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ADMIRAL BAY ZINC PROJECT PFS UPDATE

- ▶ **Pre-Feasibility Study (PFS) to utilise directional drilling targeting the high-grade zone of Inferred Mineral Resource Estimate (MRE) of 20Mt at 10% ZnEq (inc. 4.9Mt at 12.5% ZnEq)¹**
- ▶ **Directional drilling will substantially reduce the PFS budget and accelerate timing of a decision to mine**
- ▶ **PFS to be completed in two stages with directional drilling to be utilised in stage 2 of the PFS expected to begin in the September Quarter 2017**
- ▶ **Metallurgical, geotechnical, hydrogeological and geothermal studies underway to inform mining options**
- ▶ **China Nonferrous Metals (NFC) and potential JV partners updated with new strategy on budget/timing to develop Admiral Bay via technical presentations in primarily China, Japan, Korea.**

Metalicity Limited (**ASX:MCT**) (“**MCT**” or “**Company**”) is pleased to provide an update on the Pre-Feasibility (“**PFS**”) for the Admiral Bay Zinc Project (“**Admiral Bay**”), located in the northwest of Australia.

The initial phase of PFS work at Admiral Bay has involved the refinement of the preferred PFS pathway including the design and budgeting of drilling options, the compilation of a new MRE for the high-grade zone (Figure 2) and various critical success factors regarding mining optionality. As outlined by SRK Consulting in the Scoping Study, the development and mining of Admiral Bay has been independently reviewed as technically feasible.

As part of the PFS work underway, a detailed assessment of the latest directional drilling techniques being currently used in resource drilling orebodies at depth in Australia and globally (Figure 3), was undertaken with leading drilling contractors. The review has indicated directional drilling has the potential to reduce the budget and timing to completion of the PFS and, pending success, a Definitive Feasibility Study (DFS) and decision to mine. DDH1 was appointed to assist with the design and budgeting of drilling options.

Previous drilling and exploration costs associated with the PFS budget had been designed around multiple new drill holes from surface with a minimum estimated budget of A\$30M and a timeframe of 18 months.

The new PFS budget has been designed utilising directional drilling by drilling 1 ‘parent’ hole to a depth of approximately 1,000m before exiting this parent hole and core drilling ‘daughter’ and potentially ‘granddaughter’ holes for multiple intersections (Figure 3) into the high-grade zone. Utilising this technique, the new PFS budget is set at circa A\$10M or less than one third of the previous estimate and a timeframe of less than 6 months or less than one third of the previous estimate. A definitive PFS drilling budget estimate is expected shortly.

Even more significantly, is the potential to progress a Definitive Feasibility Study (DFS) by applying the same directional drilling techniques to convert a relevant portion of the orebody to the Measured resource category. This will eliminate the requirement to sink an exploration shaft to define Ore Reserves as part of the DFS which had an estimated cost of circa A\$230M in the Scoping Study. The DFS budget utilisation directional drilling to achieve the required outcome is budgeted at circa \$35M. A definitive DFS drilling budget estimate is expected post the PFS.

The new drilling techniques and budget reduces the cost to decision to mine from what was a minimum of \$300M to now approximately \$50M and represents a game changing development strategy to advance Admiral Bay (Table 1 and Figure 4).

Metalicity Managing Director, Matt Gauci, commented: “The application of directional drilling which has advanced significantly in the past 5 years, to progress the high-grade zone potentially through to decision to mine is game changing for the Admiral Bay project by materially improving the near-term investment proposition and development pathway.

We are currently updating China Nonferrous Metals (NFC) and potential JV partners on this significant shift in strategy with technical presentations in China, Korea and Japan planned”.

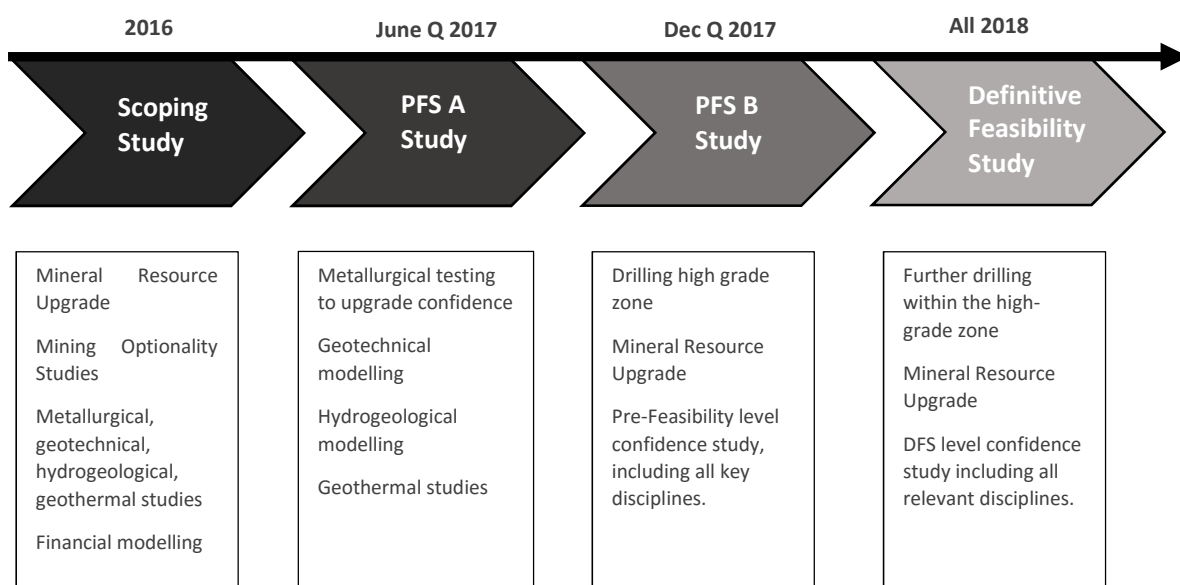
PRE-FEASIBILITY STUDY STRATEGY

To de-risk Admiral Bay through to decision to mine the PFS will be undertaken in two stages, PFS stage 1 and PFS stage 2. The PFS will be project managed by SRK Consulting and Metalicity.

The PFS Stage 1 is underway, working on metallurgical, geotechnical, hydrogeological and geothermal studies. The PFS Stage 2 will involve directional drilling of approximately 16 holes into the high-grade zone with the aim of converting a relevant portion of the high-grade zone into the indicated resource category. The quantum of this relevant portion is anticipated to equate to payback on pre-production capital for the project. These forecasts will be confirmed during the PFS.

The Company has updated potential JV parties including China Nonferrous Metals (NFC) with the new PFS and DFS strategy and has received positive feedback on the very significant reduction in capital to decision to mine.

Table 1. PRE-FEASIBILITY STUDY STRATEGY

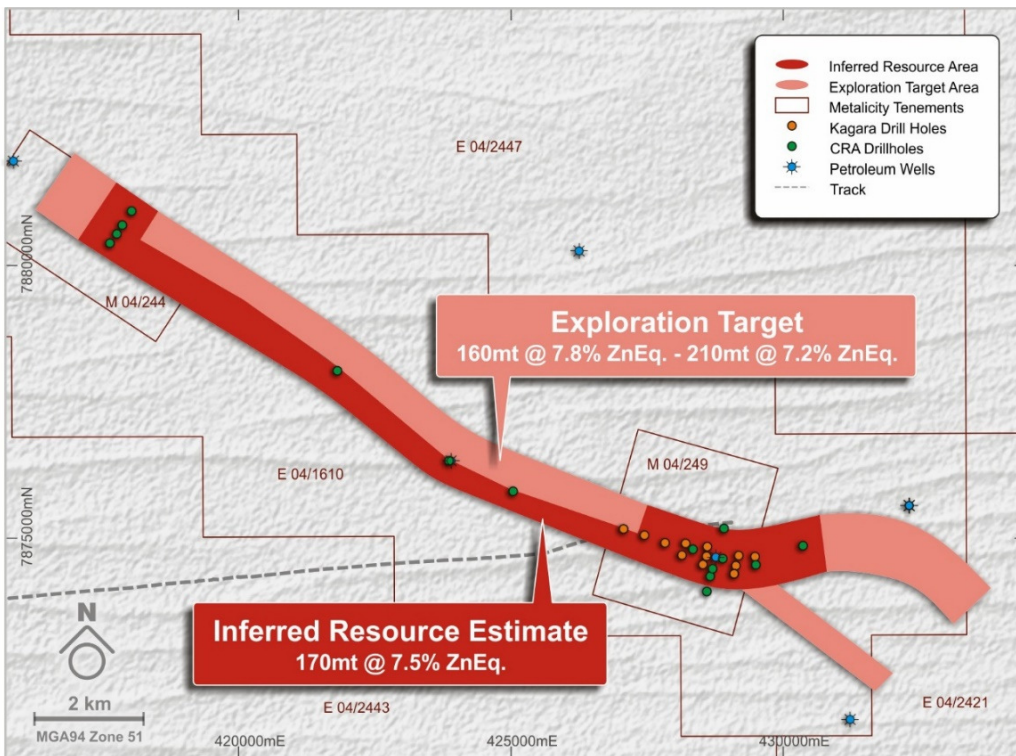


FUNDING STRATEGY

The PFS Stage 1 is underway and fully funded. The Company is evaluating a range of additional funding options for Stage 2 of the PFS and beyond including but not limited to, the sale of non-core assets, a formal Joint Venture (JV) with parties the company is in discussions with, the sale of a Net Smelter Royalty (NSR), a Commodity Streaming Deal (CSD), pre-payment on off-take and/or a capital raising including a share purchase plan so that existing shareholders may participate in the rapid progress of this world class asset.

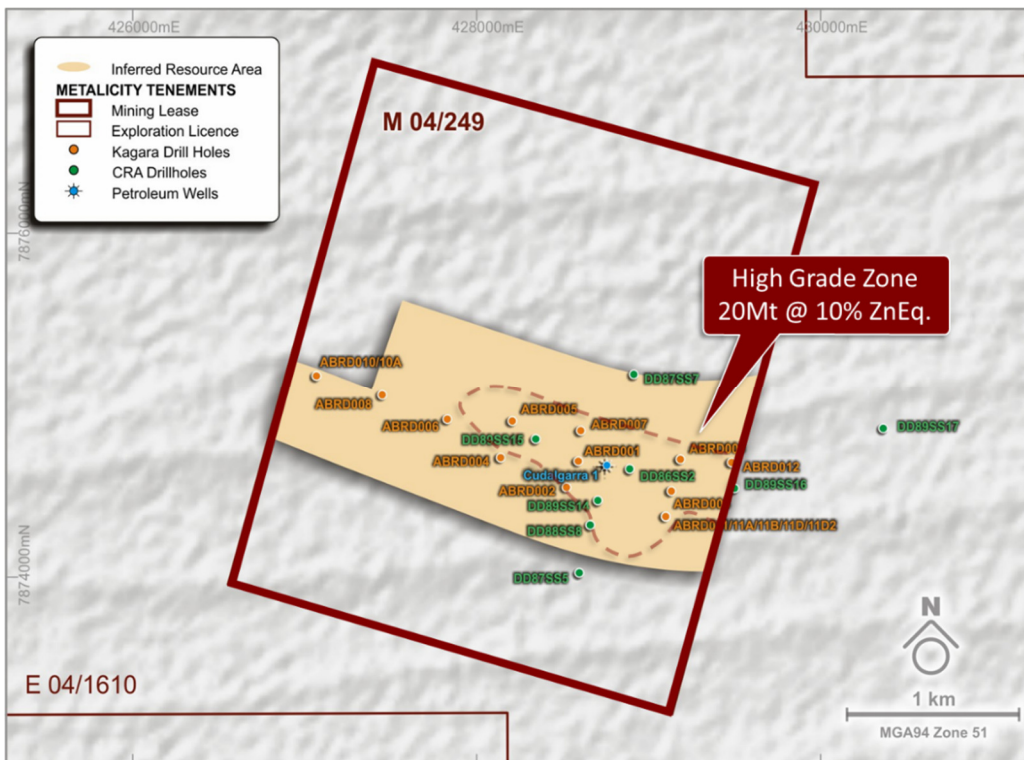
The Company will inform the market should it decide to proceed with any of these options.

Figure 1: Admiral Bay Zinc Project: MRE and ETR over the an 18km strike



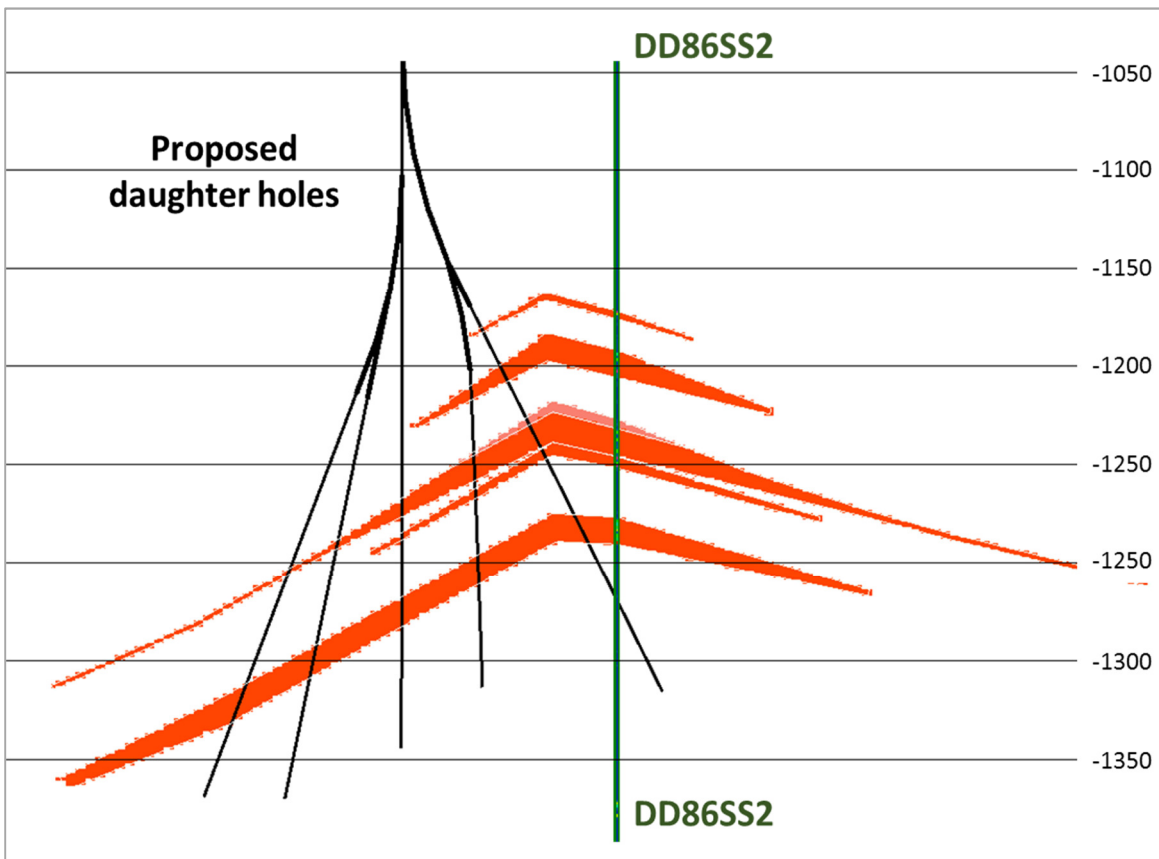
Source: Metalicity

Figure 2: Admiral Bay Zinc Project: High grade zone within a 2km strike of M 04/249



Source: Metalicity

Figure 3: High-grade resource drilling utilising multiple daughter holes off single parent hole



Source: Metalicity

Figure 5: Table of costings/timing comparison



Source: Metalicity / SRK Consulting

PRE-FEASIBILITY STUDY STAGE 1

Metallurgical Studies

Metallurgical studies undertaken by Simulus Engineers as part of the 2016 Scoping Study on Admiral Bay highlighted that no fatal flaws had been identified in the mineral processing and metallurgical testwork aspects of the project to date. The ore does not demonstrate any deleterious metallurgical behaviours and can be processed through conventional flotation processing achieving high zinc, lead and silver recoveries.

Additional metallurgical testwork is required, followed by further process plant design simplification and optimisation. Testwork includes materials handling, comminution, variability testing, fluorine identification in the resource model and, if needed, removal, comprehensive head assays for deleterious elements, including possible radionuclides and vendor equipment testing. A key aspect of further work will be ensuring that metallurgical samples are representative of the orebody to be mined, which to date has not been the case. Simulus Engineers have been appointed to perform this work.

Geotechnical Studies

Geotechnical studies undertaken by SRK Consulting as part of the 2016 Scoping Study on Admiral Bay identified a very limited geotechnical dataset especially in terms of dedicated geotechnical logging data, and recommended the acquisition of additional data during Stage 1 to progress orebody knowledge. This data includes (1) photo logging of core photos currently available to enhance the geotechnical database (2) geotechnical logging of existing core through all units and orebodies, spread out across the orebody.

Additional drilling of diamond-cored, oriented investigation holes, with detailed geotechnical logging of core through all units and orebodies will be undertaken during the PFS Stage 2, as well as stress measurements using either acoustic emission (AE) or deformation rate analysis (DRA) techniques. A more comprehensive geotechnical database will significantly improve the knowledge base and inform stress knowledge, mine access and mining method. SRK Consulting have been appointed to perform this work.

Hydrogeological Studies

Hydrogeological studies undertaken by SRK Consulting as part of the 2016 Scoping Study confirmed the presence of three regional groundwater systems within the Admiral Bay project area. Further evaluation of background information and seismicity data is required to confirm the type of aquifer system (ie. Confined/unconfined), groundwater recharge, discharge and transport processes, and physical and chemical properties of the aquifer systems. Mine dewatering and shaft sinking currently represent the greatest groundwater technical issues and therefore project risks.

The primary objective of the groundwater study is to develop an updated conceptualisation of the groundwater regime, specifically to inform assessment of the identified risk associated with the potential of ingress of groundwater in the proposed underground workings. The conceptualisation will be used as inputs to improve the geotechnical model for the deposit, which can in turn be used to develop an updated assessment of the risks associated with the ingress of groundwater.

Geothermal Studies

The 2016 Scoping Study identified the temperature of the orebody as being a key factor that will influence mine design, refrigeration unit cost and power unit costs. Hot Dry Rocks Pty Ltd have been appointed to advise on appropriate tools and logging protocols for new borehole temperature measurements, predict the temperature of the Nita Formation in three dimensions, and calculate a quantitative range of uncertainty for the prediction. This study will inform mine access design, mining method and associated refrigeration unit costs.

ENQUIRIES

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1. See ASX announcement 19/4/2017