ASX ANNOUNCEMENT

20 May 2024

Metallica's IER Issues Remain Outstanding

- **Metallica is yet to provide a public response to its materially deficient, inaccurate and non-compliant IER**
- **Metallica shareholders (and the broader market) remain uninformed as to any revised or restated IER and Target's Statement**

Diatreme Resources Limited (ASX: DRX) (**Diatreme** or the **Company**) refers to its off-market takeover offer (**Offer**) for all of the ordinary shares in Metallica Minerals Limited (ASX: MLM) (**Metallica**).

Diatreme wishes to reaffirm its on-going concerns regarding the Independent Expert Report by Advisory Partner Connect Pty Ltd dated 24 April 2024 (**IER**) and relied upon by Metallica in its Target's Statement. Diatreme updates Metallica shareholders (and the market) as follows:

- Diatreme notified Metallica on 2 May 2024 of the various issues identified with the IER in a review report prepared by Grant Thornton Corporate Finance Pty Ltd (**Review Report**). These issues include flaws in the valuation of Metallica contained in the IER. On 8 May 2024, Diatreme made an ASX announcement attaching the Review Report (**8 May Announcement**). A summary of the key findings of the Review Report is set out on pages 2 and 3 of this announcement.

- These issues, which seriously undermine the credibility and usefulness of the IER, have yet to be addressed in a public announcement by Metallica, despite the passage of **18 days since Metallica was first notified**. This delay is concerning given the importance of the issues raised and need for reliable information in the context of a takeover.

- As noted in Diatreme's 8 May Announcement, Diatreme considers the Target's Statement (as a whole) and the underlying IER does not fairly assess the merits of the Offer or justify why the Metallica Directors recommend Metallica Shareholders reject the Offer. The flawed and hence overstated valuation in the IER was central to the Metallica Directors' recommendation and the entire Target's Statement.

- Diatreme is concerned that Metallica Shareholders and the broader market are not fully informed, as they have not been provided with a fulsome response by Metallica Directors or the independent expert. This is especially concerning in light of the fact the Offer was originally due to close on 27 May 2024. To discharge their duties to ensure a fully informed market, Diatreme calls on the Metallica Directors to provide any revised or restated IER and Target's Statement as soon as possible and by no later than Tuesday, 21 May 2024.

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Summary of key findings of the Review Report

The summary of the key findings of the Review Report is copied below. Please refer to the Appendix to Diatreme's 8 May Announcement for full details and a copy of the Review Report.

Issue	Comment	Section Ref.
Premium for control	The valuation assessment of MLM undertaken by AP is at a premium between c. 800% and c. 1,000% to the trading prices of MLM before the Offer. We have benchmarked similar transactions to the Offer in the mining sector[1] in the last ten years and the highest premium for control paid in this period was c. 216% (one transaction) with most of the control premiums for early-stage exploration and development companies ranging between 0% and 100%. Whilst every transaction and every company have their peculiarities, the premium for control embedded in the valuation assessment undertaken by AP appears unrealistic and not commercially sound.	1
Valuation of MLM	The value of the CFSS project is estimated by AP between A$153.98 million and A$194.76 million based on the discounted cash flows ("DCF") approach. The DCF approach, by default and definition, provides a control value of the project. However, AP further applies a control premium of 30% to the value of the CFSS project estimated under the DCF approach to calculate the equity value of MLM on a control basis. AP has double counted the application of the premium for control.	2
Cross check valuation assessment	In its cross-check valuation AP has relied on the capital raising undertaken by MLM in November 2022 and valued MLM on a control basis at A$43.7 million, compared with the control value under the DCF approach of between A$213.7 million and A$266.7 million. AP provides limited context or explanation on how the cross check supports the primary approach. AP generically refers to the capital raising which was undertaken before the release of Metallica's Definitive Feasibility Study ("DFS") which therefore may not represent the fair value of those resources. AP seems to refer to a potential re-rating of the CFSS project upon the release of the DFS, which was expected to align the value under the cross check to the primary approach. However, this statement and these expectations are unsubstantiated as the trading prices of MLM did not re-rate after the release of the DFS as the market capitalisation of MLM remained substantially unchanged. In our opinion, this is due to the uncertainty in relation to the ability of MLM to fund the development of the CFSS project and the related dilution for existing shareholders. The cross check undertaken by AP does not support the primary valuation approach.	3

[1] We reviewed transactions completed in the mining sector in the last ten years with a transaction value between $20 million and $120 million for which an IER was commissioned. We identified a total of c. 33 transactions.

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Valuation of CFSS	The valuation assessment of the CFSS project undertaken by AP is on an unfunded/pre-dilution basis. As at 31 December 2023, MLM had a net cash balance of approximately A$4.8 million and a market capitalisation of c. A$25 million before the Offer and it is required to fund upfront capital expenditure of A$236.7 million (excluding transaction costs) – c. 10x its market capitalisation. The valuation assessment of the CFSS project on an unfunded basis is not consistent with the requirements of RG111 (note to paragraph 15). ASIC specifically requires at paragraph 44 of [Northern Energy ATP2] that *"the valuation should incorporate all relevant discounting factors (including any appropriate dilutionary impact) which reasonably reflect the capital requirements for the project to be developed"*. Regardless of the form in which the equity component of the fundraising for the development of the CFSS project may take place (placement, rights issues, sale of an interest in the project or a combination of all of the above), given the amount of capital to be raised, the funding of the CFSS project will cause, in our opinion, significant dilution for the existing MLM Shareholders. We note that historical capital raising undertaken by MLM included, most of the time, a discount to the prevailing trading prices between c. 8% and c. 35%. For the equity raising of A$140 million[2] not to be dilutive for the existing MLM Shareholders, MLM needs to raise capital at a price in line with the valuation of the CFSS project (between A$213.7 million and A$266.7 million) or the MLM Shares (between 22.3 cents and 27.8 cents) estimated by AP. In our opinion this is not realistic nor commercially viable.	4.1
Lack of disclosure of key assumptions	AP fails to include in the AP IER all the information that may be required for users of the report to assess the reasonableness of the methodology and the assumptions used and the reasons for using those assumptions in accordance with paragraphs 108 and 117 of RG111.	4.2
SRK Review	As set out in Appendix A of the AP IER, AP engaged SRK to undertake certain reviews of the assumptions included in the DFS. However, AP specifically discloses in Appendix A that *"SRK was not engaged to provide a report in accordance with the VALMIN Code"*. Also, AP does not disclose in the AP IER, the report, if any, prepared by SRK with the findings of its review and the reasonings for those findings. In our opinion this is not in accordance with ASIC RG 111 paragraphs 131 and 132 which specifically refer to the need to commission a VALMIN Code report for the valuation of mineral assets. We have also benchmarked 25 similar comparable transactions which occurred in the mining sector in the last ten years where an IER was commissioned[3]. All the selected transactions, but one, included a VALMIN Code report from a technical specialist.	4.3

[2] Assuming a total funding requirement of c. A$240 million with A$100 million funded by way of debt as assumed by AP.

Figure 1: GT's Review Report summary of key findings.

This market announcement was authorised for release by:

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About Diatreme Resources Limited

Diatreme Resources Limited (ASX:DRX) is an emerging Australian producer of mineral and silica sands based in Brisbane. Our key projects comprise the Northern Silica Project and Galalar Silica Sand Project in Far North Queensland, located next to the world's biggest silica sand mine at Cape Flattery.

In Western Australia's Eucla Basin, Diatreme's 'shovel-ready' Cyclone Zircon Project is considered one of a handful of major zircon-rich discoveries of the past decade. Diatreme also holds a 49% interest in the Clermont Copper-Gold Project located in central Queensland. Diatreme has a farm-in agreement with Metallica Minerals Limited (MLM) which already owns a 51% interest and has provided its intention to earn up to a 75% interest by meeting certain further expenditure obligations of an additional $1 million.

Diatreme has an experienced Board and management, with expertise across all stages of project exploration, mine development and project financing together with strong community engagement skills.

Global material solutions group Sibelco Asia Pacific is Diatreme's development partner on its Queensland silica projects portfolio. Sibelco Asia Pacific has completed a two tranche investment of $35 million taking its total project interest to 26.8%, with the balance (73.2%) held by Diatreme. In addition, Sibelco Asia Pacific made a $13.97 million investment at the corporate level.

For more information, please visit www.diatreme.com.au

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