



A STATEMENT FROM THE DIRECTORS OF METALLICA MINERALS LIMITED

14 January 2019

Dear Metallica Minerals Limited shareholder

As you are likely aware, on 21 December 2018, seven of more than 2,200 shareholders in Metallica Minerals Limited (**Metallica** or the **Company**) who hold in aggregate approximately 5.3% of the Company's share capital (**Convening Shareholders**) called a meeting of shareholders to consider resolutions that:

- its nominees, Theo Psaros, Scott Waddell and former Managing Director, Andrew Gillies, be elected as Directors of the Company; and
- Peter Turnbull, Simon Slesarewich and Ian Jacobson, as well as any person appointed as a director from the date of the notice until the commencement of the shareholder meeting, be removed as Directors of the Company.

The Notice of Meeting was sent to you by the Convening Shareholders, not by Metallica. The Convening Shareholders' Notice of Meeting was subsequently announced by Metallica to the ASX on 3 January 2019. The meeting of shareholders is to be held at Crowne Plaza, 2807 Gold Coast Highway, Surfers Paradise, Queensland on Friday, 1 February 2019 commencing at 10:00 am AEST.

In recent months, the Board of Metallica has undergone significant renewal, namely:

- the resignation of Steven Boulton as Director;
- the resignation of Peter Turnbull and Ian Jacobson as Directors;
- the appointment of Alan Evans as Non-Executive Director; and
- the appointment of Michael Hansel as Non-Executive Director and subsequent election as Chairman.

As such, the Board of Metallica, which currently comprises Mr Slesarewich (Managing Director) and two new Directors, Mr Hansel (Non-Executive Chairman) and Mr Evans (Non-Executive Director), essentially represents a new Board.

As Mr Hansel and Mr Evans were appointed to the Board after the Notice of Meeting was issued, they become the subject of removal pursuant to Resolution 7 – Removal of Additional Director/s of the Company.

The five resolutions that will be considered at the Meeting are now:

- Resolution 1 – Appointment of Theo Psaros as a Director of the Company;
- Resolution 2 – Appointment of Scott Waddell as a Director of the Company;
- Resolution 3 – Appointment of Andrew Gillies as a Director of the Company;
- Resolution 5 – Removal of Simon Slesarewich as a Director of the Company; and
- Resolution 7 – Removal of additional Director/s of the Company –Michael Hansel and Alan Evans.

Should each of the five resolutions pass, the Board of the Company will comprise the Convening Shareholders' Board nominees, being Theo Psaros, Scott Waddell and Andrew Gillies.

Should none of the five resolutions pass, the Metallica Board will remain unchanged and comprise Simon Slesarewich, Michael Hansel and Alan Evans.

The newly constituted Metallica Board is writing this letter to you to seek your support so we may get on with the important task of running your Company. You can achieve this outcome by voting **AGAINST** each of the five resolutions to be considered at the Meeting.

We strongly consider it is in the best interests of the Company and all shareholders other than the Convening Shareholders to vote **AGAINST** these resolutions for the following key reasons:

- Metallica already has a new Board which has already addressed the Convening Shareholders' key objection, being the proposed merger with Melior Resources Inc. (**Melior**).
- The Convening Shareholders' other objections, such as progress at the Urquhart Bauxite Project and the sale of the SCONI Project are both, in the Board's view, a distraction and demonstrate a lack of experience required to transform a company from junior explorer to a producing mining company. **The Convening Shareholders offer no alternate strategy or plan to rectify their perceived issues other than to nominate candidates with limited or no mining development experience or qualifications.**
- The newly constituted Metallica Board will shortly formalize and provide to shareholders a plan to take the Company forward. In broad terms, this will involve a continued focus on projects bringing early cashflow. Insofar as Urquhart is the Company's key asset, the short term will see the new Board continuing to move Urquhart towards production whilst also seeking to identify strategic value-adding opportunities.
- No business plan has yet been articulated by the Convening Shareholders or their proposed Board in any correspondence received from the Convening Shareholders. **The extent of their communications focussed on the termination of the Melior merger, which has already been undertaken by the new Board, and a series of uninformed statements made with the benefit of hindsight.**
- The new Board represents a better team to run Metallica than the Convening Shareholders' Board nominees. In particular, the proposed appointment of Mr Gillies as a Director is to be avoided. Mr Gillies has previously indicated, by retiring from the Board and divesting all of his shares in Metallica, that he no longer wished to have any involvement in the operations or share performance generally of Metallica. The Convening Shareholders offer no credible reason as to whether Mr Gillies' position has changed and, if so, for what reason.
- The new Board has no issue with control of Metallica passing, but such a change of control should result in all shareholders receiving a fair and reasonable offer for their shares. However, the Convening Shareholders' plans to take control of Metallica through their nominees taking control of the Board by stealth falls far short. Moreover, with only a 5.3% shareholding, we are concerned as to how the interests of the other 95% of shareholders are going to be protected.

Further information in support of the above is set out in Attachment A. We urge you to read Attachment A and contact us should you wish to discuss.

We seek your support by voting **AGAINST** each of the five resolutions to be considered at the upcoming General Meeting.

You can vote **AGAINST** the resolutions by completing and returning the **green proxy form** which is enclosed with this booklet. **Every single vote is important, no matter the size of your shareholding.**

Finally, let us say that we respect the right of every shareholder to be heard. Equally, we have an obligation to act without fear or favour, and not to ignore or override the interests of the Company and shareholders as a whole in favour of a small number of opportunistic shareholders, including an aggrieved former Managing Director.

We are pleased that this matter which has come at a significant cost to Metallica, will soon be over so that we, the new Metallica Board, can get on with the important task of running your Company.

We offer our utmost thanks for your support.

Yours sincerely



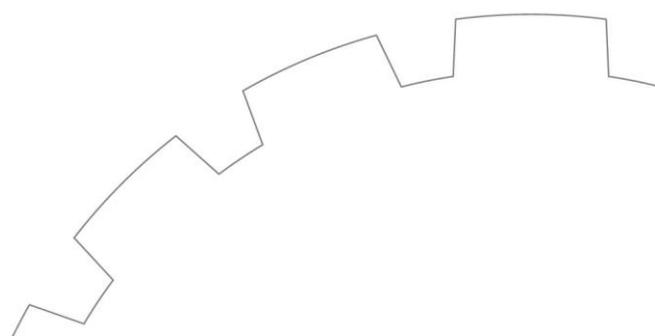
Mr Michael Hansel
Non-Executive Chairman



Mr Simon Slesarewich
Managing Director



Mr Alan Evans
Non-Executive Director



ATTACHMENT A

Set out below is a table summarising the newly constituted Board's position on and response to the key concerns raised by the Convening Shareholders. Further details are included in the balance of this Response.

Convening Shareholder Issue	Metallica Board Response	Additional Comments
Proposed merger with Melior should not proceed	Metallica has terminated the proposed merger	By terminating the proposed merger with Melior, the rationale behind the Convening Shareholders actions has been removed.
Members of the Board should be removed	2 of the 3 existing Board members at the time of the Convening Shareholders' call for the General Meeting have since resigned.	The Metallica Board has been reconstituted. The remaining Managing Director, Mr Simon Slesarewich has the experience and qualifications to transform Metallica from junior explorer to producing miner.
Metallica operations should be reviewed	The newly constituted Board is undertaking such review	None of the Convening Shareholders' Board nominees have provided any credible operating plan for Metallica. The Convening Shareholder materials offer no credible guidance on: <ul style="list-style-type: none"> • Improvements on or changes to current Metallica business operations; • Future employment of Metallica staff; • The roles of each Board nominee; • The remuneration of the Board or any employees; • Ways to rectify or cure any perceived issues the Convening Shareholders have with the current operations.
Managing Director (Simon Slesarewich) remuneration is unsustainable and not consistent with market	The Convening Shareholders argument is not supported by market data, appears to be based on conjecture and erroneous financial analysis. Mr Slesarewich's remuneration is based on market practice; ensuring both the preservation of Metallica cash reserves whilst incentivising Mr Slesarewich to add value to Metallica and its shareholders.	The cash salary of Mr Slesarewich for the financial year ending 30 June 2018 was \$279,334. The average cash salary of Mr Gillies for the period 2011-2013 inclusive as Metallica Managing Director was \$335,715 per annum. The average cash salary of Mr Psaros during his tenure as Chief Operating Officer (COO) of MetroCoal Limited was \$254,397. The average cash salary of Mr Waddell during his tenure as Chief Financial Officer

		(CFO) of Metro Mining Limited was \$276,184. ¹
Appoint the Convening Shareholder Nominees to the Board	The Convening Shareholders' Nominees do not have the requisite experience to transform Metallica from junior explorer to producing mine.	The newly appointed Board has the appropriate mix of skills and experience, particularly mining development and operational experience, with which to run Metallica, and specifically Urquhart, both efficiently and effectively.

Metallica has a newly constituted Board, which has already addressed the proposed merger with Melior, which was the key objection of the Convening Shareholders.

Convening Shareholders' Concerns

Since the Convening Shareholders first signalled their intention to seek changes to the Metallica Board, which occurred by way of the issuance of a notice under section 203D of the Corporations Act on 24 October 2018, the thrust of the Convening Shareholders' objections has concerned several key themes.

As set out in the Convening Shareholders various communications with shareholders, including letters dated 12 November and 17 December 2018, their website and more recently, their Explanatory Statement which accompanied the Notice of Meeting, the key objection was the Company's proposed merger with Melior.

At both the time the Melior merger was announced and upon receipt of the section 203D notice, the Board of Metallica comprised Mr Peter Turnbull (Non-Executive Chairman), Mr Simon Slesarewich (Managing Director), and Steven Boulton and Ian Jacobson as Non-Executive Directors. The previous Board proceeded with the proposed merger as they believed it to be in the best interests of the Company.

The newly constituted Metallica Board, mindful of shareholder objections, and the actions of Melior indicating it no longer wanted to proceed with the merger, terminated the proposed merger. This was as announced to the market on 2 January 2019.

In addition to the objection concerning the proposed merger, the Convening Shareholders also had concerns surrounding:

- **the Urquhart Bauxite Project**

The Convening Shareholders' claim that the Urquhart Bauxite Project was repeatedly and significantly stalled.

The new Metallica Board agrees that, an unfortunate delay has occurred that was outside of the Company's direct control. However, the delay was not a function of the previous Board not taking action but, rather, the difficulty in entering into a binding access agreement with a stakeholder **on reasonable terms** in relation to the construction of a haul road connecting the project to an established barge facility.

¹ Details of the calculation of the remuneration amounts is set out on page 7

Shareholders will appreciate that in any negotiation one party cannot force the other to agree. As was the case here, these situations are often dictated by counter-parties' respective motivation and leverage in formalising a contractual arrangement.

On 9 November 2018, the Company announced that an access agreement had been entered into. Since then, all things necessary for the grant of a s316 mining lease have been completed.

The Convening Shareholders' remaining concerns pertaining to the Urquhart Bauxite Project relate to assessing options available to expeditiously achieve production and cash flow in the most cost effective and efficient way and regularly and informatively communicate the status to shareholders and investors. This concern is self-evident and has always been and continues to be a key consideration for the Metallica Board. The Convening Shareholders offer no alternative plan to expedite production and cash flow.

As always, the Metallica Board endeavours to assess options available to the Company as efficiently as possible and inform shareholders of all progress and hurdles relating to the Company assets.

- **the SCONI Project**

The Convening Shareholders' have repeatedly raised concerns, without any credible basis, that the SCONI Project was sold at a low price. The sale of the SCONI Project was announced to the market in September 2017. The Metallica board was first notified of the Convening Shareholders' concern pertaining to the sale price in October 2018.

In securing an arm's length sale of the SCONI Project, the previous Board undertook a thorough process, achieving the best price offered at the time.

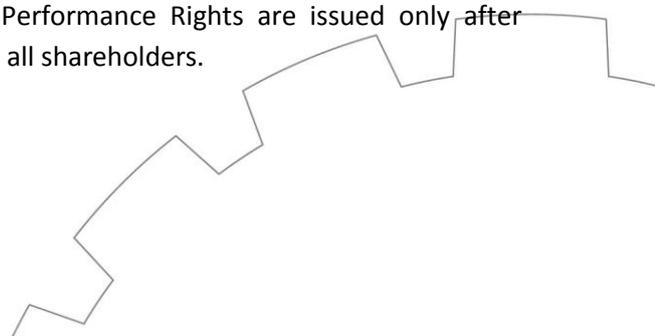
This process involved offering SCONI to Mr Gillies in return for the cancellation of his shares in the Company. He declined this offer on two separate occasions.

- **Simon Slesarewich's Remuneration**

The final concern that the Convening Shareholders have raised is the amount of Mr Slesarewich's remuneration and whether such remuneration is consistent with Metallica's market capitalisation. These concerns:

- appear to be based solely on the opinion of the Convening Shareholders as they are not supported by any market or reasonable third party data;
- do not reflect the rigorous assessment undertaken by the previous Board in implementing Mr Slesarewich's remuneration package; and
- are based on flawed financial interpretation.

As set out in the Annual Financial Report (announced on 28 September 2018), Mr Slesarewich's salary for the year ending 30 June 2018 is \$279,334 (inclusive of superannuation). Mr Slesarewich is also able to receive Performance Rights upon satisfaction of specific criteria. If the criteria are not satisfied, the Performance Rights are not issued. The criteria for the Performance Rights have been heavily scrutinized by the Board to ensure that the Performance Rights are issued only after milestones have been achieved that significantly benefit all shareholders.



As the name suggests, the Performance Rights convert only on the Company achieving certain key milestones which are directly linked to increasing the value of the Company and its shares; Metallica Shares are only issued when a significant value accretive event has occurred. The use of Performance Rights is standard in an exploration company such as Metallica as it both incentivises Mr Slesarewich and preserves the cash reserves of the Company.

Australian Accounting Standards require the Performance Rights to be valued as at the relevant balance date and the value to be reported in Metallica's financial statements. The Total Calculated Compensation of Mr Slesarewich of \$614,565 (**Total Amount**) includes the valuation of these Performance Rights together with his cash salary of \$279,334. The Convening Shareholders, presumably for their own purposes, have inferred that the Total Amount has been paid from the cash reserves of Metallica. Any inference to that effect is wrong and is either misleading or demonstrates a lack of financial acumen.

Standard accounting practice also required that the unpaid bonus of \$56,000 for the year ending 30 June 2018 was accrued, even though this amount has not actually been paid.

The previous Board considered this level of remuneration in line with the market, having regard to the role Mr Slesarewich's was undertaking. Shareholders should be aware that, in his capacity as the previous Managing Director, Mr Gillies, recommended the appointment of Mr Slesarewich and negotiated the terms of his initial contract, which have not materially changed.

Mr Slesarewich's current cash salary of \$279,334 per annum (and for the year ended 30 June 2018) is significantly lower than the corresponding cash component remuneration paid by Metallica to Mr Andrew Gillies (a Convening Shareholder Board nominee) during his tenure as Managing Director of Metallica prior to the appointment of Mr. Slesarewich. During the 2011 to 2013 period, Mr Gillies was paid an average annual cash salary of \$335,715 per annum². Mr. Gillies also received cash Director fees from other Metallica associated companies during this period which increased his average cash component to \$371,400 per annum².

In their respective roles as COO and CFO of MetroCoal Limited (now known as Metro Mining Limited), Mr Psaros (COO) and Waddell (CFO) were paid average cash salaries of \$254,397 per annum and \$276,184 per annum respectively.

The Convening Shareholders provide no detail on the respective roles any of the proposed Board nominees will discharge (if any) or the remuneration each will be paid. Assuming each nominee will be engaged by Metallica as an executive on a salary based on their previous average salary, this would result in an annual cash remuneration obligation of approximately \$866,296.

Mr Slesarewich's level and nature of remuneration going forward is a matter for the new Metallica Board, which will be based on credible market data, and in turn ensuring that the cash reserves of Metallica are sustained whilst also incentivising Mr Slesarewich to add value to the Company and its shareholders.

² Average cash remuneration based on periodic financial disclosure in Audited Financial Statements released to ASX by Metallica, MetroCoal and Metro Mining.

Moving Forward

In the lead up to the General Meeting, the Board will provide a clear plan to advance the Company's prospects to the benefit of all shareholders. In broad terms, the plan will likely involve building a strong ASX-listed resources company with the focus on projects that can deliver early cashflow through projects that can be brought into production with manageable capital expenditure and without greenfield exploration risk.

The new Board considers that this will distinguish Metallica from the majority of its resource company peers, the businesses of which typically encompass ongoing exploration effort funded by frequent dilutive capital raising. To the extent that opportunities arise, the new Metallica Board will be all the more sensitive to the interests of shareholders. Specifically, it will be a key focus of the new Board to assess any value-adding or strategic opportunities that might exist. To this end, the Company is already pursuing discussions with this outcome in mind and will announce at the earliest opportunity.

As the Melior merger is terminated, Urquhart is and will remain for the foreseeable future the Company's key interest. It is noted that, with cash reserves of approximately \$5 million, the Company is fully funded to complete development of Urquhart.

Metallica also holds a suite of attractive, but early stage exploration projects including:

- at Cape York where the Company holds extensive regional tenements between Weipa and Cape York Peninsula that are prospective for both bauxite and heavy mineral sands;
- the Cape Flattery Silica Sands Project located approximately 200 kilometres north of Cairns which is adjacent to Mitsubishi's Cape Flattery Silica Sands mine, the largest mine of its type in the world; and
- an option to acquire the Wagina Bauxite Project in the Solomon Islands.

It is the Board's intention to commence production at Urquhart by mid-2019, along with a pipeline of future growth opportunities which the new Board is keen to pursue.

Convening Shareholders' Plan

The new Board's plan is to be contrasted with the plan of the Convening Shareholders and their Board nominees. The Board is concerned with the low level of detail and credibility surrounding the Convening Shareholders' business plan for the Company.

Despite the Convening Shareholders' being associates for a number of months, they are yet to articulate their business plan despite communicating with shareholders on numerous occasions including in correspondence sent mid-November 2018, their website and in their Explanatory Statement to shareholders.

The Convening Shareholders' communications are laden with criticism and rhetoric without any credible plan on how to address the perceived issues or advance the operations of Metallica.

The Board is concerned with past conduct of the Convening Shareholders' and their nominees and how this might impact future transactions. Such conduct was exemplified as recently as late 2017 where Convening Shareholder, Mr Paul Dostal, made an opportunistic and incomplete offer to Metallica to personally acquire the Company's interest in the Cape Flattery Silica Sands Project. This offer was promptly rejected as inadequate and not in the interests of the remaining shareholders. The current Board is concerned that

should the Convening Shareholder nominees be appointed that disposals of this nature would be enlivened or reassessed by that newly appointed board.

The Company has cash at its disposal of approximately \$5 million. As neither the Convening Shareholders nor their Board nominees are yet to articulate a cogent or credible plan, shareholders should be rightfully concerned.

Metallica Board of Directors

The newly constituted Metallica Board represents a better team to run Metallica than the Convening Shareholders' board nominees.

Michael Hansel

The newly appointed Non-Executive Chairman, Michael Hansel, has been a partner at the law firm HopgoodGanim for the past 12 years specialising in mergers and acquisitions, capital raisings, due diligence, takeovers, joint ventures, corporate restructuring, and private equity transactions. Mr Hansel has advised in these areas across numerous industries, including with significant experience in the resources sector, as well as valuable continuity with the current strategic direction of Metallica.

Mr Hansel was previously a non-executive director of Metro Mining Limited (ASX Code: MMI) from 2008 to April 2014. During his tenure on the Metro Mining board, Mr Hansel advised on and was involved in the acquisition of Cape Alumina Limited and its flagship Bauxite Hills Project which commenced production in 2018.

Alan Evans

A newly appointed Non-Executive Director, Mr Evans is a Governance Professional, holds a Bachelor of Corporate Administration from Curtin University and is a graduate of the Harvard Business School's Advanced Management Program. He has more than 35 years of international corporate and commercial experience at senior executive level in both listed and unlisted corporations, with the majority of those roles in the resources sector.

Mr Evans has been instrumental in a number of Australian and international mergers and acquisitions, takeovers, joint ventures and has headed the development of multi-million dollar projects.

He is a fellow member of the Governance Institute of Australia (GIA), a member of the Australian Institute of Company Directors and a graduate of the GIA Effective Director Course. Mr Evans has over 15 years' experience as a non-executive director and executive director.

Simon Slesarewich - Managing Director

Mr Slesarewich is a mining engineer and registered Senior Site Executive in Queensland with more than 20 years' experience across a range of jurisdictions, including a strong background in operational and executive roles within the mining and contracting entities.

Mr Slesarewich holds a Bachelor of Engineering (Mining) from the University of Queensland and Graduate Diplomas in Administration, as well as Applied Finance and Investment.

He is a Director of the Queensland Resources Council (QRC) and a member of the QEC Management Committee. He is the former CEO of Northern Discovery and Boardwalk Resources and is a renowned bulk commodities and business turnaround specialist.

As a member of the previous Board, Mr Slesarewich does not shy away from the fact that he was a part of the decision to seek to merge the Company with Melior and, for that, he too takes responsibility. Insofar as Mr Slesarewich is integral to the development of Urquhart, Metallica's most important asset, as well as for reasons of continuity, the Board consider it is vital that he remain with the Company.

It is considered that the combination of the newly constituted Board bring an appropriate mix of skills and experience, particularly mining development and operational experience, with which to run Metallica, and specifically Urquhart, both efficiently and effectively.

Convening Shareholders' Nominees

The Board considers the nomination of Mr Gillies should be of critical concern to all shareholders.

As many shareholders would be aware, Mr Gillies was Managing Director of Metallica for more than 10 years until he retired from that position in July 2015 and as a Director in June 2017.

As Managing Director, Mr Gillies was arguably out of touch with the direction of Metallica. For example:

- it was his view that Urquhart would never receive approval for the access road. Such access has recently been granted;
- under Mr Gillies stewardship, in excess of \$20 million was spent on SCONI with the project never progressing beyond a Pre-Feasibility Study;
- Following his retirement from the Board, from August to November 2017, Mr Gillies engaged in ongoing selling of his shares in Metallica. During this period, the share price dropped from 7.3 cents to below 5 cents per share. In an effort to minimise the impact on the share price resulting from such a significant divestment of shares, the Company and brokers approached Mr Gillies to make an offer to purchase his shares, which was rejected by Mr Gillies.

Mr Gillies has retired from the Board and divested his share interest in Metallica. This indicates (without any explanation to the contrary) that he no longer wishes to have any involvement in the management, performance or value of Metallica. The Convening Shareholders offer no credible reason as to whether Mr Gillies' position has changed and, if so, for what reason. Neither the Convening Shareholders nor Mr Gillies provide any detail on the role in which Mr Gillies will undertake; regardless, by resigning as Managing Director and then retiring as Director, Mr Gillies clearly is not interested in undertaking either an executive or non-executive role.

In regard to the Convening Shareholders' other Board nominees, Mr Psaros and Mr Waddell have reasonable but unremarkable credentials. Both Mr Psaros and Mr Waddell have similar accounting and financial background and as a consequence do not provide a diverse range of skills. None of the three Convening Shareholders' Board nominees appear to have the requisite project development or mining experience which Urquhart, as the Company's key asset, requires. This is a major weakness and concern.

The Convening Shareholders' material does not address which nominee is intending to act as the Company's Managing Director or Chairman. The Board is concerned that Mr Gillies will be appointed Managing Director, as his previous experience in this position resulted in over a ten-year period where he was unable to bring one project into production, including SCONI, despite expending over \$20 million dollars and many promises to do so.

Influence of Convening Shareholders

As a final point on this matter, the Convening Shareholders seek to convince shareholders that their Board nominees are independent of the Convening Shareholders.

It is a nonsense for the Convening Shareholders, on the one hand, to nominate three persons to the Board and then, on the other hand, to state that they are independent of them.

The newly constituted Metallica Board considers that, if the Convening Shareholders wish to enjoy effective control of the Company through their Board nominees, they should go about the task in the usual way that control of public companies generally passes, which is by way of a share acquisition transaction such as a Takeover Bid that would see all other shareholders receive a fair and reasonable offer for their shares, including an appropriate control premium.

It is entirely appropriate for the Convening Shareholders or any other party to pursue this course; however, the current approach of the Convening Shareholders falls a long way short of acceptable.

Finally, we ask whether, if shareholders representing only 5.3% of the shares in the Company are entitled to all three Directors on the Board, who is going to look after the interests of the other 95% of shareholders?

