



## SHAREHOLDERS' UPDATE & RIGHTS ISSUE

Dear fellow Metallica shareholder,

15 May 2013

It is timely to provide you with a brief update on our current corporate proposals, particularly the **Metallica Rights Issue (the prospectus for this Rights Issue will be mailed to you on 21 May 2013)** announced on the 7<sup>th</sup> of May, 2013.

### **Metallica has three core assets:-**

- The advanced wholly-owned SCONI (Scandium-Cobalt-Nickel) scandium project northwest of Townsville in North Queensland
- The wholly owned Weipa heavy mineral sands project in far north Queensland; and
- Our ASX listed investments comprising a current combined market value of approximately A\$6.8 million in shares in Cape Alumina Ltd and MetroCoal Ltd. Metallica also has current cash on hand of approximately A\$2 million (and no debt)

It has been a busy and somewhat challenging start to 2013, culminating in the completion of a **positive Pre-feasibility Study (PFS) on our SCONI Scandium project** as outlined and summarised in the March Quarterly Report (released 11 April, 2013). It should be noted that the majority of the field work required for the feasibility development for both the SCONI scandium and Weipa bauxite projects, has now been completed.

The PFS found **SCONI Stage 1 (scandium only) technically and operationally viable, with positive economics** indicated (pre-tax, 8% real terms discount rate, 100% equity - Net Present Value (NPV) A\$273 million & Internal Rate of Return (IRR) of 20.6%). It is our plan to move into the Definitive Feasibility Study (DFS) stage (final study ahead of any proposed development) on the project, subject to sufficient additional funding being obtained. Under current challenging equity market conditions, our focus is on securing a strategic major investor or partner in our SCONI scandium project – this is something we are actively working on, and we are in negotiations with potential investors for this purpose.

**Marketing promotions have continued to be undertaken in Europe, North America and Asia** to increase awareness of our SCONI scandium project in preparation for seeking feasibility funding, future project financing and scandium offtake agreements (in addition to our existing Bloom Energy offtake agreement). There has been considerable market interest. Two recent research reports on Metallica by Arrowhead (New York based) and Edison Investment Research (London) indicate the potential value of Metallica. (Refer Metallica's website for these reports).

**Scandium is very much an exciting new era strategic metal in the emerging critical-tech metals sector.** Key take-aways from a recent Technology Metals Summit in Toronto, Canada, were that, in addition to the usual requirements for a successful resource development project such as having attractive resources and a well defined permitting path, there are four essential components for commercial and project funding success:-

1. Using proven metallurgical methods.
2. Having completed pilot plant testwork on representative resource material to produce the product within purity specification that global customers or end users require.
3. Possession of substantial base load off-take agreement(s) to ensure there is a market for the product.
4. Being an early mover in a niche or speciality metal market to fill customer needs and have the capability to contribute to satisfying future global demand growth.

SCONI scores very highly on all four such components and is well positioned to achieve much of what is required to attract project funding and enhance its probability for successful commercial development.



Metallica is committed to progressing its **SCONI Scandium Project** and is looking at all options to maximise our early mover position in the rapidly emerging new era strategic scandium market.

In addition to SCONI, our **Urquhart Point Heavy Mineral Sands (HMS) Project near Weipa** in far north Queensland continues to progress through the permitting process, and subject to completion of this process, our management expects to have a mining lease application granted by the end of this year. It is our expectation that the project may be in production by the third quarter next year (2014), subject to development funding being obtained. Whilst it is Metallica's intention to solely develop the mineral sands project ourselves, the Company is also seeking partners for project funding, product offtake and possible participation (especially those companies with HMS operational experience) to maximise success and returns.

### **Additional Funding Requirements**

While Metallica seeks funding and/or a partnering arrangement for advancing both the SCONI and Weipa projects, the Company's Board has elected to increase the Company's available cash for working capital via a rights issue. This will ensure Metallica's ability to finalise the permitting of its SCONI and Weipa projects (to granted mining lease status, suitable for project development and resource security), plus maintain adequate available funds to service its assets and general operations.

### **Renounceable Rights Issue Offer**

The Rights Issue is a renounceable offer (the rights can be traded and are transferrable if they are not taken up) for fully paid ordinary shares and free attaching options. The basis of the offer is 1 new Metallica ordinary share (at 15c per new share) and 1 free attaching option, for every 4 Metallica ordinary shares held on the record date and one free attaching option exercisable at 25 cents prior to 30 September 2014. **There are three choices** on what you need to consider with the rights issue offer:-

1. **Take up the rights** - for example - assuming you have an existing 100,000 shares shareholding in Metallica, then you have an entitlement to 25,000 shares and 25,000 attaching options for an investment of A\$3,750. Please note that you can also apply for additional shares (with attaching options) in addition to your entitlement – or -
2. **Sell the rights on market** (ASX : MLMR) - or -
3. **You can pass on taking advantage of your rights** (i.e. do nothing)

**The Rights Issue is partly underwritten by Patersons Securities Limited to the amount of \$2.125 million. Metallica's major shareholder, Jien Mining Pty Ltd (a subsidiary of China's second largest nickel producer – Jilin Nickel) has sub-underwritten \$2 million** of the underwritten amount, with the remainder sub-underwritten by third parties who are not related to Metallica. The maximum amount that can possibly be raised under the Rights Issue is \$5.46 million (before costs).

Metallica has **engaged the Radar Group** (a shareholder liaison business) to assist with shareholder communications regarding the Rights Issue. If you have questions in relation to the issue, please call Radar on 1800 707 861 (within Australia) or +61 2 8256 3387 (outside Australia) between 9am and 5pm (AEST) Monday to Friday whilst the Rights Issue Offer is open.

We invite you to read the Prospectus when it becomes available on 21 May 2013 and should you require any further information, please also contact John Haley, Metallica's Chief Financial Officer and Company Secretary on 07 3249 3000 or at [admin@metallicaminerals.com.au](mailto:admin@metallicaminerals.com.au) or the contact details which are set out in the Prospectus.

Yours truly

A handwritten signature in black ink, appearing to read 'Andrew Gillies'.

Andrew Gillies  
Managing Director

