



magma metals

## CHAIRMAN'S LETTER

### Magma's Response to Panoramic's Announcement of 29 March 2012

Dear Shareholder

On 29 March 2012, Panoramic Resources Limited ("Panoramic") released a statement to the ASX in relation to its offer for all the shares in Magma Metals Limited (the "Offer").

Panoramic has sought to persuade Magma shareholders to accept its unfair and unreasonable Offer principally because, in Panoramic's opinion, the Independent Expert's value range for Magma "does not stack up", the implied bid premium to the pre-Offer price of Magma shares justifies acceptance, and holding Panoramic shares is less risky than holding Magma shares.

The Magma Directors' firm view is that **it is the value of the Panoramic Offer - not the expert's valuation range - that fails to "stack up"**. The slide of more than 13% in the Panoramic share price since the announcement of the Offer (from \$1.27 to \$1.095), and its implication for the value of the Offer, continues to be of concern. Furthermore, the Directors do not accept the argument that the change in risk profile that would arise from Magma shareholders being part of an enlarged Panoramic group, justifies accepting what they consider to be an unfair and unreasonable offer. The following pages provide further detail on these and other matters relevant to the shortcomings of the Panoramic Offer.

It is not just the Magma Directors who consider the Offer to be unfair and unreasonable. As at the date of this letter Panoramic had received acceptances under its Offer for only 7.8% of Magma's shares (including acceptances under the Institutional Acceptance Facility). Magma's largest shareholder, Anglo Pacific Group plc, continues to buy Magma shares on market, having increased its interest from 13.5% at the date Panoramic announced its Offer to 17.4% at the date of this letter.

The Offer remains subject to a number of conditions, including a 90% minimum acceptance condition, none of which had been satisfied or waived as at the date of this letter.

**The Magma Directors continue to unanimously recommend that Magma shareholders REJECT the Offer.** To do so, Magma shareholders should simply take no action in relation to the Panoramic Offer.

FOR AND ON BEHALF OF THE BOARD

Max Cozijn  
Chairman  
11 April 2012

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## **THE PANORAMIC BID DOES NOT OFFER FAIR VALUE FOR YOUR MAGMA SHARES**

### **Comparative Transactions**

The Comparative Valuation chart on page 6 of the statement released by Panoramic to the ASX on 29 March 2012 ("Panoramic Announcement") does not provide a fair representation of the value of the Offer compared with the value of the Thunder Bay North project. **Panoramic has suggested that the Independent Expert's value range does not "stack up". However, the Magma Directors' view is that it is the Panoramic Offer that does not stack up.**

### **The equivalent Panoramic Offer value is not provided**

While attacking the Independent Expert's value range, **Panoramic has not provided information on the value of the Thunder Bay North project implied by the Panoramic Offer.** This is of central importance to Magma Shareholders, as it allows the fairness of the Offer relative to other transaction precedents to be tested.

Based on the last closing share price of Panoramic shares on the ASX at the date of this letter, the implied value of the Panoramic Offer is just A\$15.70/oz Pt-Eq<sup>1</sup>. This is well below both the Lantinen Koillismaa and the Marathon (2010) transaction values of A\$19.32/oz Pt-Eq and A\$42.00/oz Pt-Eq respectively.

### **The latest Marathon transaction occurred at a substantially higher Transaction Value**

The Panoramic Comparative Valuation chart does not reference the most recent transaction announced on 28 March 2012, in which a 25% interest in the Marathon project was sold to Mitsubishi Corporation at an equivalent transaction value of A\$120/oz Pt-Eq<sup>2</sup>.

This transaction demonstrates the value that may be attributed to advanced exploration-development PGM assets outside of South Africa. Even if a substantial discount is applied to allow for the somewhat more advanced stage of the Marathon project, this would appear to confirm that the Panoramic Offer substantially undervalues Magma's flagship Thunder Bay North project.

### **Restated Comparative Transaction Information**

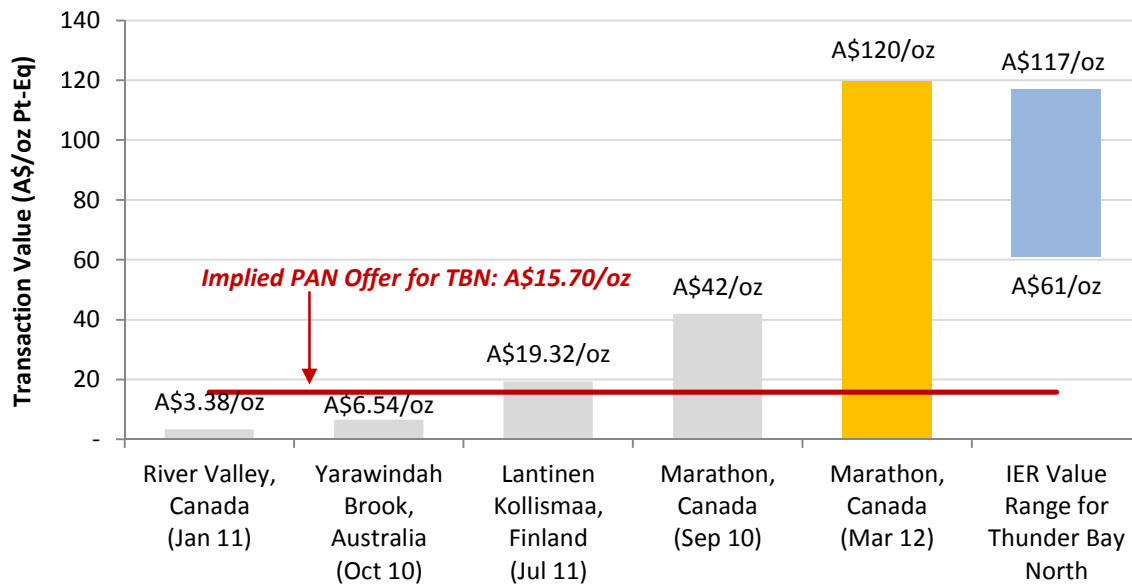
The Panoramic Comparative Valuation chart, together with relevant information on the value of the Panoramic Offer, and the implied value of the most recent (March 2012) Marathon transaction, is set out below. This supports the value range described in the Independent Expert's Report.

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<sup>1</sup> The Transaction Value for the Thunder Bay North Project implied by the Panoramic Offer of A\$15.70/oz Pt-Eq is based on the closing share price of Panoramic on 10 April 2012 of \$1.095/share, implying total equity consideration of \$34.4 million, less \$10 million of cash, less the low end of the Independent Expert's value of \$12 million for Magma's Australian assets.

<sup>2</sup> On 28 March 2012 (after the completion of the Independent Expert's Report but prior to the release to the market of the Panoramic Announcement), Stillwater Mining Company ("Stillwater") announced the sale of a 25% stake in the Marathon Project to Mitsubishi Corporation ("Mitsubishi") for US\$81.25 million, implying a Transaction Value of A\$120/oz Pt-Eq based on the current A\$/US\$ exchange rate.

Figure 1: Restated Comparative Valuation Chart to Show the Panoramic Offer and the Recent Marathon Transaction



### Prospectivity Enhancement Multiplier Valuation

Panoramic has suggested that the use of a prospectivity enhancement multiplier (“PEM”) is “highly tenuous, subjective and unreliable”.

It is not surprising that this argument is promoted by Panoramic given that the Panoramic Offer implies a PEM for Magma’s Thunder Bay North Project and regional Canadian exploration of just 0.27 times<sup>3</sup>. **This means that the implied value of the Panoramic Offer is just 27 cents for every single dollar spent by Magma on exploration at its Canadian projects.**

While the appropriate PEM to apply may well be subjective, given that exploration by Magma has been successful in identifying potentially economic mineral resources and that further drilling is enhancing both the Company’s resources and regional geological prospectivity, the Magma Directors are firmly of the opinion that the implied PEM of 0.27 is inadequate.

**THE MAGMA DIRECTORS’ VIEW IS THAT IT IS THE PANORAMIC OFFER THAT DOES NOT STACK UP**

<sup>3</sup>

The PEM of 0.27 is based on the closing share price of Panoramic on 10 April 2012 of \$1.095/share implying total equity consideration of \$34.4 million, less \$10 million of cash, less the low end of the Independent Expert’s value of \$12 million for Magma’s Australian assets.

## THE IMPLIED BID PREMIUM HAS FALLEN CONSIDERABLY

### The Panoramic share price and bid premium has fallen considerably

Panoramic continues to promote its share based Offer based on an out-dated, pre-announcement Panoramic share price. Panoramic's share price has fallen considerably (over 13%) since its announcement of the Offer. This appears to be part of a longer term trend as Panoramic's share price has fallen over 50% in the last 12 months.

Figure 2: Panoramic Share Price Performance – Last Twelve Months



Based on the last closing price of Panoramic shares as at the date of this letter, the implied bid premium on the pre-announcement Magma share price has fallen by 28%.

### Panoramic has an inconsistent view on value

Panoramic selectively references the Independent Expert's Report to suggest that a "normal" control premium of 25 - 35% to the pre-bid market price of Magma shares is relevant in the assessment of its Offer. Yet at the same time, Panoramic argues that its own current market price undervalues its shares by referencing the average of broker assessed target valuations for its shares. It also argues that its shares are "highly liquid (relative to Magma)".

In other words, Panoramic seems to be inconsistently arguing that the pre-announcement share price is the principal indication of value for Magma, yet somehow Magma shareholders should accept that the market is significantly undervaluing Panoramic.

In fact, the Independent Expert specifically stated in its report "the quoted market price analysis suggested that there is not a deep market for Magma shares, and as such it may not be a reliable representation of the value of a Magma share". If indeed Panoramic shares are highly liquid, as Panoramic asserts, one would expect its share price to be more representative of underlying value.

**PANORAMIC'S SHARE PRICE HAS CONTINUED TO FALL SINCE ITS ANNOUNCEMENT OF THE OFFER – LOWERING THE IMPLIED OFFER PRICE**

**THE MAGMA DIRECTORS DO NOT CONSIDER THAT THE CHANGE IN RISK PROFILE IS A SUFFICIENT BASIS FOR SHAREHOLDERS TO ACCEPT THE UNFAIR PANORAMIC OFFER**

The Magma Directors acknowledge that Panoramic and Magma have different risk profiles on account of the very different nature of the two companies.

However, the Magma Directors do not consider that the change in risk profile that would result from Magma Shareholders becoming shareholders in a merged entity is a sufficient basis for Magma Shareholders to accept the unfair and unreasonable Panoramic Offer.

Furthermore, Panoramic has not explained how it plans to fund and manage the development of the Thunder Bay North project and Magma's other assets should its offer be successful.

**PANORAMIC'S SECOND SUPPLEMENTARY BIDDER'S STATEMENT**

You may also have seen that on 3 April 2012, Panoramic released a Second Supplementary Bidder's Statement which notes that Panoramic will pay handling fees to participating ASX stockbrokers in respect of valid acceptances received from Retail Magma Shareholders (i.e. holders of less than 500,000 Magma shares).

If you are a Retail Magma Shareholder, you may be contacted by your stockbroker encouraging you to accept Panoramic's Offer. If so, you should be aware that your broker may be financially incentivised to procure your acceptance. You should also **remember that the Panoramic Offer remains conditional**, so even if you accept the Offer, there is no assurance that you will actually receive the consideration due under it.

**IN ADDITION TO THE IMPORTANT INFORMATION DISCUSSED ABOVE, SHAREHOLDERS ARE ENCOURAGED TO READ THE SECTION IN MAGMA'S TARGET'S STATEMENT RELEASED ON 9 MARCH 2012 ENTITLED "WHY YOU SHOULD REJECT THE PANORAMIC OFFER".**