



10 May 2024

Metallica's response to Diatreme's third supplementary bidder's statement

On 8 May 2024, Diatreme Resources Limited (ASX: DRX, Diatreme) announced: "*Diatreme's response to Metallica's Target's Statement*", which purported to identify a number of '*inaccuracies and clarification (sic)*' in respect of Metallica's target's statement. Metallica has responded to each of the points raised by Diatreme in the table below.^{1 2} The Diatreme announcement also criticised the independent expert report that accompanied Metallica's Target's Statement, by way of a report prepared by Grant Thornton, which was also attached to the Diatreme announcement.

The board of Metallica notes that the Grant Thornton report contained a warning that "*[the report] must not be used by [Metallica shareholders] in their decision of whether or not to accept the Offer*", which is inconsistent with the inclusion of the report in the supplementary bidder's statement. It is not clear how Grant Thornton intends for their report to be used by Metallica shareholders.

Regardless, the independent expert has advised the Metallica board that it intends to consider each of the points raised and, to the extent that it considers necessary or appropriate, provide additional disclosure to Metallica shareholders. To the extent that any such disclosure results in a change to information that the Metallica board referred to in the target's statement (primarily in sections 1 and 2), it is the Metallica board's intention to restate the relevant parts of the target's statement to ensure that any revised disclosure is clear, concise and effective for Metallica shareholders.

In the meantime, the Metallica Board continues to recommend that shareholders REJECT the Offer.

Metallica has responded to each of the points raised by Diatreme in respect of Metallica's target's statement in the following table:

¹ The table includes a number of items that relate to the PAEMAC Report, which was a report commissioned by the independent expert. The PAEMAC Report was prepared by PAEMAC (<http://paemac.com>), a highly respected engineering firm specialising in marine engineering projects. While PAEMAC itself is best placed to respond to Diatreme's comments, Metallica has, where appropriate, sought to provide some comment on the relevant disclosure.

² Capitalised terms used (but not defined) in this announcement have the meaning given in the Target's Statement.

Extract from Diatreme's third supplementary bidder's statement

Metallica's response

Clarification: Metallica indicates that it is more advanced than Diatreme

Diatreme acknowledges Metallica has completed a later stage study than Diatreme, being a definitive feasibility study while Diatreme has completed a scoping study. However, the key timing constraint to development of both Diatreme's and Metallica's projects is the approvals process, with the principal one being the EIS process. Both Metallica and Diatreme are at the beginning of the EIS terms of reference phase, within the project approvals process. The project timetable for both companies is to make a Final Investment Decision (FID) in approximately mid-2025. Diatreme notes Metallica previously experienced significant challenges with their initial project approval process, being unsuccessful in securing a site-specific Environmental Authority. The CFS was subsequently deemed by the Federal Government to be a controlled action requiring an EIS.

Metallica has completed TWO further studies beyond Diatreme's scoping study, providing a notably higher level of certainty with each successive study. The Pre-Feasibility (Class 4 AACEi) and Definitive Study (Class 3 AACEi) each took between 9 and 12 months to complete, putting Diatreme anywhere between 18 and 24 months behind Metallica on engineering and feasibility alone.

Other key reasons why your Directors consider it highly unlikely that Diatreme will progress to FID in mid-2025 are:

- Diatreme is unable to identify a single compelling export solution, opting instead to put forward multiple 'potential' solutions. Diatreme's export solutions continue to evolve - as recently as Diatreme's most recent quarterly activity report (lodged with ASX on 29 April 2024), Diatreme has identified yet another 'potential' solution (involving the construction of mooring dolphins). In short, Diatreme has no certainty that any of the 'export solutions' it is considering are viable.
- Diatreme's project area is significantly larger than Metallica's project, including High Environmentally Sensitive wetlands, and will require considerably more EIS investigative work, and correspondingly more resources, including funding. Based on historical timeframes for other Queensland projects Metallica expects Diatreme's Northern Silica Project EIS to take at least 2 years from commencement.
- Water licences require a minimum of 2 years of monitoring data. Diatreme installed water bores in late 2023 to early 2024. Accordingly, the critical historical data required to apply for the necessary water licences won't be sufficient until late 2025. The subsequent groundwater modelling, reporting and application process with Department of Regional Development, Manufacturing and Water (DRDMW) will take another 12 months.

Your Directors caution Metallica shareholders from placing reliance on Diatreme's forecast timelines. Metallica believes that the earliest that Diatreme will complete the EIS will be 2026, and therefore their first shipment in late 2026 is not achievable unless the Diatreme board and funders are willing to proceed past FID without many of the customary approvals and appropriate levels of engineering in place.

Statement: No tugs at Cape Flattery Port, which impacts Diatreme's proposed phase 2 extension

Tugs were introduced to Cape Flattery Port in 2023, which is recognised in the Target's Statement as a mitigation on simultaneous interaction between phase 2 construction and CFSM vessels.

Metallica notes that the statements regarding the availability of tugs at Cape Flattery Port were extracted from the PAEMAC Report, commissioned by the Independent Expert. The PAEMAC Report was prepared by PAEMAC (<http://paemac.com>), a highly and respected engineering firm specialising in marine engineering projects. While PAEMAC itself is best placed to respond to Diatreme's comments, Metallica makes the following observations:

- Metallica is aware that Mitsubishi owns and operates two tugs.
- Mitsubishi has no commercial obligation to allow those tugs to be used by other parties in the port.

<p>The IER’s reference in Table 43 (Port Infrastructure Interaction Issues) regarding tugs is therefore also inaccurate.</p>	<ul style="list-style-type: none"> • Diatreme’s Scoping Study does not appear to make any capital allowance for tugs, other than tugs required to operate the transshipping barges. • Therefore, Metallica considers that the risk identified in the PAEMAC Report i.e. that there are no tugs available for Diatreme to use at Cape Flattery, is an appropriate risk for PAEMAC to have identified.
<p><u>Clarification: CFSM cannot be compelled to co-operate on vessel scheduling</u></p> <p>Priority rights will form part of the essential terms of any partial facility user agreement, which is negotiated directly with Ports North. CFSM will be required to adhere to the Port of Cape Flattery port rules which include the movement of ships and which are set by Ports North acting as the port authority and the harbour master.</p>	<p>Mitsubishi will have priority rights for use of the port facilities should a part user facility agreement be entered into between Diatreme and Mitsubishi. The “Essential User Terms”, which must be contained in any part user facility agreement, include: “<i>an obligation on the part of the Facility User [Diatreme] to concede priority rights for use of the Facility (including the Sublessor’s Property) to the Sublessee [Mitsubishi]</i>”. Clearly, the movement of ships under the port rules are day-to-day operational matters which, for safety reasons (among others), Ports North acting as the port authority and harbour master will have the ability to control. However, as the sublessor under the relevant sublease, Ports North is still bound by the terms of the sublease which grants priority rights to Mitsubishi.</p> <p>As referenced in the Target’s Statement, Mitsubishi has no obligation to schedule vessels in such a way to avoid times where Diatreme also has a vessel arriving at the port.</p>
<p><u>Clarification and inaccurate statement: Use of cape size vessels by Metallica to transport silica and freight rate differentials</u></p> <p>Diatreme, based on its own interactions and understanding of the market, is not aware of any significant PV grade silica off-takers in major Chinese markets that currently accept cape size vessel shipments. Diatreme considers Metallica’s freight rate differential calculations are inaccurate as they fail to consider the significant demurrage costs associated with the indicated loading rate using cape size vessels. Current cape size vessels daily demurrage costs are estimated by Diatreme’s Directors at US\$28,000 per day, which would add considerable costs on a per tonne basis for delivery to Asian markets that is not currently included in Metallica’s calculations.</p>	<p>Metallica is aware of regular cape size shipments (~170,000 tonnes) of silica sand from Indonesia to China over the past 12 months. Silica sand “off-takers” in China for Cape Flattery product will be a mix of processors (for blending), traders and end-users. These parties will not be required to accept a full cape sized shipment of silica sand, but anything from a hold to multiple full holds of a cape size shipment – this practice is known as parceling in the shipping industry. Metallica has discussed parceling of cape size vessels with large off-takers and there is interest in receiving Australian silica sand in this way. As seaborne trade increases, cape sized shipments will become more common as will parceling. This is a common practice in other dry bulk commodities. Given its commentary, it is possible that Diatreme is not aware of such a practice.</p> <p>In terms of the suggestion that the freight rate differentials are inaccurate, section 3.2 of the Target’s Statement addressed freight differentials, whereas Diatreme challenges demurrage rates. In relation to demurrage rates, Metallica agrees that usually (not always) demurrage rates on a cape sized vessel will be higher than supramax rates. Diatreme quoted a current demurrage rate of US\$28,000/day for a cape size vessel. Metallica’s view is that demurrage rate for a supramax is approximately \$US18,000/day (using a loading rate of 10,000 tonnes per day). The US\$10,000/day higher demurrage rate on a cape size vessel equates to less than US\$0.06/tonne per day. Due to the much larger cargo on the cape size vessel, the higher demurrage rate is immaterial in comparison to the freight saving and revenue increase achieved on the cape sized vessel compared to a supramax. Metallica’s calculations in the Target’s Statement was relatively conservative by assuming only 50% of tonnage was shipped in cape size vessels, and that the full value of the upside was not captured.</p>

Inaccurate statement: PAEMAC estimate of Diatreme’s marine infrastructure capital cost

Diatreme considers the PAEMAC Report contains significant errors in calculating the capital cost of Diatreme’s proposed marine infrastructure, as follows:

PAEMAC has assumed there will only be a 4WD track to the barge ramp for construction activities. Diatreme’s scoping study includes construction of a road suitable for transporting marine infrastructure materials to the port. This incorrect assumption results in excessive and incorrect contractor preliminary costs as calculated by PAEMAC.

Metallica notes that the statements regarding the capital costs for Diatreme’s project were extracted from the PAEMAC Report, commissioned by the Independent Expert. The PAEMAC Report was prepared by PAEMAC (<http://paemac.com>), a highly and respected engineering firm specialising in marine engineering projects. While PAEMAC itself is best placed to respond to Diatreme’s comments, Metallica makes the following observations:

Your Directors believe it is unlikely a road, as contemplated in the Diatreme Scoping Study, will be constructed in reasonable time, perhaps if at all due to approvals and cost, and believe PAEMAC’s approach to be reasonable and cost effective based on the following:

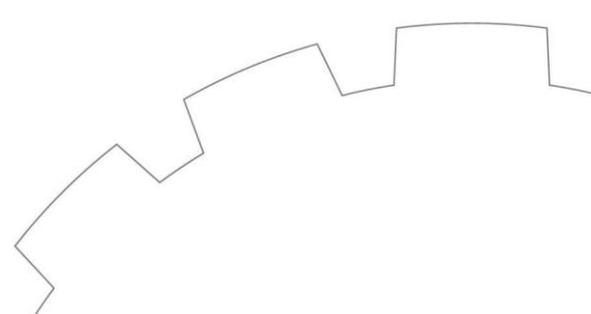
- Diatreme’s intended road is over 32kms long (from the nearest sealed road to the proposed port location) – see Figure 1 below. The entire road will need to be completed before it can be used to transport marine infrastructure materials to the port, therefore the construction of port infrastructure becomes dependent on the ontime completion of the road. In Metallica’s view this is a significant risk given the difficulties that will be encountered in the construction of this road. In addition to very difficult road building conditions, complexity is compounded by the annual flooding that occurs in this area due to the wet season.

Figure 1: Diatreme’s intended road location



- PAEMAC has adopted a logical and common practice in industry which is to de-couple the marine infrastructure build from the civil construction build to derisk its on-time completion. Large marine infrastructure items such as piles exceed road size limits and are better transported by sea from a risk and cost perspective. Transport by road as contemplated by Diatreme introduces significant risk and additional cost through double handling and traffic interactions.
- With respect to the road Diatreme plans to build, as a comparison, the Peninsula Development Road in Cape York has been surfaced at an average of 22km of existing gravel road per annum since 2014. This is on a well serviced and connected highway, that already has an existing gravel base. The proposed Diatreme route for the Northern Silica Project is through sensitive sandy marsh lands and swamps with 'high environmental value'. A road through these regions would be slower to construct whilst causing disruption to natural surface water flow and ecosystems. It is not unreasonable to estimate that this road will take over 2 years to build. Metallica notes Mitsubishi has been operating in the area for over 50 years and brings in all large items by sea similar to the methodology adopted by PAEMEC.

<p>PAEMAC has assumed contractors would have to construct their own camp at the port and that access to the site would only be by helicopter or landing craft. This is incorrect. Diatreme’s scoping study includes construction of a camp at the mine site which is 15 minutes by road from the port. The camp at the mine site will be used by contractors for construction of the road and port infrastructure. This incorrect assumption results in excessive and incorrect contractor preliminary costs as calculated by PAEMAC.</p>	<ul style="list-style-type: none"> • Whether or not the camp is built at the port or at the mine is immaterial since there still exists a need to accommodate marine construction workers. PAEMEC’s report merely allocates the cost to where it is incurred. • Having workers at the mine camp introduces dependency on the road being complete, which compounds the risk of project delay. Without a complete all weather access road, moving between the wharf area and the proposed camp, and getting access to the entire project area will be extremely difficult during the wet season, resulting in delays and potentially cost blow-outs. • Fly-in fly-out is an accepted practice for a construction project such as Diatreme’s, and is the approach adopted by Mitsubishi for its existing operation next door which has been operating in the area for over 50 years.
<p>PAEMAC has assumed Diatreme’s scoping study capital cost estimate for “offsite infrastructure” is the total capital cost estimate for comparison with the PAEMAC Phase 1 “Ramp + Transshipment” cost estimate. This is incorrect. The A\$78.3 million noted in Table 1.5 of Diatreme’s scoping study is direct costs only and excludes indirect cost, owners’ costs and contingency.</p>	<ul style="list-style-type: none"> • Whether the indirect and contingency costs are accounted for in the off-site infrastructure or not, there will still be a requirement by Diatreme to cover these costs. That said, even after deducting the Engineering and Contingency costs from the PAEMAC Report, the PAEMAC calculations for capital costs are \$119.5m for Phase 1 and \$175.8m for Phase 2. Together, these costs are still 67.8% higher than the Off-Site Infrastructure Costs assumed in the Diatreme Scoping Study. • Furthermore, it is likely that “Off-site infrastructure” expenses includes other components outside of marine infrastructure e.g. roads, off site facilities etc. Despite this lack of transparency, it is clear by the title that the allocation of funds for marine infrastructure is less than the total figure arrived at for this category. This makes the estimated allocation for marine infrastructure even less adequate.
<p><u>Clarification: Diatreme's Non-Executive Director Michael Chapman is a nominee of Ilwella</u></p> <p>Mr Chapman is not, and was not appointed as, a 'nominee' of Ilwella. Mr Chapman is an independent Non-Executive Director of Diatreme.</p>	<p>In Diatreme’s notice of extraordinary general meeting dated 26 July 2022, paragraph 2.3(b) said:</p> <p><i>"At the date of this Notice, Ilwella Pty Ltd had a shareholding in the Company of 17.05%. Listing Rule 10.11.3 applies to Ilwella Pty Ltd, as it is a person who is a substantial (10%+) holder in the Company and who has nominated a director to the board of the Company (Mr Michael Chapman) pursuant to a relevant agreement between Ilwella Pty Ltd and the Company which gives Ilwella Pty Ltd the right or expectation to do so."</i></p> <p>The disclosure was made in relation to a placement by Diatreme to Ilwella Pty Ltd (following on from the placement to Sibelco Asia Pacific Pty Ltd). Mr Chapman abstained from making a recommendation in respect of the resolution to approve the placement.</p>



What is more telling for Metallica's shareholders are the omissions from Diatreme's table of 'inaccuracies and clarification (sic)'. These omissions suggest that Diatreme accepts the significant project risks for the Northern Silica Project as outlined below (and set out in section 3 of Metallica's Target's Statement), including:

- Diatreme's Northern Silica Project faces significant challenges securing an export solution using existing infrastructure. Diatreme's public disclosure does not articulate the complexity and likely extended timeline of attempting to obtain access to existing infrastructure.

Even more concerning is that Diatreme does not seem to understand the legal requirements that underpin some of the export solutions it is pursuing. The Diatreme Bidder's Statement explicitly states that the partial user agreement "...does not require negotiation with [Mitsubishi]". The Diatreme March 2024 Quarterly Report now states that for Diatreme to secure "Full use of existing infrastructure" that "This option would be subject to a user agreement (including all commercial terms) being agreed with [Mitsubishi] and Ports North."

- Diatreme's Northern Silica Project faces a number of environmental considerations that have potential to impact the value and delivery of the Northern Silica Project.

Refer to section 3.6 of the Target's Statement.

- The Bidder's Statement makes various statements regarding the potential for synergies through the combination of Metallica and Diatreme, from an operational perspective, without providing any detail on those synergies.

Further, the Bidder's Statement lacks any cogent detail on Diatreme's intentions for the CFS Project. In essence, the disclosure says little more than that Diatreme will undertake a detailed review of Metallica before making any decisions. It is implausible that Diatreme has made a takeover bid for Metallica without a view on its intentions for the CFS Project, even if the view was subject to a further review. However, Diatreme's disclosure suggest that it has no intentions in respect of the CFS Project, and won't have any such intentions until it has conducted an operations review.

Diatreme's inability to articulate any operational synergies (at a project level) and the absence of any intentions with respect to Metallica might support a view that the acquisition of Metallica by Diatreme is a defensive move by Diatreme – in particular, Metallica exporting before Diatreme would represent a material risk to the viability of Diatreme's project.

Metallica is NOT running out of cash – with the Diatreme bid on foot, there are legal impediments to Metallica raising capital (on the basis that doing so would constitute a frustrating action).

In the course of discussions with parties prior to and following Diatreme's intention to make a bid, Metallica has identified prospective investors (who expressed interest in providing funding). If the Diatreme bid lapses, is withdrawn or continues to languish for an extended period, your Directors would resume discussions with those parties (and seek new targets) to ensure Metallica is appropriately funded.

Diatreme's Offer does NOT represent an attractive premium on your Metallica Shares – with Diatreme shares closing at 1.80 – 1.90 cents recently, the Offer implies a value of 2.40 – 2.53 cents per Metallica Share. Metallica's closing price in recent days has been 2.30 – 2.40 cents. Metallica's VWAP for the last 30 days is 2.30 cents and for the last 7 days is 2.30 cents. Any suggestion that this is an attractive premium is completely baseless.

Don't give up your ability to accept a superior proposal – Diatreme's disclosure suggests that, because no superior proposal has been made, there is no superior proposal coming. Metallica confirms that it is in discussions with other parties regarding potential alternative transactions. It is too early to provide any details on those discussions. If you accept the Diatreme Offer, you will likely be unable to participate in any superior proposal (should one emerge). Your Directors urge you to 'wait and see'. Your Directors expect that Diatreme will make an announcement to extend the bid by at least one month on or before 17 May 2024.

Metallica intends to provide this announcement as an annexure to a supplementary target's statement that will also address any amendments proposed by the independent expert.

This announcement has been approved by the Board. For further information, please contact:

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Forward-looking statements

Forward-looking statements are based on assumptions regarding Metallica, business strategies, plans and objectives of the Company for future operations and development and the environment in which Metallica may operate.

Forward-looking statements are based on current views, expectations and beliefs as at the date they are expressed and which are subject to various risks and uncertainties. Actual results, performance or achievements of Metallica could be materially different from those expressed in, or implied by, these forward-looking statements. The forward-looking statements contained in this presentation are not guarantees or assurances of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Metallica, which may cause the actual results, performance or achievements of Metallica to differ materially from those expressed or implied by the forward-looking statements. For example, the factors that are likely to affect the results of Metallica include general economic conditions in Australia and globally; ability for Metallica to fund its activities; exchange rates; production levels or rates; demand for Metallica's products, competition in the markets in which Metallica does and will operate; and the inherent regulatory risks in the businesses of Metallica. Given these uncertainties, readers are cautioned to not place undue reliance on such forward-looking statements.