ASX RELEASE

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INDEPENDENT EXPERT CONFIRMS MERGER IS REASONABLE

HIGHLIGHTS

- Independent Expert supports rationale for merger with Melior and confirms the merger is reasonable for Metallica shareholders
- Independent Technical Specialist validates the robust operating plan for the refurbished and now operational Goondicum Ilmenite mine
- The conservative assumptions and valuation approach of the Independent Expert and Independent Technical Specialist, in Metallica Board's opinion, reinforces merger rationale and positive outcomes for Metallica shareholders
- Independent Expert confirms Metallica shareholder ownership of the Merged Entity exceeds that implied by recent volume weighted average share prices of the two companies[1]
- Independent Expert confirms Metallica shareholder ownership of Merged Entity exceeds Metallica's asset value contribution to the Merged Entity [2]
- Independent Expert confirms Melior's project finance debt can be comfortably managed and repaid, supporting Metallica's Board assessment that Metallica can safely lever its assets to acquire a larger operational project
- The Independent Expert analysis and findings supports Metallica Board's assessment the merger with Melior represents a strategic acquisition of a complementary business providing production, imminent cash flow and a robust platform for further growth
- All Metallica Directors recommend shareholders VOTE IN FAVOUR of the merger

Metallica Minerals Limited (ASX:MLM) (Metallica, or the Company) is pleased to present the Independent Expert's Report and Financial Services Guide (IER) completed by BDO Corporate Finance (Qld) Ltd (BDO) in relation to the transformational merger with TSX-V listed Melior Resources Inc (Melior) as announced on 13 September 2018.

In preparing the Independent Expert Report, BDO relied on leading technical consultancy AMC Consultants Pty Ltd (AMC) as the Independent Technical Specialist. AMC has confirmed due diligence conducted by Metallica and endorsed the operating parameters of the recently refurbished and now operating Goondicum ilmenite project (Goondicum).

[1] See Figure 2.2 on page 6 of IER
[2] See Figure 2.3 on page 6 of the IER

<u>The IER has concluded that the merger with Melior is Reasonable for Metallica shareholders.</u>

In the Board's opinion, the IER is conservative, particularly as it relates to the assessment of Goondicum. As set out in the IER, the cash flows generated from Goondicum have the potential to enable Metallica to become cash flow positive within a shorter period of time relative to the development progress of Metallica's current assets.

The advantages of the merger highlighted in the IER include (set out in detail on pages 4, 5 and 6 of the IER):

- Metallica shareholder ownership of the Merged Entity exceeds that implied by recent volume weighted average share prices of the two companies.
- Metallica's shareholder ownership of the Merged Entity exceeds Metallica asset value contribution to the Merged Entity implied by the respective assessed asset values of both Metallica and Melior, on a like for like basis after ignoring capitalised overheads.
- The merger represents a strategic acquisition of a complimentary business with a project (Goondicum) that has commenced operating.
- The Merged Entity will benefit from having a larger market scale than Metallica standalone.
- Metallica will benefit through gaining a strategic investor and funder in Pala Investments.
- The merger is completed with scrip consideration thereby preserving cash resources.
- Since announcing the merger, no superior or competing proposal has emerged.

The IER also considers and analyses Melior's project finance debt. The IER importantly confirms that this debt is sensible and can be comfortably managed and repaid, given that sensitivity analysis and stress testing provides reasonable comfort that covenants associated with the debt will not be breached.

In the IER, on a consistent and like-for-like minority interest basis, BDO assessed the value range of Metallica prior to the merger as $0.025 to $0.041 cents per share and the value range of the Merged Entity as $0.021 to $0.044 per share, but with selected value range of $0.021 to $0.040 per share for the Merged Entity (see page 53).

As part of the IER, BDO assessed the fairness of the Merger. This involved the comparison of the value of a Metallica share prior to the Merger on a controlling interest basis with the value of a share in the Merged Entity on a minority basis.

As per ASIC regulatory guidance, BDO applied a control premium to its valuation of Metallica on a standalone basis and has applied an inverse control premium or minority interest discount to the Merged Entity. Consequently this valuation approach increases the Metallica standalone valuation and reduces the Merged Entity valuation.

This valuation approach is based on the principle that shareholders of Metallica (collectively) giving up a controlling interest (which they may otherwise be able to dispose of in a cash takeover offer for 100% of Metallica) in exchange for a minority interest (individually) in the Merged Entity notwithstanding:

1. The merger is an all scrip transaction;
2. Board representation of the Merged Entity will be equally shared;
3. There is no known current third party seeking to takeover or otherwise control Metallica;
4. The Merged Entity is capable of being subject to a takeover bid or other control transaction; and
5. The Merged Entity shareholders (including current Metallica shareholders) may receive a control premium as a consequence of any subsequent takeover of the Merged Entity.

Metallica surmises that it is for this reason that BDO did not assess the terms of the merger as "fair" notwithstanding that, even on this basis, there is still considerable overlap in the respective valuation ranges of the two companies.

It is also noted that the Asset Based Valuation (ABV) of the Merged Entity incorporates full corporate overheads for 14 years whilst, in the case of Metallica, the ABV incorporates corporate overheads for only 1 year. Again, this is punitive to the valuation of the Merged Entity as compared to the valuation of Metallica standalone and unequivocally confirms the rationale that Metallica directors have applied to this transaction in their recommendation for shareholders to vote in favour of the proposal at the upcoming Extraordinary General Meeting.

With the IER supporting the rationale of the transformational merger with Melior, Metallica has called an Extraordinary General Meeting of the Company to be held at the offices of HopgoodGanim Lawyers (1 Eagle St Brisbane QLD) on the 7th of January 2019.

The Directors of Metallica unanimously recommend you VOTE IN FAVOUR of all of the Melior merger related resolutions at the Extraordinary General Meeting.

-ENDS-

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