



Board and Management focussed on delivering value for all shareholders

12 November 2018

Dear Shareholders,

Following the announcement regarding the granting of haul road access for the Urquhart Bauxite project, we thought it would be helpful to update shareholders on the progress being made on a number of fronts which are collectively aiming to transform the Company over coming months and deliver long-term sustainable value to shareholders.

1. Overview and strategy

We fully understand that shareholders invest to see their share price and enterprise value of the Company grow significantly over time. This is what the Board and management team are focussed on and we are pursuing a range of opportunities which can meet our clearly defined strategic project criteria, consisting of:

- Certainty around reaching near-term positive operating cash flow;
- Low capital intensity;
- Ensuring our capability to finance capital and growth expenditure is confirmed on realistic terms;
- Ensuring manageable levels of debt;
- Majority ownership and operational control of assets is available; and
- Confirmed long mine life to maximise long term value.

Following an extensive evaluation of bauxite projects globally, the Board recognised that there were few targets which the Company could identify as acceptable and affordable, given our strategic criteria and current circumstances. More recently the Company was presented with an opportunity to consider diversifying into another industrial based commodity, through a merger with Melior Resources Inc. (**Melior**), thereby gaining access to the revitalised Goondicum Ilmenite Project (**Proposed Merger**). Like bauxite, ilmenite shares similar project features and both commodities share favourable global commodity price outlooks.

If the Proposed Merger is approved, the Goondicum Ilmenite Project (which is 100% owned by Melior) has the capacity to significantly enhance the strategic position and value attributable to Metallica shareholders through the prospect of immediate long-term positive cash flows. The realisation of this merger will, of course, only occur with the agreement of a majority of Metallica Minerals shareholders. We expect to provide a very detailed analysis of the merger to all shareholders in the coming weeks so as to inform your vote at a General Meeting of the Company that is planned to occur in December 2018. The Proposed Merger is discussed further below.

2. Urquhart Bauxite Project

The execution of the Access Agreement associated with the granting of the haul road mining lease is a major step forward for the Company. The Access Agreement execution is the culmination of lengthy and complex stakeholder negotiations over an extended period.

It was necessary to reapply for new section 316 Mining Lease so as to reflect the updated conditions of the Access Agreement. With the Access Agreement now finalised, all necessary requirements for the granting of the section 316 Mining Lease have now been completed. Once the section 316 Mining Lease has been granted, we will look to bring Urquhart into production as soon as practicable, driving positive cash flow. The current expectation is that this would be in the first half of 2019.

With the renewed clarity around the potential start up timing, the Company will look to finalise the necessary offtake and logistics contracts, having avoided prior exposures to customer delivery expectations, pricing and shipping rates and ensuring maximum flexibility going forward.

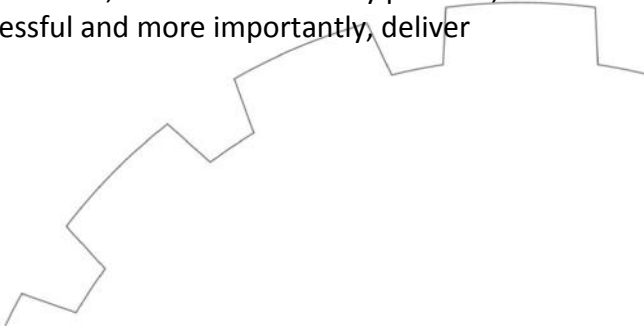
3. Melior Resources merger proposal

On 13 September 2018, the Company announced the transformational merger with Melior Resources which, if approved by shareholders, would create a much larger diversified Queensland based mining company with immediate sustainable cash flow. This opportunity was very carefully assessed having regard to our various strategic criteria referred to in section 1 above.

We are of the firm belief that the benefits of the merger are compelling and include:

1. Market value - attractive valuation metrics relative to ASX peers with strong re-rating upside likely post-merger;
2. Scale - the creation of much larger company with an attractive portfolio of complementary mineral sands and bauxite projects in Queensland – increasing market size and scale retaining a strong balance sheet and therefore capability to fund project development and new opportunities,
3. Diversification - a post-merger well balanced combination of production, development and exploration assets;
4. Board - the combination of Melior's and Metallica's key board members creating an experienced and complementary team for the merged entity; and
5. Share register – the merged share register will have a greater institutional component which will include the on-going involvement of a strong and supportive major shareholder in Pala Investments with strong success in minerals sands and other natural resources investments.

In assessing the Proposed Merger, in particular the Goondicum Project, we have undertaken cost effective yet extensive legal, commercial and technical due-diligence to ensure we have all the necessary data, risk management and decision making tools. We have utilised experts in key areas such as tenure, legal affairs and processing so as to provide comfort, so far as reasonably possible, to confirm that the Goondicum Project start-up will be successful and more importantly, deliver real value to Metallica shareholders following the merger.



The Goondicum Project continues to progress on budget and schedule, with commissioning having already commenced. Importantly, after more than \$120 million of historical invested capital, the Goondicum Project is set to be cash flow positive in Q2 CY2019 and deliver pre-tax cash flow of US\$51 million over the first three years of full production. This project combined with the projected start-up of Urquhart in 2019 means that the merged entity will have two strong cash flow generating assets along with a pipeline of future growth opportunities.

We believe that the merger will create a well-balanced and strong share register with a diversified mix of retail, institutional and strategic investors. Importantly, Pala Investments will become the Company's largest shareholder. Pala Investments is a significant and well respected investment company with a long history of value creation in the mining sector. Having the support of Pala Investments will potentially allow the Company to pursue other opportunities that may have been otherwise unattainable.

The merged entity will have a highly experienced board comprising three directors from each entity. At the individual and collective level, the merged board will have extensive mining experience and exposure to dealing with projects at all stages of development and with a clear focus on maximising revenue generation and margins over the long-term.

The combination of cash producing assets, a strong and experienced board and management team, coupled with a balanced shareholder register that will support and assist the merged company to develop and grow is a powerful combination that we believe can and will deliver value for all shareholders.

4. Wagina Project

Evaluation of our potential participation in the Wagina Bauxite Project located in the Solomon Islands continues. Rather than increase the current loan to South West Pacific Bauxite (**SWPB**), we have been assisting SWPB with other third-party funding options. This funding will be used by SWPB to support the completion of in-country due diligence activities. This strategy is aimed at maintaining the potential of the Wagina Bauxite Project to our company without increasing cash exposure at this time.

Our analysis to date suggests that this project has the potential to be a world class asset with relatively low capital expenditure, low operating costs, good access to export markets and a long mine life.

We will only continue to pursue this opportunity if it meets our internal targets of creating significant value for shareholders and a range of conclusions are yet to be reached in this regard. At this stage, the Goondicum and Urquhart projects are a higher priority.

5. Value for all shareholders

We understand the responsibility of the Board and management to all shareholders, who together own the Company. We will continue to engage with shareholders on a regular basis to ensure that all views are heard, and accept the right of all shareholders to express their views at any time.

In circumstances where changes such as those currently proposed for Metallica, it is likely that some shareholders may have different views to the Board and management. The Board is aware

that three (3) shareholders and their related parties, representing some 5% of the share register (**Minority Shareholders**), do not agree with the Proposed Merger.

In this instance, the Minority Shareholders are seeking to call a general meeting to remove the Board in its entirety. This is a right they collectively have as Minority Shareholders of the Company. Your Board and management team will follow proper process as required as this sequence unfolds. We have endeavoured to engage further with the Minority Shareholders to better understand their perspectives but have had little success to date.

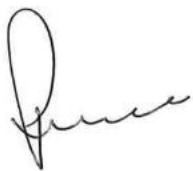
At this stage, we do not wish to address the various statements circulated by the Minority Shareholders, except to say that we do not accept the claims being made. This does not extend to any matters raised by the Minority Shareholders which are incorrect, misleading or defamatory, and in such cases the Board will, as you would expect, act in an appropriately responsible way. At the appropriate time, the Board will work through the respective matters raised via the means available to us, including the holding of an extraordinary general meeting.

6. Summary

Our clear preference is to focus on the positives of the merger, on monetizing Urquhart, and our further strategies and plans. The Proposed Merger will be subject to a general meeting of the Company in December 2018, at which 100% of shareholders will have the opportunity to properly assess the merger with all of the relevant information, express their views and exercise their right to vote.

The Board and management team believes that the Company is in a strong financial position and are confident that we have the support of the majority of shareholders to follow through on the immediate growth and development opportunities thereby meeting our strategic aims. We believe that we are at a transformational point for the Company and the future, commencing with the revenue generation potential of Goondicum and the proposed start-up of Urquhart in 2019.

Our clear and achievable objective is to secure the best possible shareholder returns by delivering our strategy of building a sustainable cash flow focussed industrial minerals business. That strategy is now coming to fruition.



Peter Turnbull
Chairman



Simon Slesarewich
Managing Director



Steve Boulton
Non-Executive Director



Ian Jacobson
Non-Executive Director

