which is the second business day after the meeting of the Shareholders has approved the return of capital.

#### 2.7 Effect of return of capital

##### (a) Effect on creditors

The return of capital involves a reduction in the Company's paid-up share capital (contributed equity). However, in the opinion of the Board, this will not materially prejudice the Company's ability to pay its creditors. The return of capital will not involve the payment by the Company of any cash amounts and the Company will have sufficient cash reserves to pay its creditors post return of capital.

##### (b) Effect on Shareholders

The return of capital will have no effect on the number of Shares held by Shareholders or on their proportionate interests in the share capital of the Company. The Company has no partly paid shares on issue and no convertible securities (other than options) on issue.

##### (c) Effect on the options on issue

Listing Rule 7.22.3 provides that in a return of capital, the number of options must remain the same, and the exercise price of each option must be reduced by the same amount as the amount returned in relation to each ordinary security.

The Company currently has the following options on issue (Existing Options):

| <b>Number of Existing Options</b> | <b>Exercise Price pre-capital return</b> | <b>Exercise date</b> |
|-----------------------------------|--|----------------------|
| 2,500,000                         | \$0.35                                   | 31/05/12             |
| 2,400,000                         | \$0.35                                   | 12/02/12             |
| 1,100,000                         | \$0.65                                   | 28/09/12             |

In accordance with Listing Rule 7.22.3, the exercise price for each of the Existing Options on issue on the Record Date will be reduced by the same amount as the

amount returned in relation to each ordinary security. Accordingly, each of the Existing Options on issue on the Record Date will be reduced by the value of the Return Per Share on the assumption that no Existing Options are exercised (see table above).

(d) **Effect on Company's capital structure**

The return of capital will have no effect on the total number of Shares or Existing Options on issue.

(e) **Effect on Company's contributed equity**

On completion of the return of capital, the contributed equity of the Company will be reduced by the Capital Reduction Amount. Details of the effect of the return of capital will have on the net asset position of the Company is contained in the pro-forma balance sheet set out below.

(f) **Effect on Company's financial position**

To illustrate the effect of the return of capital on the financial position of the Company, the Pro Forma Statement of Financial Position (unaudited) set out below has been based on the Company's reviewed financial statements at 31 December 2010 adjusted to reflect the Capital Return.

**Pro-forma Statement of Financial Position at 31 December 2010**

|  | <b>Consolidated<br/>31-Dec-10<br/>YTD</b> | <b>Capital<br/>Return</b> | <b>Post<br/>Capital Return</b> |
|--|---|---------------------------|--------------------------------|
| <b>CURRENT ASSETS</b>                  | <b>\$</b>                                 |                           | <b>\$</b>                      |
| Cash and cash equivalents              | 5,624,493                                 |                           | 5,624,493                      |
| Held to maturity investments           | 15,898,340                                |                           | 15,898,340                     |
| Trade and Other Receivables            | 345,852                                   |                           | 345,852                        |
| Inventories                            | 133,522                                   |                           | 133,522                        |
| Other current assets                   | 37,947                                    |                           | 37,947                         |
| Held-for-sale                          | 4,501,764                                 |                           | 4,501,764                      |
| <b>Total Current Assets</b>            | <b>26,541,918</b>                         |                           | <b>26,541,918</b>              |
| <b>NON CURRENT ASSETS</b>              |   |                           |                                |
| Other non-current assets               | 251,531                                   |                           | 251,531                        |
| Available for sale financial assets    | 72,694                                    |                           | 72,694                         |
| Investment in Associates               | 240,950                                   |                           | 240,950                        |
| Exploration and Evaluation expenditure | 28,234,148                                |                           | 28,234,148                     |
| Plant & equipment                      | 495,921                                   |                           | 495,921                        |
| <b>Total Non Current Assets</b>        | <b>29,295,244</b>                         |                           | <b>29,295,244</b>              |
| <b>TOTAL ASSETS</b>                    | <b>55,837,162</b>                         |                           | <b>55,837,162</b>              |
| <b>CURRENT LIABILITIES</b>             |   |                           |                                |
| Trade and other payables               | 884,443                                   |                           | 884,443                        |
| Held-for-sale liability                | 817,627                                   |                           | 817,627                        |
| Financial liabilities                  | 19,489                                    |                           | 19,489                         |

|  |                   |             |                   |
|--|-------------------|-------------|-------------------|
| <b>Total Current Liabilities</b>                           | <b>1,721,559</b>  |             | <b>1,721,559</b>  |
| <b>NON CURRENT LIABILITIES</b>                             |                   |             |                   |
| Deferred tax liabilities                                   | 2,423,734         |             | 2,423,734         |
| <b>Total Non Current Liabilities</b>                       | <b>2,423,734</b>  |             | <b>2,423,734</b>  |
| <b>TOTAL LIABILITIES</b>                                   | <b>4,145,293</b>  |             | <b>4,145,293</b>  |
| <b>NET ASSETS</b>  | <b>51,691,869</b> |             | <b>51,691,869</b> |
| <b>EQUITY</b>  |                   |             |                   |
| Issued capital   | 20,294,506        | (4,165,258) | 16,129,248        |
| Reserves   | 16,795,936        |             | 16,795,936        |
| Accumulated profits / (losses)                             | 2,710,363         | 4,165,258   | 6,875,621         |
| Total equity attributable to equity holders of the Company | 39,800,805        |             | 39,800,805        |
| Non-controlling interest                                   | 11,891,064        |             | 11,891,064        |
| <b>TOTAL EQUITY</b>  | <b>51,691,869</b> |             | <b>51,691,869</b> |

Note:

The pro-forma adjustment entries have been calculated based on the market value of the Cape Shares proposed to be distributed, as at the date of the Notice of Meeting. The actual entries may differ depending on the market value of the Cape Shares at the date of distribution

## 2.8 Tax consequences

The Company believes the distribution will constitute a disposal of the Cape In-specie Shares and will result in a capital gain to the Company. However, the Company has carried forward taxation losses in excess of the likely capital gain, and hence no taxation liability should arise to the Company.

The Company believes the taxation implications to Shareholders will be a reduction in the cost base of their Shares in the Company equal to the value of the Cape In-specie Shares distributed to them. Should the value of the Cape In-specie Shares distributed exceed this cost base, then an assessable capital gain may result-based on the number of Cape In-specie Shares being distributed and the value at which Shares have traded since listing on ASX, the Company believes this is unlikely to be the case. Shareholders should consult their own professional advisors to confirm these implications as they may vary depending on individual circumstances and taxation positions

The Company has not sought any class ruling from the ATO as to the tax implications of the return of capital to Shareholders. For specific taxation advice, Shareholders should consult their own taxation adviser so that their particular circumstances are taken into consideration.

## 2.9 Directors' interests

The Directors hold Shares and Existing Options in the Company, accordingly they will be taking part in the return of capital to Shareholders.

The table below sets out the interests of Directors (held directly or indirectly) in the Company as at the date of the Notice of Meeting:

| <b>Director</b>              | <b>Number of Shares held</b> | <b>Number of Existing Options held</b> |
|------------------------------|------------------------------|--|
| David Barwick                | 190,000                      | 500,000                                |
| Andrew Gillies               | 8,870,000                    | 1,350,000                              |
| John Haley                   | 100,000                      | 750,000                                |
| Tao Li (alternate to Wu Shu) | Nil                          | 500,000                                |
| Barry Casson                 | Nil                          | Nil                                    |

#### 2.10 **Approvals required to implement return of capital**

The proposed return of capital by way of the in-specie distribution of the Cape In-specie Shares to Shareholders is an equal reduction.

Under Section 256B of the Corporations Act, the Company may only reduce its capital if:

- (a) It is fair and reasonable to Shareholders as a whole;
- (b) It does not materially prejudice the Company's ability to pay its creditors; and
- (c) It is approved by Shareholders in accordance with Section 256C of the Corporations Act.

Section 256C of the Corporations Act requires that an equal reduction be approved by Shareholders by an Ordinary Resolution passed at a general meeting of the Company.

In relation to these requirements:

- (a) the Board considers the return of capital to Shareholders is fair to all Shareholders as it applies to all Shareholders equally. Further, the Board considers the Return Per Share is a reasonable return to Shareholders;
- (b) the Board considers that the return of capital will not have a material impact on the Company's ability to meet its creditor obligations; and
- (c) the resolution requires approval of Shareholders in accordance with section 256C of the Corporations Act. This Notice notifies Shareholders of the Meeting at which approval of the resolution is being sought.

#### 2.11 **Directors' recommendation**

The Board unanimously recommends that Shareholders vote in favour of the resolution.

#### 2.12 **Minimum holding buy-back**

On 14 March 2011, the Company announced an offer to buy-back all of the Shares held by Shareholders who hold less than a marketable parcel of Shares. Shareholders holding less than a marketable parcel hold Shares which have a value less than \$500 based on the closing price of 28 cents for the Shares on 10 March 2011 (the trading day immediately before the offer was sent to Shareholders holding less than a marketable parcel).

The buy-back offer letter was mailed to 565 Shareholders holding a total of 408,770 Shares. The buy-back is being utilised to "free up" the smaller holdings which will in turn reduce the Company's overall administrative cost burden to the benefit of Shareholders generally.

The closing date for the minimum holding buy-back is 5pm (Brisbane time) on 11 April 2011 (**Buy-back Closing Date**). Those Shareholders (**Minimum Shareholders**) who hold less than a marketable parcel of Shares who wish to take part in the in-specie distribution of the Cape In-specie Shares will need to indicate their intention to the Company by completing and returning the relevant form sent to Minimum Shareholders by the Buy-back Closing Date.

### 2.13 Other information

There is no further information known to the Company that is material to the decision of Shareholders on how to vote on this resolution. If any Shareholder is in doubt as to how to vote on the resolutions or as to how the resolution may affect the Shareholder, he or she should seek advice from his or her accountant, solicitor or other professional adviser as soon as possible.

## 3. Interpretation

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**ASIC** means the Australian Securities and Investments Commission;

**ASX** means the ASX Limited;

**ATO** means the Australian Tax Office;

**Board** means the board of directors of the Company from time to time;

**Cape Alumina** means Cape Alumina Limited ACN 107 817 694;

**Cape In-specie Shares** means up to 11,733,120 Cape Shares held by the Company to be distributed in-specie to Shareholders on the terms and conditions set out in the Explanatory Statement but subject to the minimum holding buy-back as discussed in Section 2.12;

**Cape Shares** means fully paid ordinary shares in Cape Alumina held by the Company;

**Capital Reduction Amount** means \$4,165,258;

**Company** means Metallica Minerals Limited ACN 076 696 092;

**Constitution** means the constitution of the Company from time to time;

**Corporations Act** means the *Corporations Act 2001* (Cth);

**Directors** means the board of directors of the Company from time to time;

**Explanatory Statement** means this explanatory statement accompanying this Notice;

**General Meeting** or **Meeting** means the general meeting of shareholders of the Company convened by the Directors and detailed in the Notice of Meeting, or any adjournment thereof;

**Listing Rules** means the listing rules of the ASX;

**Notice of Meeting** or **Notice** means the notice of meeting giving notice to shareholders of the General Meeting, accompanying this Explanatory Statement;

**Ordinary Resolution** means a resolution passed by more than 50% of the votes at a general meeting of shareholders;

**Record Date** means 11 May 2011;

**Return Per Share** means 1 Cape In-specie Shares for every 10 Shares held on the Record Date;



**Share** means a fully paid ordinary share in the Company;

**Shareholder** means a holder of Shares in the Company.

Any inquiries in relation to the resolution or the Explanatory Statement should be directed to Mr John Haley (Company Secretary):

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