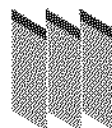


19 October 2006

Manager Company Announcements  
Company Announcements Office  
Australian Stock Exchange Limited  
Level 10, 20 Bond Street  
SYDNEY NSW 2000



**MATRIX METALS**  
LIMITED

ABN 42 082 593 235

**Electronic delivery**  
No of pages: 8

Dear Sir,

## ANNOUNCEMENT

# Glencore Finances Matrix into Copper Production

### Summary

Matrix Metals Limited is delighted to announce that the Board has formally resolved to commence copper production at the Mt Watson/Cuthbert Project, and that the development is fully funded with Matrix having yesterday executed a funding and off-take agreement with Glencore International AG ("**Glencore**").

- Mining will commence at the Mt Watson deposit, with treatment at Matrix's Mt Cuthbert plant (the "**Mt Watson/Cuthbert Project**" or "the **Project**"), utilising existing plant and infrastructure owned by Matrix
- Copper cathode production is expected to commence no later than 3<sup>rd</sup> quarter of 2007
- Stage One production levels will be 5,500 tpa of Grade A LME copper cathode, with a planned production rate increase up to 10,000 tpa in a proposed Stage Two development
- Total Stage One pre production project capital expenditure is estimated at \$10 million, with the steady state annual net operating cashflow estimated to be in the order of \$20 million
- Stage Two capital expenditure for the plant upgrade is estimated at less than \$5 million with the upgrade resulting in substantially increased annual net operating cashflow.
- Glencore has agreed to provide equity funding of \$2.5 million at a price of 6 cents per share, and a debt facility of \$10 million subject only to the satisfaction of certain legal due diligence
- Matrix has also reached in-principle agreement with Hartleys Limited to raise a further \$2.35 million by way of a placement of Matrix shares at a price of 5.3 cents per share. Matrix's two largest shareholders, being Independence Group NL and the LinQ Resources Fund have agreed to participate in the placement.

## Project Economics

The development of the Mt Watson/Cuthbert Project presents highly favourable economics based on current Westpac Bank copper forward curves (see note). This is due to the ability to achieve copper production at Mt Cuthbert in a very short time frame, the low capital costs and the favourable metallurgical characteristics of the Mt Watson resource. It is envisaged the Project will be developed in two stages as described below, with Stage One now committed and early development works already underway.

Note: "copper forward curve" refers to the copper price that a seller of copper metal could agree today with a buyer of that copper metal for the delivery of and payment at a time in the future".

### Stage One 5,500 tpa Copper Cathode Production

Stage One involves recommissioning the Mt Cuthbert plant at its current 5,500 tpa production capacity based on the mining and treatment of approximately 2.1 million tonnes of the existing the existing 8 million tonne copper resource estimated at Mt Watson. This resource, plus the previously identified prospects at Mt Earl, Mt Wonder, Tewinga and Boomerang offer the potential for immediate life extensions and/or production rate increases for the Project.

The Project economics are presented in the table below.

<b>Mt Watson ~ Mt Cuthbert Project Stage 1 Summary Economics</b>	
Nameplate Production Rate	<b>5,500 tpa Cu</b>
Initial Project Life	<b>4.1yrs</b>
Copper Produced 45,116,925 lbs or	<b>20,465 tonnes</b>
Pre Production Project Capital	AUD\$ 10m
Maximum negative cashflow	AUD\$ 14m
Working Capital (included in Max. Neg.)	AUD\$ 4m
Operating Costs per lb	USD\$ 1.59
Capital per lb	USD\$ 0.21
<b>Total Costs per lb</b>	<b>USD\$ 1.80</b>
Forex A\$ / USD	<b>Forward Curves</b>
Copper Price USD	<b>Forward Curves</b>
Total Income	<b>AUD\$ 163m</b>
EBITA	<b>AUD\$ 65m</b>
EBIT	<b>AUD\$ 52m</b>
Project NPV @8% Discount Rate	<b>AUD\$ 41m</b>
IRR	<b>147%</b>
Payback @ 100% Debt Months)	<b>17 Months</b>

**Modelling Criteria**

- Discount Rate of 8%
- The backwardation curve assumes hedging was effected 3 October 06 for 100% of copper production, with production commencing in 2007
- Acid supply costs as per Letter of Offer of Supply
- Capital Cost shown above includes Contingency, EPCM and First Fill costs

The leverage of the Project to the current strong copper price environment is demonstrated in the table below, showing a comparison between estimated net operating cashflow based on the current copper forward curves, and at the spot copper price of USD\$3.35/lb that prevailed on 3 October 2006.

<u>Year</u>	<u>Forward Curves</u>	<u>Spot Cu Price</u>
2007	\$ 3 million	\$ 4 million
2008	\$19 million	\$25 million
2009	\$18 million	\$29 million
2010	\$18 million	\$33 million
2011	\$ 7 million	\$10 million
<b>Total</b>	<b>\$65 million</b>	<b>\$101 million</b>

**Stage 2 - 10,000 tpa Copper Cathode Production**

The opportunity exists to upgrade the Mt Cuthbert plant to a capacity of 10,000 tpa of copper production with the majority of the equipment required for such an upgrade already owned by Matrix, and on site. The Mt Cuthbert plant currently has an installed rectifier capacity of 10,000 tpa and the Company has previously purchased an additional 6,000 tpa of electrowinning (EW) equipment in anticipation of its utilisation for the upgrade to the maximum capacity of the rectifier.

The upgrade of the Mt Cuthbert plant to 10,000 tpa was previously the subject of a pre-feasibility study by Matrix. Matrix estimates the upgrade of the SX/EW plant could now be completed for less than \$5 million based on the plant's existing rectifier capacity and the additional EW equipment on site.

The attractive economics and low capital cost alternative offered by the mining of Mt Watson and the immediate restart of Mt Cuthbert, with a planned upgrade to Stage 2, now sees the White Range Project preserved as a second, potentially larger scale copper operation that will be progressed following the successful commissioning of the Mt Watson/Cuthbert project.

**Project Funding Structure**

The Project capital requirements of approximately \$10 million plus working capital will be funded by way of a loan facility to be provided by Glencore, which will be supported by an equity raising to which Glencore will subscribe as set out below.

***Glencore Loan Facility***

Glencore will provide Matrix with a \$10 million secured debt facility. Terms of the loan include:

- A\$10 million loan with a three year term with an interest rate of LIBOR plus 2.5 %.
- At Matrix's election, monthly payments can be deferred and interest can be capitalised until 31 March 2008. Further, until that date, Matrix has a no default period for non-payment where caused by operational or other circumstances that are outside the control of Matrix.
- The loan can be repaid at any time by Matrix.
- An advanced payment facility will be made available to Matrix related to copper cathode that has been produced ready for export.

The provision of the loan facility is subject to the completion of specific legal due diligence by Glencore.

### ***Equity Raising***

Matrix will undertake an equity raising to raise approximately \$4.85 million by way of the issue of 86 million ordinary fully paid shares pursuant to ASX Listing Rule 7.1.

The placement will be undertaken in two tranches. Tranche 1 is in respect of the issue of 41.7 million shares to Glencore, at 6.0 cps, being in excess of the closing price of the shares prior to the trading halt on 18 October 2006. Matrix has reached in-principle agreement with Hartleys Limited in respect of Tranche 2, for the issue of approximately 44.3 million additional shares at 5.3 cps. Independence Group NL and LinQ Resources Fund will participate in Tranche 2, maintaining their pro-rata interest in Matrix.

Tranche 2 of the placement is subject to the condition precedent of Glencore completing legal due diligence.

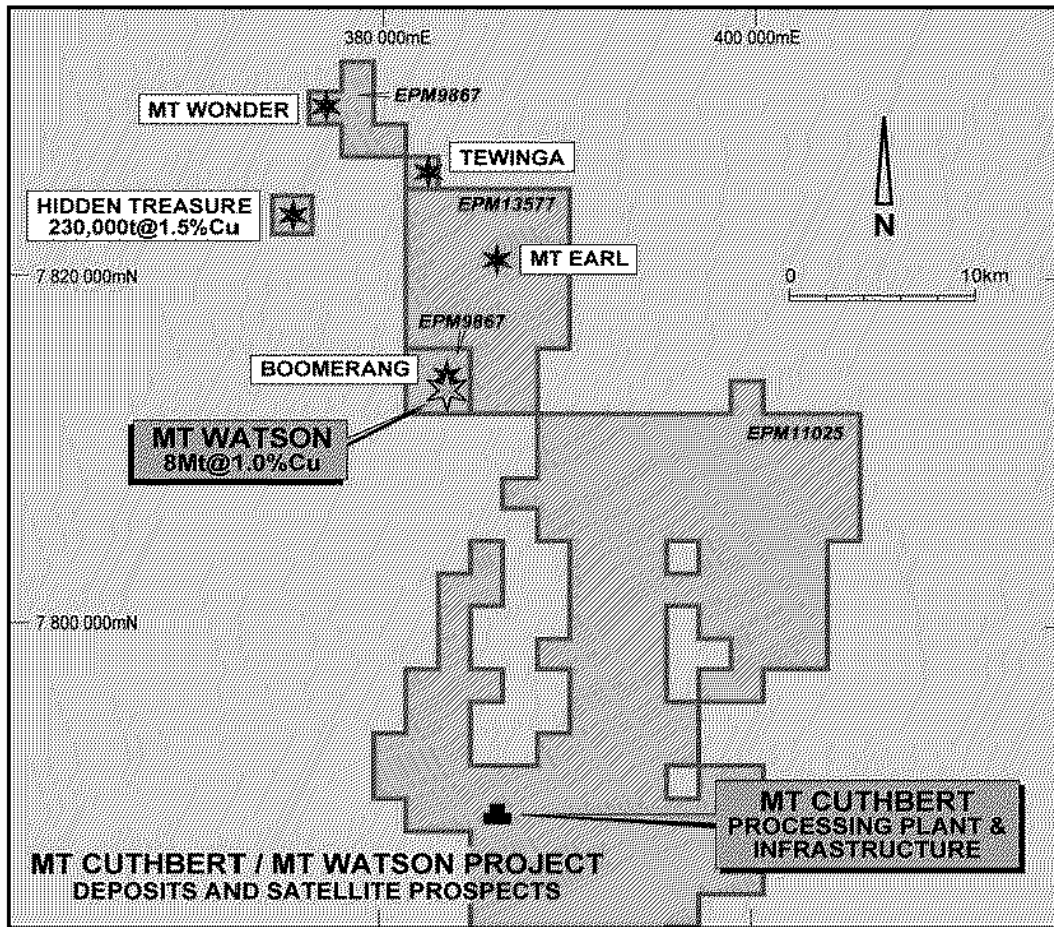
### ***Glencore Off-take Agreement and Board Appointment***

In consideration for its financial support of Matrix, Glencore will be granted cathode marketing rights for the Mt Watson/Cuthbert and White Range Projects and base metal marketing rights to identified resources, deposits and prospects that currently comprise those two projects. Upon availability of drawdown of the loan, a Glencore representative will be appointed to the Matrix Board of directors.

### **Details of the Project**

The circumstances now prevailing in regard to sustained high copper prices and advances in the early stage feasibility assessment of Mt Watson as a stand alone project, prompted Matrix to complete a review of the viability of restarting the Mt Cuthbert operation based on feed from an early development of the Mt Watson resource. The review has demonstrated the substantial economic merit of the Project.

The location of the Mt Watson resource and Mt Cuthbert operation is presented below:



### ***The Mt Cuthbert Operation***

The Mt Cuthbert operation that comprises a 5,500 tpa solvent extraction/electrowinning (SX/EW) facility and associated infrastructure will be recommissioned in its current location. Specifically, the operation has the SX/EW plant and the associated leach pad and pond system with supporting infrastructure in place, consisting of roads, airstrip, power station, water supply, environmental protection facilities and accommodation.

This plant and infrastructure supported the Mt Cuthbert operation during its six year production history from 1997 to 2002. The plant was placed on care and maintenance in 2002 due to copper prices falling to all time lows of US 58c/lb (currently US\$3.35 lb). Since that time the plant and infrastructure has been preserved with an active care and maintenance program by Matrix. This strategy has maintained the value of this important asset and provides this unique short term production restart opportunity.

A program of work has been scoped for the re-start, with the early phase of the work already underway. Specifically the work required at the Mt Cuthbert site involves refurbishment of various parts of the plant, overhauling the power station, installation of a crushing circuit and upgrading of the accommodation village. Additional work outside the direct Mt Cuthbert plant area involves construction of a haul road to Mt Watson and minor upgrading of the access road to the project.

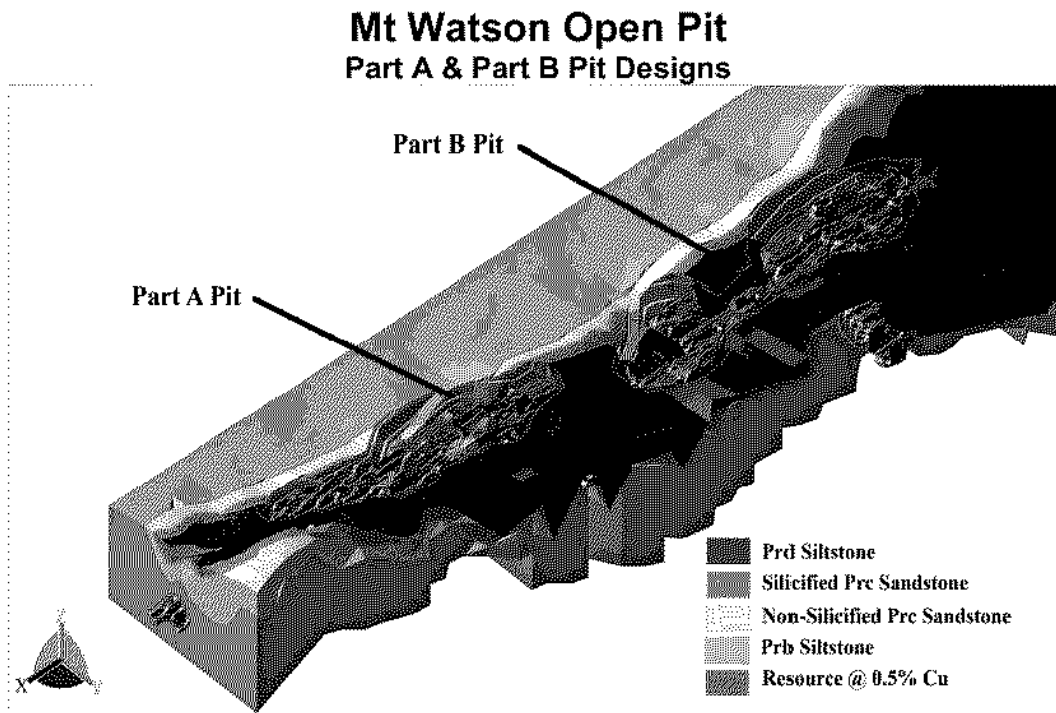
The Mt Watson resource, which will provide the feed to the Mt Cuthbert plant, has been the subject of a pit optimisation study, mine design and schedule by a Brisbane based independent mining consultancy and is currently presented as a "mining inventory". This mining inventory will be converted to a formal mining reserve upon the completion of a program of additional work. The additional work, primarily related to confirmation of geotechnical design parameters, is planned to be completed before mining at Mt Watson proceeds in early 2007. In the interim, an independent Geotechnical consultant has compiled a report based on the currently available geotechnical data, with that report supporting the geotechnical parameters used in the current mine design.

Metallurgical design has been based on the results of a column heap leach testwork program completed by Matrix. The methodology and results of this program has been reviewed by an independent consultant with the review supporting the metallurgical parameters adopted for the processing design defining the processing risk as low to moderate. Additional column testwork programs to allow the latter stage ore supplies and Project life extensions to be confirmed will be undertaken progressively as part of a feed characterisation program. Such programs are a normal part of mining operations and will utilise Matrix's existing column testwork facilities that are located at Mt Cuthbert.

### ***The Mt Watson Mine***

The Oxide copper resource will be mined from the Mt Watson deposit and hauled approximately 25 kilometres to the Mt Cuthbert plant. There it will be crushed, agglomerated and stacked in the existing leach pad area.

The mine plan for the restart involves extracting approximately 2.1 million tonnes of leachable copper resource from the Mt Watson deposit initially over a 4 to 5 year period. The mine plan is based on a Part A and Part B mining schedule relating effectively to an eastern and western pit.



The existing copper resource inventory at Mt Watson totals approximately 8 million tonnes, which offers immediate potential for life extensions and/or Stage two production rate upgrades. The existing Mt Watson resource inventory is presented as Table 1 below.

**Table 1**  
**MT WATSON PROJECT**  
**COPPER RESOURCE INVENTORY**

<b>Resource Type</b>	<b>Confidence</b>	<b>Millions of Tonnes</b>	<b>Cu%</b>
<b>Oxide</b>	Measured	0.74	1.16
	Indicated	2.03	1.01
	Inferred	0.11	0.95
<b>Oxide Total</b>		2.88	1.05
<b>Transitional</b>	Measured	0.17	0.84
	Indicated	2.97	0.96
	Inferred	0.52	0.94
<b>Transitional Total</b>		3.66	0.95
<b>Primary</b>	Measured	0.00	
	Indicated	0.44	1.08
	Inferred	1.05	1.07
<b>Primary Total</b>		1.49	1.07
<b>Measured Total</b>		0.91	1.10
<b>Indicated Total</b>		5.44	0.99
<b>Inferred Total</b>		1.68	1.02
<b>Grand Total</b>		8.03	1.01

### Notes

Updated estimates are based on Multiple Indicator Kriging

Estimates are at 0.5% Cu cut-off

Drilling methods are RC, diamond coring and open hole percussion

Bulk density is based on pycnometer and bulk core determinations

Resource type is based on acid and cyanide soluble assaying

Assay is by AAS

Restarting Mt Cuthbert based on the Mt Watson resource is logistically and technically feasible due to the Company having progressed pre-development activities at Mt Watson. These activities have included securing the Mining Lease (ML 90154), commencement of baseline environmental studies and securing of an Environmental Authority, completion of a round of column testwork to assess the metallurgical performance of the oxide resource (testwork completed and reported in 2002) and importantly, the maintenance of the Plan of Operations for the Mt Cuthbert Operation during the care and maintenance period.

The Plan of Operations (being the Department of Natural Resources and Mines operating approval) for Mt Cuthbert, has been maintained throughout the care and maintenance period and will now be amended to address the restart of Mt Cuthbert (approximately a 28 day process). The water licenses and permits for

the Project also remain in place. Matrix also has a production based Native Title Agreement in place with the Kalkadoon People in the form of an Indigenous Land Use Agreement (ILUA) that has been formally registered with the National Native Title Tribunal.

The Mt Watson mining lease was granted pursuant to this ILUA with the provisions of that mining lease allowing for the commencement of mining activities at Mt Watson and planned under the Part A mine development that provides feed to the plant for approximately nine months. The process has commenced for the mining lease provisions and Environmental Authority (EA) to be amended and a new EA granted that will allow expansion of the mining activities into the area contemplated by the latter phases of the Part A plan and into the Part B plan and beyond. Although not required to allow mining to commence at Mt Watson, it is scheduled that the new EA will be granted prior to mid 2007.

### **Appointment of Additional Directors**

The Company is pleased to announce the appointments of Mr Geoff M. Jones and Mr Clive Donner to the Board of directors with effect from 18 October 2006.

Mr Jones is a civil engineer and has had in excess of 22 years management and engineering experience in the development, design, construction and commissioning of resource projects in Australia and overseas. Mr Jones was introduced to Matrix by Independence Group NL (Independence holds 18.6% of the ordinary shares of Matrix).

Mr Donner is the Chief Executive Officer of the LinQ Resources Fund and has had 25 years of experience in the mining and finance sectors. Mr Donner has been appointed to the board at the request of LinQ Resources Fund Limited, who hold 9.4% of the ordinary shares of Matrix.

As also noted above, upon availability of drawdown of the loan, a Glencore representative will also be appointed to the Matrix Board of directors.

The Company takes this opportunity to welcome Mr. Jones and Mr. Donner to the Board of Matrix.

Yours Faithfully



**Andrew Chapman**  
**Managing Director**

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Bob Dennis. Mr Bob Dennis is a Member of the Australasian Institute of Mining and Metallurgy and is a full-time employee of the Company. Mr Dennis has sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration and to the activity which they is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, the JORC Code". Mr Dennis consents to the inclusion in the report of the matters based on information in the form and context in which it appears.*