

Metallica Minerals Limited

ACN 076 696 092

Annual Financial Report - 30 June 2018

Metallica Minerals Limited
Corporate directory
30 June 2018

| | |
|---|--|
| Directors | P Turnbull - Non-executive Chairman S Slesarewich - Managing Director S Boulton - Non-executive Director I Jacobson - Non-executive Director |
| Company secretary | J K Haley |
| Annual General Meeting | The details of the annual general meeting of Metallica Minerals Limited are: HopgoodGanim Level 7, Waterfront Place, 1 Eagle Street Brisbane QLD 4001 [time] am on [day], 19 November 2018 |
| Registered office and principal place of business | 71 Lytton Road East Brisbane QLD 4169 Phone: (07) 3249 3000 |
| Share register | Link Market Services Limited Level 21, 10 Eagle Street Brisbane QLD 4001 Phone: 1300 554 474 |
| Auditor | BDO Audit Pty Ltd Level 10, 12 Creek Street Brisbane QLD 4000 |
| Solicitors | HopgoodGanim Level 8, Waterfront Place, 1 Eagle Street Brisbane QLD 4001 |
| Stock exchange listing | Metallica Minerals Limited shares and options are listed on the Australian Securities Exchange (ASX codes: MLM and MLMOA respectively) |
| Website | www.metallicaminerals.com.au |
| Corporate Governance Statement | www.metallicaminerals.com.au/corporate-governance |

Metallica Minerals Limited
Directors' report
30 June 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Metallica Minerals Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of Metallica Minerals Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter Turnbull
Simon Slesarewich (appointed 17 April 2018)
Steven Boulton
Ian Jacobson (appointed 1 July 2018)
Wang Ruobing (resigned 1 May 2018)
Shu Zhang (alternate to Wang Ruobing) (resigned 1 May 2018)

Principal activities

During the financial year, the principal activities of the consolidated entity consisted of mineral exploration, evaluation and progressing development of its Urquhart Bauxite Project (UBx) and due diligence on the Wagina Bauxite Project in the Solomon Islands. There were no significant changes in the principal activities of the consolidated entity, except that the company commenced due diligence on the Wagina Bauxite Project in the Solomon Islands and in exchange for providing a short-term loan of \$186,017 to South West Pacific Bauxite (HK) Ltd (75% owner of the Wagina Project) .

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$3,195,557 (30 June 2017: loss of \$2,559,121).

The 30 June 2018 consolidated profit includes a gain of \$6,000,000 arising on the disposal of the SCONI Project. The impairment of exploration and evaluation expenditure, and financial assets amounted to \$289,140 compared to \$950,481 for the financial year ended 30 June 2017.

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During the year ended 30 June 2018 the consolidated entity:

- Continued to advance its Urquhart Bauxite project (UBx) and appointed Bigbites Ltd, a specialist bauxite marketing company based in Hong Kong, as its Marketing Agent for sales of bauxite from the company's Urquhart Bauxite project in far north Queensland.
- Entered into a conditional agreement in September 2017 to dispose of its interest in the SCONI Project for \$10,000,000 in cash and shares to Australian Mines Limited (ASX code: AUZ). In December 2017 an additional payment of \$1,000,000 became payable for varying the agreement, bringing the total sale and purchase price to \$11,000,000. The company has received the first tranche of funds of \$3,500,000 and the additional payment of \$1,000,000 from Australian Mines Limited. The company was also granted \$1,500,000 in AUZ shares (16,811,916 shares) in July 2018 (the Consideration Shares). Following the commencement of commercial production from SCONI, a further \$5,000,000 in cash or issuance of AUZ shares will become due (the Production Payment).

The SCONI Project had a nil carrying value at the date of disposal, and as a result the company has recognised a net gain on disposal of \$6,000,000 representing the first tranche of funds, the additional payment and the Consideration Shares.

- Raised \$853,103 (before expenses) from the conversion of all of the outstanding 20,215,706 listed options (ASX code: MLMO). Including previous conversions a total of \$1,270,000 was raised from these options.
- Was granted a Mining Lease for the Urquhart Bauxite project by the Queensland Department of Natural Resources (the Department). The Department has imposed conditions on the development of the Urquhart Bauxite project that are in line with the company's plans and expectations. Included among the conditions is the requirement that operations are only conducted during the dry season (April through December inclusive). The consolidated entity is now focused on obtaining approval for the proposed haul road from the Mining Lease to the Hey Point transhipping facility.
- Entered into a secured loan agreement with South West Pacific Bauxite (HK) Ltd, 75% owner of the advanced Wagina bauxite project (Wagina or the Project) in the Solomon Islands. In exchange for the providing the loan, Metallica has been granted an option to carry out exclusive due diligence on Wagina with a view to ultimately completing a transaction involving the Project. Under the agreement the exclusivity extends for the period the loan is outstanding. The amount advanced is \$186,017 for a period of 12 months and at an interest rate of 15% per annum. The loan has been impaired at 30 June 2018.

Capital expenditure

During the 2018 financial year, \$604,975 was incurred on capitalised exploration and development expenditure (2017: \$811,653). The majority of the expenditure incurred was on the UBx exploration and development assets.

Cash flow and Liquidity

During the 2018 financial year, the net cash outflows from operating activities increased to \$2,202,732 (2017: \$1,953,482) and the increase is largely attributable to an increase in project expenses, advertising, marketing and promotional costs.

For the financial year ended 30 June 2018 net cash inflows from investing activities amounted to \$3,807,258 (2017: \$715,054). The increase in net cash inflows was largely attributable to the receipt of \$4,500,000 from the sale of the SCONI Project. In the 2017 financial year the consolidated entity received cash inflows totalling \$1,482,359 which did not occur in the 2018 financial year, consisting of a Research and Development tax offset, proceeds from entering into the SCONI farm-in agreement, and proceeds from maturity of investments. Cash outflows for plant and equipment, mining development assets and, exploration and evaluation amounted to \$604,975 (2017: \$811,653).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Merger

On 13 September 2018, the company announced that it had entered into a binding Arrangement Agreement (AA) to merge with Melior Resources Inc (TSX-V:MLR) (Melior) via a Plan of Arrangement to be approved by the court in British Columbia, Canada (Merger). The Merger is to be implemented by way of a Canadian Plan of Arrangement, whereby Metallica has agreed to acquire all of the issued capital of Melior by the issue of 20 new Metallica shares for every 1 Melior share held. Melior shareholders and Metallica shareholders will hold approximately 64% and 36% respectively of the merged entity. The AA contains a number of conditions precedent including: receipt of all regulatory, court and all other required approvals; and Metallica and Melior shareholder approval. The Merger is anticipated to be effective by December 2018, pending approvals.

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Updated pre-feasibility study

On 12 September 2018 the company announced the results of the updated Pre-Feasibility Study (Updated PFS) for the Company's 50%-owned Urquhart Bauxite project (Urquhart), five kilometres southwest of Weipa on Queensland's Cape York. The Updated PFS Base Case points to a potential revenue stream nearing A\$390 million across 5.5 years of production, delivering a total operating margin (allowing for all costs including royalties) of approximately A\$10.50 per tonne with payback of just 1.3 years from October 2018. The Updated PFS was independently prepared by Brisbane-based international consultancy, IMC Mining Pty Ltd (IMC), which also completed the JORC (2012) resources estimate for Urquhart.

Shares allotted in Australian Mines Limited

On 6 July 2018, the company was allotted 16,811,916 shares in Australian Mines Limited (ASX: AUZ) under the SCONI Sale and Purchase Agreement (refer note 5). The value of the AUZ shares allotted was \$1,500,000 based on the 30 day volume weighted average price for AUZ.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Since the end of the 30 June 2018 financial year, the consolidated entity has retained all its Mining Leases (granted and applied). The consolidated entity will continue to rigorously review and control costs, actively progress the Urquhart Bauxite Project, continue with the due diligence review of the Wagina Bauxite Project, and continue to maximise the value of non-core assets.

The consolidated entity's goal is to become a profitable supplier of bauxite commencing in the 2018/2019 financial year, subject to receipt of all approvals and execution of all agreements required to commence operations, and to evaluate options to maximise the value of the HMS processing plant and the company's other non-core projects including the Esmeralda graphite, the Fairview limestone and the Cape Flattery silica sand projects.

Environmental regulation

The consolidated entity is subject to environmental regulations under laws of Queensland where it holds mineral exploration and mining tenements. During the financial year the consolidated entity's activities recorded no non-compliance issues.

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Information on directors

Name: Peter Turnbull
Title: Non-executive Chairman
Qualifications: B.Commerce, LLB, FGIA (Life), FAICD
Experience and expertise: Peter has significant experience as an independent non-executive director and chair across a range of sectors including over a decade in the resources, energy and technology commercialisation sectors.

Peter has over 30 years of prior senior executive experience gained in publicly listed, private and government owned organisations operating in Australia, South East Asia, Europe and the Americas. This experience includes senior executive positions with ASX Top 50 companies such as Newcrest Mining Limited, BTR Nylex Limited and Energex Limited, a major government owned energy company. Peter also has significant regulatory, government and public policy experience including as a former director of corporate finance for the Securities and Futures Commission of Hong Kong.

Peter is a non-executive director, Life Member and former President, of the Governance Institute of Australia and is an active contributor, writer and speaker on governance related issues within Australian and international governance circles. Peter's practical governance experience includes the design and management of corporate governance, risk management and remuneration regimes.

Other current directorships: Non-Executive Director of Karoon Gas Australia Limited since 6 June 2014.
Former directorships (last 3 years): None
Special responsibilities: Chairman
Interests in shares: 390,000
Interests in options: None
Interests in rights: None

Name: Simon Slesarewich (appointed 17 April 2018)
Title: Managing Director
Qualifications: B.Eng (Mining), Diplomas in Administration, and Applied Finance and Investment
Experience and expertise: Simon is a Mining Engineer and registered Senior Site Executive in Queensland, has more than 18 years' experience across a range of jurisdictions, including a strong background in operational and executive roles within both mining and contracting entities. Simon is currently also a Director of Larkham Resources. He is a Director of the Queensland Resources Council (QRC) and a member of Queensland Exploration Council (QEC). He is the former CEO of Northern Discovery and Boardwalk Resources.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Managing Director
Interests in shares: 1,833,334
Interests in options: 166,667
Interests in rights: 6,000,000

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Name: Steven Boulton
Title: Non-executive Director
Qualifications: MTM, BBus, Grad Dip App Corp Gov, FAICD, FGIA, FIML, CAHRI
Experience and expertise: Mr Boulton's 40-year career has covered complex fund/asset investment management organisations and utility/ infrastructure enterprises, including Director level experience in the mining/minerals sector. Mr Boulton's CEO experience includes entities listed on the ASX and NZX, and private and government-owned corporations. This has included CEO positions with Hastings Funds Management, CP2 Funds Management, Prime/BBI, Powerco in New Zealand and Allgas. Executive Chairman experience includes the Dalrymple Bay Coal Terminal, PD Ports in the UK and WestNet Rail. Executive and/or non-executive Director experience includes Infrastructure Partnerships Australia, Port of Brisbane. Australian Infrastructure Fund, Australian Pacific Airports Corporation and various infrastructure sector national associations.

Mr Boulton is currently a Director of Nova Group, a global defence and engineering services firm which has offices throughout Australia and overseas.

Other current directorships: None
Former directorships (last 3 years): Non-executive Director of Atrium Coal NL from 22 August 2014 to 24 November 2016
Special responsibilities: None
Interests in shares: 1,350,000
Interests in options: 500,000
Interests in rights: None

Name: Ian Jacobson (appointed 1 July 2018)
Title: Non-executive Director
Qualifications: B.Eng. (Mechanical)
Experience and expertise: Mr Jacobson has more than 40 years' experience in the aluminium industry and has held senior executive roles in operations and project development with Rio Tinto/Comalco, Alcoa of Australia and BHP Billiton Aluminium. Mr Jacobson is also a co-founder and the current Executive Chairman of SCCR Group, which provides a range of consulting services to the primary aluminium industry including; project development, plant management, technical and operational support and governance in bauxite mining, alumina refining and aluminium smelting.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: None
Interests in options: None
Interests in rights: None

Name: Wang Ruobing (resigned 1 May 2018)
Title: Non-executive Director
Qualifications: CIA
Experience and expertise: Mr Wang Ruobing is the Chairman of Jilin Jien Nickel Industry Co Ltd. The Jilin Jien Nickel Industry Co Ltd through its Australian subsidiary, is the largest shareholder in Metallica Minerals Limited and China's second largest nickel producer. Mr Wang Ruobing has worked for the Jilin Jien group since 1996, and in January 2017 was appointed Chairman of the group. Mr Wang Ruobing is a certified internal auditor.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: None
Interests in options: None
Interests in rights: None

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Name: Shu Zhang (resigned 1 May 2018)
Title: Alternate director for Wang Ruobing
Qualifications: BE in Mining Engineering, PhD and ME Candidate in Civil and Mining Engineering
Experience and expertise: Dr Shu Zhang has over 40 years' experience in mining, first as a Miner, then a Mining Engineer, and later an Executive Manager in operations and project development in companies in Australia, China, and Canada. Dr Zhang was one of the key members who played a critical role in the successful development of Sino Gold Mining Limited. Dr Zhang has worked for the Jilin Nickel Group since 2011, and has been a director of Jilin's Canadian subsidiaries, being the unlisted Canadian Royalties Inc., and the TSX listed Northern Sun Mining Corporation (until April 2016).

Other current directorships: None
Former directorships (last 3 years): Director of Northern Sun Mining Corporation, listed on the TSX/TSXV, Canada (June 2011 – April 2016)

Special responsibilities: Alternate director for Wang Ruobing
Interests in shares: None
Interests in options: None
Interests in rights: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated. 'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

* Interests in the shares, options and rights of the company as at the date of resignation as a director.

Company secretary

The Company Secretary in office for the whole of the financial year was John Haley. John is a Chartered Accountant with over 35 years' experience in accounting and finance. John has served in Chief Financial Officer and Company Secretary roles for a number of listed and non-listed entities.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2018, and the number of meetings attended by each director were:

| | Full Board | |
|---|------------|------|
| | Attended | Held |
| P Turnbull | 14 | 14 |
| S Slesarewich (appointed 17 April 2018) | 2 | 2 |
| S Boulton | 13 | 13 |
| Shu Zhang (alternate W Ruobing) (resigned 1 May 2018) | 6 | 9 |

Held: represents the number of meetings held during the time the director held office.

With effect from 30 June 2015, the Board decided that it was no longer appropriate to have separate committees for Audit & Risk and Remuneration. The Board as part of its role has undertaken the responsibilities of these Board committees and carries out the functions set out in their respective charters to ensure that their objectives are met.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's and company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency

The remuneration structure for key management personnel, excluding non-executive directors, is set by the Board and is based on a number of factors including, market remuneration for comparable companies, particular experience of the individual concerned and overall performance of the consolidated entity. The contracts for service between the consolidated entity and key management personnel are on a continuing basis the terms of which are not expected to materially change in the immediate future. The consolidated entity retains the right to terminate contracts immediately by making payment of an amount based on the employee's years of service. Upon retirement or termination key management personnel, excluding non-executives, are paid employee benefits accrued to date of retirement or termination. No other termination benefits are payable under service contracts except that the Managing Director and the Chief Financial Officer are entitled 12 and 6 months annual base salary respectively if a change in control occurs, and to 6 months' annual base salary if their employment is terminated, provided the amount payable does not exceed any amount allowable under the Corporations Act 2001 or the ASX Listing Rules. Any options or share rights issued which are not exercised on or before the date of termination lapse 3 months after termination. Unless otherwise stated, service agreements do not provide for pre-determined compensation values or the manner of payment. Compensation is determined in accordance with the general remuneration policy. The manner of payment is determined on a case by case basis and is generally a mix of cash and non-cash benefits as considered appropriate by the Board.

The remuneration framework is aligned to shareholders' interests through:

- a focus on sustained growth in share price and key non-financial drivers of value
- attracting and retaining high calibre executives

The remuneration framework is aligned to employees' interests through:

- rewarding capability and experience
- reflecting competitive rates of remuneration in respect of skills and responsibility
- providing a clear structure for earning rewards
- providing recognition for achievements

In accordance with best practice corporate governance, the structure of non-executive directors and executive remuneration is separate.

Non-executive director remuneration

Remuneration of the non-executive directors is approved by the Board and set in aggregate within the maximum amount approved by the shareholders from time to time. The fees have been determined by the Board having regard to industry practice and the need to obtain appropriately qualified independent persons.

The aggregate pool of remuneration paid to non-executive directors was approved by shareholders on 24 November 2010 and is currently \$300,000 per annum for Metallica Minerals Limited as parent entity. The amount paid to non-executive directors of the parent entity (Metallica Minerals Limited) during the year to 30 June 2018 was \$146,241 (2017: \$168,987).

Executive remuneration

The consolidated entity and company aims to reward executives with a level and mix of remuneration, both fixed and variable, based on their position and level of achievement.

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The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

(i) Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and adds additional value to the executive.

(ii) Short-term incentives

Managing Director

The Managing Director is the only executive director. He is eligible for short-term incentive (STI) cash bonus payments based on the achievement of the KPIs as specified in his executive service agreement. The KPIs for bonus purposes are determined for each financial year of the term of his service agreement. The aim of the STI is to link the achievement of the company's annual and/or immediate financial and broader operational targets with the remuneration received by the Managing Director. The total potential STI is set at a level so as to provide sufficient incentive to achieve the operational targets and at a cost to the company that is reasonable in the circumstances. Actual STI payments awarded to the Managing Director depend on the extent to which specific targets prescribed in the performance agreement for a financial year are met and are limited to a maximum of 50% of his annual base salary. A cash bonus of \$74,750 (28.75% of base salary) was paid in the year ended 30 June 2018 in relation to the achievement of the performance targets for the financial year ended 30 June 2017, and \$56,000 (22% of base salary) was accrued at 30 June 2018 in relation to the achievement of KPIs for the financial year ended 30 June 2018. This accrued amount has not been paid at the date of this report and is subject to Board approval.

The targets for the financial year ended 30 June 2018 consisted of the following key performance indicators covering financial and non-financial measures of performance:

| Criterion | Weighting in maximum payment | KPIs (to be discharged on or before 30 June 2018) |
|-----------------|------------------------------|---|
| Safety | 20% | 50% - Zero lost time injuries. |
| Business growth | 30% | 50% - Implementation of an integrated safety and health management system. Identify and negotiate an acquisition that meets the company business strategy, but not necessarily close the transaction or; Dispose of an asset within the company portfolio that delivers on strategy and value to the company. |
| Budget | 50% | Meet budget cash and cost position. |

Senior Executives

STIs paid to senior executives are made on a discretionary basis as determined by the Managing Director. These incentives, while not guaranteed, are directly linked to the achievement of KPIs on similar principles to those for the Managing Director as well as various performance targets for each area of operational responsibility, including the preparation and delivery of reports on time and meeting industry targets and standards in relation to workplace health and safety. No bonus is awarded where performance falls below the minimum acceptable KPI levels as determined by the Board or the Managing Director.

(iii) Long-term incentives

Long-term performance incentives (LTI) are delivered through the grant of options and share rights to executive directors and selected senior executives from time to time as part of their remuneration. Share rights have a nil exercise price and the performance hurdles applicable to any performance period (including how they will be measured) is set out in the invitation to the eligible executives.

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At the Annual General Meeting held on 29 November 2016, the company's shareholders approved the issue of share rights to key employees under the company's incentive plan approved the Board of Directors on 24 October 2016. The purpose of the incentive plan is to:

- (a) assist in the reward, retention and motivation of participants;
- (b) align the interests of participants with the interests of the company's shareholders;
- (c) promote the long-term success of the company and provide greater incentive for participants to focus on the company's longer term goals;
- (d) link the reward of participants to the performance of the company and the creation of shareholder value; and
- (e) provide participants with the opportunity to share in any future growth in value of the company.

On 2 July 2017 the company granted 6,000,000 share rights to Simon Slesarewich (Managing Director). **No shares have been issued at the date of this report.** The value of these rights at grant date was \$341,941.

- 2,000,000 rights vest upon commencement of production from the company's Urquhart Bauxite Project
- 1,000,000 rights vest on 2 July 2018 being the third anniversary of Simon's commencement date
- 1,000,000 rights vest on 2 July 2019 being the fourth anniversary of Simon's commencement date
- 2,000,000 vest upon acquisition of a controlling interest in the Wagina Bauxite Project in Solomon Islands

On 9 November 2017 the company granted 1,000,000 share rights to John Haley (CFO). These rights will vest on the commencement of commercial production from the company's Urquhart Bauxite Project. The fair value of the rights was \$50,991.

Consolidated entity performance and link to remuneration

Because the consolidated entity is in exploration and development, not production, there is no direct relationship between the consolidated entity's financial performance and the level of remuneration paid to key management personnel.

At 30 June 2018 the market price of the company's ordinary shares was 4 cents per share (30 June 2017: 5 cents per share). No dividends were paid during the year ended 30 June 2018.

Share prices are subject to the influence of international metal prices and market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration. The company may issue options or performance rights to provide an incentive for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the company's shareholders.

Unless otherwise stated, service agreements do not provide for pre-determined compensation values or the manner of payment. Compensation is determined in accordance with the general remuneration policy. The manner of payment is determined on a case by case basis and is generally a mix of cash and non-cash benefits as determined by the Board of Directors. Except in so far as Directors and other key management personnel hold options or share rights over shares in the company, there is no relationship between remuneration policy and the company's performance.

Use of remuneration consultants

The company did not engage remuneration consultants during the financial year ended 30 June 2018.

Voting and comments made at the company's 20 November 2017 Annual General Meeting ('AGM')

The company received 90% of 'for' votes in relation to its remuneration report for the year ended 30 June 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

The key management personnel of the consolidated entity consisted of the following directors of Metallica Minerals Limited:

- P Turnbull
- S Boulton
- S Slesarewich (Chief Executive Officer until 17 April 2018 and Managing Director thereafter)
- Wang Ruobing (resigned 1 May 2018)
- Shu Zhang (resigned 1 May 2018)

And the following persons:

- J K Haley - Chief Financial Officer and Company Secretary

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Changes since the end of the reporting period:

Mr Ian Jacobson was appointed a Non-executive Director on 1 July 2018.

| | Cash salary and fees \$ | Short-term benefits Bonus \$ | Annual leave accrual \$ | Post- employment Super- annuation \$ | Long-term benefits Long service leave \$ | Sub-total \$ | Share- based payments Options, rights & shares (f) \$ | Total \$ |
|---------------------------------------|-------------------------------|---------------------------------------|----------------------------------|--|---|-----------------|---|-------------|
| Directors | | | | | | | | |
| Non-executive: | | | | | | | | |
| P Turnbull (a) | | | | | | | | |
| - 2018 | 71,667 | - | - | 6,808 | - | 78,475 | - | 78,475 |
| - 2017 | 39,038 | - | - | 3,709 | - | 42,747 | - | 42,747 |
| S Boulton (a) | | | | | | | | |
| - 2018 | 39,574 | - | - | 3,760 | - | 43,334 | - | 43,334 |
| - 2017 | 16,719 | - | - | 1,588 | - | 18,307 | - | 18,307 |
| S Zhang (b) | | | | | | | | |
| - 2018 | 35,000 | - | - | - | - | 35,000 | - | 35,000 |
| - 2017 | 45,500 | - | - | - | - | 45,500 | - | 45,500 |
| A Gillies (c) | | | | | | | | |
| - 2017 | 40,730 | - | - | - | - | 40,730 | - | 40,730 |
| B Casson (c) | | | | | | | | |
| - 2017 | 27,000 | - | - | - | - | 27,000 | - | 27,000 |
| Executive: | | | | | | | | |
| S Slesarewich (d) | | | | | | | | |
| - 2018 | 255,100 | - | 5,402 | 24,234 | - | 415,486 | 199,079 | 614,565 |
| bonus 2018 (e) | - | 56,000 | - | - | - | - | - | - |
| bonus 2017 (e) | - | 74,750 | - | - | - | - | - | - |
| - 2017 | 237,443 | - | 9,247 | 22,557 | - | 269,247 | 46,503 | 315,750 |
| Other key management personnel | | | | | | | | |
| J K Haley | | | | | | | | |
| - 2018 | 109,840 | - | 12,147 | 10,435 | (3,513) | 128,909 | 16,275 | 145,184 |
| - 2017 | 88,382 | - | 15,298 | 31,618 | 1,325 | 136,623 | - | 136,623 |
| Total | | | | | | | | |
| - 2018 | 511,181 | 130,750 | 17,549 | 45,237 | (3,513) | 701,204 | 215,354 | 916,558 |
| - 2017 | 494,812 | - | 24,545 | 59,472 | 1,325 | 580,154 | 46,503 | 626,657 |

(a) Mr P Turnbull and Mr S Boulton were appointed Directors on 12 December 2016 and 25 January 2017 respectively.

(b) Mr S Zhang resigned as an Alternate Director on 1 May 2018.

(c) Mr B Casson and Mr A Gillies resigned as Directors on 12 December 2016 and 2 June 2017 respectively.

(d) Mr S Slesarewich was Chief Executive Officer until 17 April 2018 and appointed Managing Director thereafter.

(e) Mr Slesarewich's short-term cash bonus of \$130,750 for the 30 June 2018 financial year, comprises \$74,750 paid and \$56,000 accrued in relation to the achievement of KPIs for the financial years ended 30 June 2017 and 30 June 2018 respectively. The accrued amount has not been paid at the date of this report and is subject to Board approval.

(f) The amounts included in the share-based remuneration represent the grant date fair value of performance rights, amortised on a straight line basis over the expected vesting period. None of the performance rights granted in the current financial year had vested at 30 June 2018, and no shares have accordingly been issued.

Dr Wu Shu (Non-executive director) resigned on 6 March 2017 and Mr Wang Ruobing (Non-executive Director) was appointed in his stead. Mr Wang Ruobing resigned on 1 May 2018. Dr Wu Shu and Mr Wang Ruobing did not receive any remuneration during the 2018 and 2017 financial years.

Metallica Minerals Limited
Directors' report
30 June 2018

The proportion of remuneration linked to performance (i.e. options) and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| <i>Non-Executive Directors:</i> | | | | | | |
| P Turnbull | 100% | 100% | - | - | - | - |
| A L Gillies | - | 100% | - | - | - | - |
| S Boulton | 100% | 100% | - | - | - | - |
| S Zhang | 100% | 100% | - | - | - | - |
| B J Casson | - | 100% | - | - | - | - |
| <i>Executive Directors:</i> | | | | | | |
| S J Slesarewich | 46% | 85% | 21% | - | 33% | 15% |
| <i>Other Key Management Personnel:</i> | | | | | | |
| J K Haley | 89% | 100% | - | - | 11% | - |

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Simon Joseph Slesarewich
Title: Chief Executive Officer until 17 April 2018 and Managing Director thereafter
Agreement commenced: 2 July 2017
Term of agreement: Ongoing
Details: The contract provides for an annual base salary of \$280,000 per annum (inclusive of the minimum statutory superannuation contributions) and an annual cash bonus of up to 50% of Simon Slesarewich's annual base salary. The cash bonus is dependent on the achievement of KPI's.

Simon is also entitled to performance rights under the company's incentive plan. The Board of Directors will review the long-term incentive arrangements at least once every two years after the commencement date.

The contract may be terminated by 18 weeks' notice from either party and payment of 6 months of annual base salary. The contract also provides for payment of 12 months of annual base salary and 100% of any short-term and long-term incentives if control of the company changes.

The contract is to be reviewed annually by the Board of Directors.

Name: John Kevin Haley
Title: Chief Financial Officer and Company Secretary
Agreement commenced: 1 July 2009
Term of agreement: Ongoing
Details: The contract is to be reviewed annually by the Board of Directors and was last reviewed in December 2015. Following this review the base salary including the superannuation guarantee levy remained unchanged at \$120,000. The contract may be terminated by 1 months' notice from either party. The contract provides for payment of 6 months of base salary if control of the company changes or John Haley's employment is terminated.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Metallica Minerals Limited
Directors' report
30 June 2018

Share-based compensation

Issue of shares

There were no shares granted to directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Options

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

| Name | Number of options granted during the year 2018 | Number of options granted during the year 2017 | Number of options vested during the year 2018 | Number of options vested during the year 2017 |
|-----------------|--|--|---|---|
| S J Slesarewich | - | - | - | 2,000,000 |

For the options that lapsed during the year, the value of the options at the date they lapsed was nil.

Details of options over ordinary shares that lapsed or were cancelled, for directors and other key management personnel during the year ended 30 June 2018 are set out below:

| Name | Grant date | Vesting date | Number of options granted | Number of options lapsed/ cancelled |
|-----------------|--------------|--------------|---------------------------|-------------------------------------|
| S J Slesarewich | 13 July 2015 | 12 July 2017 | 2,000,000 | 2,000,000 |
| S J Slesarewich | 13 July 2015 | 12 July 2018 | 2,000,000 | 2,000,000 |

Share rights

The terms and conditions of each grant of share rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Name | Number of rights granted | Grant date | Vesting date and exercisable date | Expiry date | Fair value per right at grant date |
|-----------------|--------------------------|-----------------|-----------------------------------|-----------------|------------------------------------|
| S J Slesarewich | 1,000,000 | 2 July 2017 | 2 July 2018 | 9 November 2019 | \$0.057 |
| S J Slesarewich | 2,000,000 | 2 July 2017 | 31 March 2019 | 9 November 2019 | \$0.057 |
| S J Slesarewich | 1,000,000 | 2 July 2017 | 2 July 2019 | 9 November 2019 | \$0.057 |
| S J Slesarewich | 2,000,000 | 2 July 2017 | 30 June 2019 | 9 November 2019 | \$0.057 |
| J K Haley | 1,000,000 | 9 November 2017 | 31 March 2019 | 9 November 2019 | \$0.051 |

Share rights granted carry no dividend or voting rights.

Metallica Minerals Limited
Directors' report
30 June 2018

The number of performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

| Name | Number of rights granted during the year 2018 | Number of rights granted during the year 2017 | Number of rights vested during the year 2018 | Number of rights vested during the year 2017 |
|-----------------|---|---|--|--|
| S J Slesarewich | 6,000,000 | 1,000,000 | - | 1,000,000 |
| J K Haley | 1,000,000 | - | - | - |

Values of share rights over ordinary shares granted and exercised for directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

| Name | Value of rights granted during the year \$ | Value of rights exercised during the year \$ |
|-----------------|--|--|
| S J Slesarewich | 341,941 | - |
| J K Haley | 50,990 | - |

Equity instruments issued on exercise of remuneration options/rights granted during the year
There were no remuneration options/rights exercised during the year ended 30 June 2018.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

| | 2018 \$ | 2017 \$ | 2016 \$ | 2015 \$ | 2014 \$ |
|--------------------------------|------------|-------------|-------------|-------------|--------------|
| Profit/(loss) after income tax | 3,195,557 | (2,559,121) | (5,747,331) | (7,722,353) | (15,333,124) |

The factors that are considered to affect Total Shareholders Return ('TSR') are summarised below:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------|--------|--------|--------|--------|
| Share price at financial year end (\$) | 0.04 | 0.05 | 0.03 | 0.06 | 0.04 |
| Basic earnings/(loss) per share (cents per share) | 0.99 | (1.05) | (3.23) | (4.65) | (9.55) |

Metallica Minerals Limited
Directors' report
30 June 2018

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Options/rights exercised during the year | Additions | Disposals/ other* | Balance at the end of the year |
|------------------------|--|---|----------------|----------------------|--------------------------------------|
| <i>Ordinary shares</i> | | | | | |
| P Turnbull | - | - | 222,500 | - | 222,500 |
| S Boulton | 1,000,000 | - | - | - | 1,000,000 |
| S J Slesarewich | 1,666,667 | - | 166,667 | - | 1,833,334 |
| J K Haley | 125,000 | - | - | - | 125,000 |
| | <u>2,791,667</u> | <u>-</u> | <u>389,167</u> | <u>-</u> | <u>3,180,834</u> |

* Includes the removal from the table of the shareholdings for key management personnel who have either resigned during the period or are no longer considered to be a key management person.

None of the shares above are held nominally by the directors or any of the other key management personnel.

Mr Wang Ruobing resigned as a director of Metallica Minerals Limited on 1 May 2018. Mr Ruobing is a director of Jien Mining Pty Ltd which held 40,099,678 shares in Metallica Minerals Limited at date of Mr Ruobing's resignation.

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other* | Balance at the end of the year |
|-------------------------------------|--|----------|------------------|----------------------------------|--------------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| S Boulton | 500,000 | - | - | - | 500,000 |
| S J Slesarewich | 4,333,334 | - | (166,667) | (4,000,000) | 166,667 |
| | <u>4,833,334</u> | <u>-</u> | <u>(166,667)</u> | <u>(4,000,000)</u> | <u>666,667</u> |

* For the options that lapsed/cancelled during the year, the value of the options at the date they lapsed was nil.

| | Vested and exercisable | Unvested | Balance at the end of the year |
|-------------------------------------|---------------------------|----------|--------------------------------------|
| <i>Options over ordinary shares</i> | | | |
| S Boulton | 500,000 | - | 500,000 |
| S J Slesarewich | 166,667 | - | 166,667 |
| | <u>666,667</u> | <u>-</u> | <u>666,667</u> |

No other key management personnel held options.

Metallica Minerals Limited
Directors' report
30 June 2018

Share rights holding

The number of share rights over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Expired/forfeited/other | Balance at the end of the year |
|--|----------------------------------|-----------|------------------------|-------------------------|--------------------------------|
| <i>Share rights over ordinary shares</i> | | | | | |
| S J Slesarewich | - | 6,000,000 | - | - | 6,000,000 |
| J K Haley | - | 1,000,000 | - | - | 1,000,000 |
| | - | 7,000,000 | - | - | 7,000,000 |
| | | | Vested and exercisable | Unvested | Balance at the end of the year |
| <i>Performance rights over ordinary shares</i> | | | | | |
| S J Slesarewich | | | - | 6,000,000 | 6,000,000 |
| J K Haley | | | - | 1,000,000 | 1,000,000 |
| | | | - | 7,000,000 | 7,000,000 |

Loans to key management personnel and their related parties

There were no loans owing by key management personnel of the group, including their close family members and entities related to them, during the financial year ended 30 June 2018.

Other transactions with key management personnel and their related parties

There were no other transactions with key management personnel of the group, including their close family members and entities related to them, during the financial year ended 30 June 2018.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Metallica Minerals Limited under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|-----------------|-------------------|----------------|---------------------|
| 3 August 2011 | No expiry date* | \$0.7000 | 1,000,000 |
| 13 April 2017** | 30 September 2018 | \$0.0850 | 38,000,102 |
| | | | <u>39,000,102</u> |

* These options will expire 3 years after the decision to mine at Lucknow or Kokomo is made.

** Options issued under a renounceable entitlement offer.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

No options were granted to the directors or any of the five highest remunerated officers of the company since the end of the financial year.

Metallica Minerals Limited
Directors' report
30 June 2018

Shares under share rights

Unissued ordinary shares of Metallica Minerals Limited under performance rights at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under rights |
|------------|-------------|----------------|-------------------------|
| 02/07/2017 | 09/11/2019 | \$0.0000 | 6,000,000 |
| 09/11/2017 | 09/11/2019 | \$0.0000 | <u>2,000,000</u> |
| | | | <u><u>8,000,000</u></u> |

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Metallica Minerals Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of options granted:

| Date options exercised | Exercise price | Number of shares issued |
|------------------------|----------------|-------------------------|
| 13 July 2017 | \$0.0422 | 20,215,706 |

Shares issued on the exercise of share rights

There were no ordinary shares of Metallica Minerals Limited issued on the exercise of performance rights during the year ended 30 June 2018 and up to the date of this report.

Indemnity and insurance of officers

Each of the Directors and the Secretary of the company have entered into a Deed with the company whereby the company has provided certain contractual rights of access to books and records of the company to those Directors and Secretary. The company has insured all of the Directors of Metallica Minerals Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 does not require disclosure of the information in these circumstances.

Indemnity and insurance of auditor

Other than the standard indemnities, the company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Metallica Minerals Limited
Directors' report
30 June 2018

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of BDO Audit Pty Ltd

There are no officers of the company who are former partners of BDO Audit Pty Ltd.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



P Turnbull
Chairman

28 September 2018
Brisbane



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GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY R M SWABY TO THE DIRECTORS OF METALLICA MINERALS LIMITED

As lead auditor of Metallica Minerals Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Metallica Minerals Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'R M Swaby', is written over a light grey circular watermark.

R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 28 September 2018

Metallica Minerals Limited

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30 June 2018

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General information

The financial statements cover Metallica Minerals Limited as a consolidated entity consisting of Metallica Minerals Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Metallica Minerals Limited's functional and presentation currency.

Metallica Minerals Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

71 Lytton Road
East Brisbane
QLD 4169

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 September 2018. The directors have the power to amend and reissue the financial statements.

Metallica Minerals Limited
Statement of comprehensive income
For the year ended 30 June 2018

| | Note | Consolidated 2018 \$ | 2017 \$ |
|---|-------------|-------------------------------------|--------------------|
| Revenue | 4 | 200,713 | 134,381 |
| Other income | 5 | 6,000,000 | 398,020 |
| Expenses | | | |
| Advertising and promotional costs | | (103,712) | (73,922) |
| Raw materials and consumables used | | - | (170) |
| Rental expenses | | (195,830) | (194,596) |
| Employee benefits expense | 6 | (1,067,687) | (824,489) |
| Exploration costs | | (342,537) | (370,374) |
| Depreciation and amortisation expense | 6 | (4,543) | (31,855) |
| Impairment of property, plant and equipment | 11 | - | (950,481) |
| Impairment of loan | 9 | (186,017) | - |
| Listing fees and share register expenses | | (91,506) | (100,151) |
| Impairment of exploration and evaluation expenditure | 12 | (103,123) | - |
| Legal fees | | (143,717) | (74,422) |
| Marketing | | (144,117) | - |
| Project generation | | (241,387) | - |
| Travel, accommodation and conferences | | (140,287) | (94,987) |
| Professional fees | | (98,718) | (146,865) |
| Other expenses | | (141,421) | (227,844) |
| Finance costs | 6 | (554) | (1,366) |
| Profit/(loss) before income tax expense | | 3,195,557 | (2,559,121) |
| Income tax expense | 7 | - | - |
| Profit/(loss) after income tax expense for the year attributable to the owners of Metallica Minerals Limited | 20 | 3,195,557 | (2,559,121) |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year attributable to the owners of Metallica Minerals Limited | | <u>3,195,557</u> | <u>(2,559,121)</u> |
| | | Cents | Cents |
| Basic earnings per share | 34 | 0.99 | (1.05) |
| Diluted earnings per share | 34 | 0.97 | (1.05) |

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Metallica Minerals Limited
Statement of financial position
As at 30 June 2018

| | Note | Consolidated 2018 \$ | 2017 \$ |
|-----------------------------|------|----------------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 6,113,196 | 3,737,143 |
| Trade and other receivables | 9 | 47,821 | 91,258 |
| Other | 10 | 1,650,000 | - |
| Total current assets | | <u>7,811,017</u> | <u>3,828,401</u> |
| Non-current assets | | | |
| Plant and equipment | 11 | 1,057,258 | 1,011,315 |
| Exploration and evaluation | 12 | 1,459,500 | 957,648 |
| Other | 14 | 141,316 | 290,277 |
| Total non-current assets | | <u>2,658,074</u> | <u>2,259,240</u> |
| Total assets | | <u>10,469,091</u> | <u>6,087,641</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 326,082 | 158,801 |
| Employee benefits | 16 | 117,954 | 102,498 |
| Total current liabilities | | <u>444,036</u> | <u>261,299</u> |
| Total liabilities | | <u>444,036</u> | <u>261,299</u> |
| Net assets | | <u>10,025,055</u> | <u>5,826,342</u> |
| Equity | | | |
| Issued capital | 18 | 36,422,427 | 35,650,900 |
| Reserves | 19 | 8,324,865 | 8,093,236 |
| Accumulated losses | 20 | (34,722,237) | (37,917,794) |
| Total equity | | <u>10,025,055</u> | <u>5,826,342</u> |

The above statement of financial position should be read in conjunction with the accompanying notes

Metallica Minerals Limited
Statement of changes in equity
For the year ended 30 June 2018

| Consolidated | Issued capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
|--|------------------------------------|------------------------------|--|----------------------------------|
| Balance at 1 July 2016 | 32,205,513 | 8,046,733 | (35,358,673) | 4,893,573 |
| Loss after income tax expense for the year | - | - | (2,559,121) | (2,559,121) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (2,559,121) | (2,559,121) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 18) | 3,445,387 | - | - | 3,445,387 |
| Share-based payments (note 35) | - | 46,503 | - | 46,503 |
| Balance at 30 June 2017 | <u>35,650,900</u> | <u>8,093,236</u> | <u>(37,917,794)</u> | <u>5,826,342</u> |
| Consolidated | Issued capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 July 2017 | 35,650,900 | 8,093,236 | (37,917,794) | 5,826,342 |
| Profit after income tax expense for the year | - | - | 3,195,557 | 3,195,557 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 3,195,557 | 3,195,557 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Share-based payments (note 35) | - | 231,629 | - | 231,629 |
| Contributions of equity net of transaction costs (note 23) | 771,527 | - | - | 771,527 |
| Balance at 30 June 2018 | <u>36,422,427</u> | <u>8,324,865</u> | <u>(34,722,237)</u> | <u>10,025,055</u> |

The above statement of changes in equity should be read in conjunction with the accompanying notes

Metallica Minerals Limited
Statement of cash flows
For the year ended 30 June 2018

| | Note | Consolidated 2018 \$ | 2017 \$ |
|---|------|----------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 165,870 | 216,342 |
| Payments to suppliers and employees (inclusive of GST) | | <u>(2,446,328)</u> | <u>(2,228,709)</u> |
| | | (2,280,458) | (2,012,367) |
| Interest received | | 78,280 | 60,251 |
| Interest and other finance costs paid | | <u>(554)</u> | <u>(1,366)</u> |
| Net cash used in operating activities | 33 | <u>(2,202,732)</u> | <u>(1,953,482)</u> |
| Cash flows from investing activities | | | |
| Net cash (outflow)/inflow from additional capital introduced in joint operation | | (225) | 17,500 |
| Loans advanced to other parties | | (186,017) | - |
| Payments for property, plant and equipment | 11 | (50,486) | - |
| Payments for exploration and evaluation | 12 | (604,975) | (811,653) |
| Proceeds from disposal of SCONI Project | 5 | 4,500,000 | - |
| Receipt of Research and Development tax offset | | - | 450,295 |
| Proceeds from held to maturity investments | | - | 757,064 |
| Proceeds from disposal of property, plant and equipment, and exploration assets | | - | 20,000 |
| Proceeds from entering into SCONI farm-in agreement | | - | 275,000 |
| Receipt for security deposit | | 148,961 | 6,848 |
| Net cash from investing activities | | <u>3,807,258</u> | <u>715,054</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 18 | 853,103 | 3,510,901 |
| Share issue transaction costs | 18 | <u>(81,576)</u> | <u>(65,514)</u> |
| Net cash from financing activities | | <u>771,527</u> | <u>3,445,387</u> |
| Net increase in cash and cash equivalents | | 2,376,053 | 2,206,959 |
| Cash and cash equivalents at the beginning of the financial year | | <u>3,737,143</u> | <u>1,530,184</u> |
| Cash and cash equivalents at the end of the financial year | 8 | <u><u>6,113,196</u></u> | <u><u>3,737,143</u></u> |

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. None of the new standards and amendments to standards affected any of the amounts recognised in the current period or any prior period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

For the year ended 30 June 2018 the consolidated entity incurred a loss of \$2,804,443 before income tax and before accounting for the gain on disposal of the SCONI Project of \$6,000,000 (30 June 2017: loss before income tax of \$2,559,121) and net cash outflows from operating activities of \$2,202,732 (2017: \$1,953,482).

The Directors have concluded that the going concern basis of preparation of the financial statements is appropriate and any uncertainty regarding going concern is mitigated by the following:

- At 30 June 2018 the consolidated entity had net current assets of \$7,366,981 (2017: \$3,567,102) and total net assets of \$10,025,055 (2017: \$5,826,342). Cash and cash equivalents at 30 June 2018 amounted to \$6,113,196 (2017: \$3,737,143).
- On 6 July 2018 the company was allotted 16,811,916 shares in Australian Mines Limited (ASX code: AUZ) under the SCONI Sale and Purchase Agreement (refer note 5). The value of the AUZ shares allotted was \$1,500,000 and the shares are subject to a voluntary escrow period of 3 months.
- The company expects revenue from the Urquhart Bauxite project to commence in the 2018/2019 financial year, subject to final approvals being received.

Based on the above, the Directors are of the opinion that at the date of signature of the financial report there are reasonable and supportable grounds to believe that the consolidated entity will be able to meet its liabilities from its assets in the ordinary course of business, for a period of not less than 12 months from the date of this financial report and has accordingly prepared the financial report on a going concern basis.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Metallica Minerals Limited ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Metallica Minerals Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Note 1. Significant accounting policies (continued)

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Metallica Minerals Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Note 1. Significant accounting policies (continued)

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Joint arrangements

Under AASB 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Metallica Minerals Limited has only one joint operation at the reporting date and no joint ventures.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Metallica Minerals Limited has recognised its share of the jointly held assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications. Details of the joint operation are set out in note 31.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduces the carrying amount of the investment.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Note 1. Significant accounting policies (continued)

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Restoration, rehabilitation and environmental expenditure

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off.

Restoration from exploration drilling is carried out at the time of drilling and accordingly no provision is required.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparatives

Where required by the Australian Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Note 1. Significant accounting policies (continued)

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018. The reported results and position of the consolidated entity will not change on adoption of this standard as it does not result in any changes to the consolidated entity's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018. The consolidated entity currently does not have any significant revenue contracts with customers that may be impacted by this standard.

Note 1. Significant accounting policies (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. The consolidated entity will adopt this standard from 1 July 2019.

The standard does not apply to leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources however, it will affect primarily the accounting for the consolidated entity's operating leases. As at the reporting date, the consolidated entity had only one non-cancellable operating lease which has a lease term of 12 months. As the lease is short-term, the company will continue to recognise lease payments as an expense on a straight-line basis in profit or loss. Consequently, the company does not envisage any changes to current accounting for leases however, this could change if the current operating lease is renewed or a new operating lease entered into for a lease-term greater than 12 months.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments will have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Impairment of plant and equipment

The consolidated entity assesses impairment of plant and equipment at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined.

Significant judgements and assumptions were required in making an estimate of the fair value of the capital works in progress associated with the Oresome joint operation. The estimated fair value was determined based on enquiries of independent parties (refer note 11).

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Exploration and evaluation costs

Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the parent entity's Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographic basis that is the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level.

The consolidated entity does not have any products/services it derives revenue from.

Management currently identifies the consolidated entity as having only one operating segment, being exploration and development of mine projects in Australia. All significant operating decisions are based upon analysis of the consolidated entity as one segment. The financial results from the segment are equivalent to the financial statements of the consolidated entity as a whole.

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 4. Revenue

| | Consolidated | |
|---------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Interest | 101,342 | 59,832 |
| Royalty | 56,146 | 42,722 |
| Other revenue | 43,225 | 31,827 |
| | <hr/> | <hr/> |
| Revenue | <u>200,713</u> | <u>134,381</u> |

Accounting policy for revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the consolidated entity will comply with all the attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase or development of assets, including exploration and evaluation activities, are deducted from the carrying value of the asset.

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Note 4. Revenue (continued)

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 5. Other income

| | Consolidated | |
|---|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Net (loss)/gain on reduction of interest in joint operation and introduction of additional equity | - | 17,500 |
| Net gain on disposal of assets including inventory and property, plant and equipment | - | 90,000 |
| Net gain on disposal of SCONI Project* | 6,000,000 | - |
| Income received on entering into SCONI farm-in agreement | - | 275,000 |
| Other income | - | 15,520 |
| | <u>6,000,000</u> | <u>398,020</u> |
| Other income | <u>6,000,000</u> | <u>398,020</u> |

- * The company entered into a conditional agreement in September 2017 to dispose of its interest in the SCONI Project for \$10,000,000 in cash and shares to Australian Mines Limited (ASX code: AUZ). In December 2017 an additional payment of \$1,000,000 became payable for varying the agreement, bringing the total sale and purchase price to \$11,000,000 (exclusive of GST). The company has received the first tranche of funds of \$3,500,000 (exclusive of GST) and the additional payment of \$1,000,000 from Australian Mines Limited. The company was also allotted \$1,500,000 in AUZ shares (16,811,916 shares) in July 2018 (the Consideration Shares). The SCONI Project had a nil carrying value at the date of disposal, and as a result the company has recognised a net gain on disposal of \$6,000,000 representing the first tranche of funds, the additional payment and the Consideration Shares. Refer note 25 for details relating to the remaining \$5,000,000 due.

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Note 6. Expenses

| | Consolidated | |
|---|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Profit/(loss) before income tax includes the following specific expenses: | | |
| <i>Aggregate employee benefits expense</i> | | |
| Defined contribution superannuation expense | 69,006 | 60,525 |
| Equity-settled share-based payments | 231,629 | 46,503 |
| Other employee benefits expenses | 872,632 | 773,884 |
| | <u>1,173,267</u> | <u>880,912</u> |
| <i>Less</i> | | |
| Employee costs capitalised to exploration | (105,580) | (56,423) |
| Employee benefits expense | <u>1,067,687</u> | <u>824,489</u> |
| <i>Depreciation</i> | | |
| Plant and equipment | 4,543 | 31,855 |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable | 544 | 1,366 |
| <i>Rental expense relating to operating leases</i> | | |
| Minimum lease payments | <u>179,569</u> | <u>182,441</u> |

Note 7. Income tax expense

| | Consolidated | |
|--|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Profit/(loss) before income tax expense | 3,195,557 | (2,559,121) |
| Tax at the statutory tax rate of 27.5% | 878,778 | (703,758) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| (Loss)/gain on reduction in interest in joint venture | 60 | (4,813) |
| Share based payments | 63,698 | 12,788 |
| | <u>942,536</u> | <u>(695,783)</u> |
| Current year tax losses not recognised | - | 613,096 |
| Prior year tax losses not recognised now recouped | (840,736) | - |
| Current year temporary differences not recognised | <u>(101,800)</u> | <u>82,687</u> |
| Income tax expense | <u>-</u> | <u>-</u> |

Metallica Minerals Limited
Notes to the financial statements
30 June 2018

Note 7. Income tax expense (continued)

| | Consolidated | |
|---|-------------------------|-------------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Deferred tax assets not recognised</i> | | |
| Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised are attributable to the following: | | |
| Unused tax losses | 4,761,356 | 5,454,318 |
| Other deductible temporary differences | 841,536 | (295,935) |
| Deductible temporary differences offset against taxable temporary differences | <u>(402,808)</u> | <u>803,553</u> |
| Total deferred tax assets not recognised | <u><u>5,200,084</u></u> | <u><u>5,961,936</u></u> |

The above potential tax benefit for tax losses and deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain. The tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|-----------------|-------------------------|-------------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Cash on hand | 50 | 50 |
| Cash at bank | 533,690 | 1,628,268 |
| Cash on deposit | <u>5,579,456</u> | <u>2,108,825</u> |
| | <u><u>6,113,196</u></u> | <u><u>3,737,143</u></u> |

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Current assets - trade and other receivables

| | Consolidated | |
|---|----------------------|----------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Trade receivables | 19,946 | 9,668 |
| Less: Provision for impairment of receivables | - | (5,191) |
| | <u>19,946</u> | <u>4,477</u> |
| Loans to other parties | 186,017 | - |
| Less: Provision for impairment of receivables | <u>(186,017)</u> | <u>-</u> |
| | - | - |
| Other receivables | 3,405 | 79,730 |
| Interest receivable | 24,470 | 1,408 |
| GST receivable | <u>-</u> | <u>5,643</u> |
| | <u><u>47,821</u></u> | <u><u>91,258</u></u> |

At 30 June 2018 there were no trade receivables that were past due. At 30 June 2017 trade receivables of \$5,191 were past due and were impaired.

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Note 9. Current assets - trade and other receivables (continued)

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 10. Current assets - other

| | Consolidated | |
|--|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Deferred sale proceeds - SCONI Project | 1,650,000 | - |

The deferred sale proceeds represent the Consideration Shares plus GST, to be granted to Metallica in connection with the disposal of the SCONI Project (refer note 5). On 6 July 2018 the company was allotted 16,811,916 ordinary shares in Australian Mines Limited (ASX: AUZ) under the SCONI Sale and Purchase Agreement. The value of the AUZ shares allotted was \$1,500,000 (excluding GST) based on the 30 day volume weighted average price for AUZ.

Note 11. Non-current assets - plant and equipment

| | Consolidated | |
|--------------------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Plant and equipment - at cost | 1,022,776 | 972,289 |
| Less: Accumulated depreciation | (806,973) | (802,429) |
| Less: Impairment | (158,545) | (158,545) |
| | 57,258 | 11,315 |
| Motor vehicles - at cost | 47,539 | 47,539 |
| Less: Accumulated depreciation | (47,539) | (47,539) |
| | - | - |
| Capital works in progress | 2,638,837 | 2,638,837 |
| Less: Impairment | (1,638,837) | (1,638,837) |
| | 1,000,000 | 1,000,000 |
| | 1,057,258 | 1,011,315 |

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Note 12. Non-current assets - exploration and evaluation (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Exploration & Evaluation \$ | Total \$ |
|-------------------------|-----------------------------------|------------------|
| Balance at 1 July 2016 | 296,290 | 296,290 |
| Additions | 811,653 | 811,653 |
| R&D tax offset | (150,295) | (150,295) |
| | <hr/> | <hr/> |
| Balance at 30 June 2017 | 957,648 | 957,648 |
| Additions | 604,975 | 604,975 |
| Impairment of assets | (103,123) | (103,123) |
| | <hr/> | <hr/> |
| Balance at 30 June 2018 | <u>1,459,500</u> | <u>1,459,500</u> |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent upon successful development and commercial exploitation or sale of the respective areas of interest.

Accounting policy for exploration and evaluation assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Note 13. Non-current assets - mining development

| | Consolidated | |
|------------------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Mining development - at cost | 4,214,838 | 4,214,838 |
| Less: Impairment | (4,214,838) | (4,214,838) |
| | <hr/> | <hr/> |
| | <u>-</u> | <u>-</u> |

Mining development represents the consolidated entity's share of the mining development assets in the Oresome joint operation (refer note 31).

Accounting policy for mining assets

Once an undeveloped mining project has been established as commercially viable and approval to mine has been given, expenditure other than land, buildings, plant and equipment is capitalised under "Mining development" together with any amount transferred from "Exploration and evaluation".

Amortisation of mining development is computed by the units of production basis over the estimated proved and probable reserves. Proved and probable mineral reserves reflect estimated quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits. These reserves are amortised from the date on which production commences. The amortisation is calculated from recoverable proven and probable reserves and a predetermined percentage of the recoverable measured, indicated and inferred resource. This percentage is reviewed annually.

Restoration costs expected to be incurred are provided for as part of development phase that give rise to the need for restoration.

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Note 14. Non-current assets - other

| | Consolidated | |
|-------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Security deposits | 141,316 | 290,277 |

Note 15. Current liabilities - trade and other payables

| | Consolidated | |
|----------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Trade payables | 100,967 | 133,266 |
| GST payable | 138,472 | - |
| Other payables | 86,643 | 25,535 |
| | <u>326,082</u> | <u>158,801</u> |

Refer to note 22 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 16. Current liabilities - employee benefits

| | Consolidated | |
|--------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Annual leave | 76,681 | 57,446 |
| Long service leave | 41,273 | 45,052 |
| | <u>117,954</u> | <u>102,498</u> |

Accounting policy for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Note 17. Non-current liabilities - deferred tax

| | Consolidated | |
|--|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Deferred tax liability comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss: | | |
| Exploration and evaluation expenditure | 401,363 | 263,353 |
| Other taxable temporary differences | 1,445 | 388 |
| Deductible temporary differences offset against taxable temporary differences | (402,808) | (263,741) |
| Deferred tax liability | <u>-</u> | <u>-</u> |

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Note 18. Equity - issued capital

| | 2018 | Consolidated | | |
|------------------------------|--------------------|---------------------|-------------------|-------------------|
| | Shares | 2017 | 2018 | 2017 |
| | | Shares | \$ | \$ |
| Ordinary shares - fully paid | <u>322,447,408</u> | <u>302,231,715</u> | <u>36,422,427</u> | <u>35,650,900</u> |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$ |
|--------------------------|--------------------------|--------------------|--------------------|-------------------|
| Balance | 1 July 2016 | 227,311,635 | | 32,205,513 |
| Exercise of options | 7 March - 14 June 2017 | 9,719,998 | \$0.0450 | 438,651 |
| Exercise of share rights | 8 March 2017 | 1,000,000 | \$0.0000 | - |
| Rights issue | 13 April - 20 April 2017 | 64,200,082 | \$0.0520 | 3,338,404 |
| Share issue costs | | - | \$0.0000 | (331,668) |
| Balance | 30 June 2017 | 302,231,715 | | 35,650,900 |
| Exercise of options | 13 July 2017 | 20,215,706 | \$0.0422 | 853,103 |
| Other movements | | (13) | \$0.0000 | - |
| Share issue costs | | - | \$0.0000 | (81,576) |
| Balance | 30 June 2018 | <u>322,447,408</u> | | <u>36,422,427</u> |

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Shares for services rendered

2017 - The company issued 5,779,769 ordinary shares at 5.2 cents per share and 8,586,885 free listed options at the discretion of the underwriter of the renounceable rights issue.

Rights issues

2017 - Completed a renounceable rights issue offered on the basis of 1 new share for every 4 shares held at 5.2 cents per share. With every 2 new shares, investors received a free listed option with an exercise price of 8.5 cents. A total of 64,200,082 ordinary shares were issued, raising \$3,338,404 before transaction costs.

Options

2018 and 2017 - The options exercised relate to options granted in terms of the renounceable rights issue that was completed in the 2016 financial year.

Share rights

2017 - Information relating to the share rights granted and exercised during the financial year and rights outstanding at the end of the reporting period, is set out in note 35.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

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Note 18. Equity - issued capital (continued)

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

The capital structure of the consolidated entity consists of equity attributable to equity holders of the parent entity comprising of issued capital, reserves and accumulated losses as disclosed in the statement of changes in equity. In common with many other exploration companies, the parent raises finance for the consolidated entity's exploration and appraisal activities in discrete tranches.

Management effectively manages the consolidated entity's capital by assessing the consolidated entity's financial risks and adjusting its capital structure in response to changes in these risks and in the market.

There are no externally imposed capital requirements.

The capital risk management policy remains unchanged from the 2017 Annual Report.

The consolidated entity monitors capital on the basis of its working capital position (i.e. liquidity risk). The net working capital of the consolidated entity at 30 June 2018 was \$7,366,981 (2017: \$3,567,102).

Accounting policy for issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 19. Equity - reserves

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Share-based payments reserve | <u>8,324,865</u> | <u>8,093,236</u> |

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Share-based payments reserve \$ | Total \$ |
|-------------------------|--|------------------|
| Balance at 1 July 2016 | 8,046,733 | 8,046,733 |
| Share based payments | <u>46,503</u> | <u>46,503</u> |
| Balance at 30 June 2017 | 8,093,236 | 8,093,236 |
| Share based payments | <u>231,629</u> | <u>231,629</u> |
| Balance at 30 June 2018 | <u>8,324,865</u> | <u>8,324,865</u> |

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Note 20. Equity - accumulated losses

| | Consolidated | |
|---|----------------------------|----------------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Accumulated losses at the beginning of the financial year | (37,917,794) | (35,358,673) |
| Profit/(loss) after income tax expense for the year | <u>3,195,557</u> | <u>(2,559,121)</u> |
| Accumulated losses at the end of the financial year | <u><u>(34,722,237)</u></u> | <u><u>(37,917,794)</u></u> |

Note 21. Equity - dividends

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Franking credits

| | Consolidated | |
|--|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%) | <u>583,794</u> | <u>583,794</u> |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 22. Financial instruments

Financial risk management objectives

Risk management is carried out under policies set by the board of directors. The board provides principles for overall risk management, as well as policies covering specific areas.

The board monitors and manages the financial risk relating to the operations of the consolidated entity. The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

Foreign currency risk

The consolidated entity does not currently have any significant exposure to foreign currency risk.

Price risk

The consolidated entity does not currently have any significant exposure to price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from cash and cash equivalents and held to maturity investments.

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Note 22. Financial instruments (continued)

| Consolidated | 2018 | | 2017 | |
|--|---|-------------------------|---|-------------------------|
| | Weighted average interest rate % | Balance \$ | Weighted average interest rate % | Balance \$ |
| Cash at bank | 0.61% | 533,690 | 1.16% | 1,628,268 |
| Cash on deposit | 1.85% | <u>5,579,456</u> | 1.83% | <u>2,108,825</u> |
| Net exposure to cash flow interest rate risk | | <u><u>6,113,146</u></u> | | <u><u>3,737,093</u></u> |

At 30 June 2018, if interest rates had increased/decreased by 25 basis points (bps) from the year end rates with all other variables held constant, post-tax loss for the year would have been \$15,283 lower/higher (2017 changes of 25 bps: \$9,343 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents and held to maturity investments.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2018 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|---|--------------------------|---------------------------------|---------------------------------|------------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 100,967 | - | - | - | 100,967 |
| BAS payable | - | 138,472 | - | - | - | 138,472 |
| Other payables | - | 86,643 | - | - | - | 86,643 |
| Total non-derivatives | | <u>326,082</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>326,082</u> |

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Note 22. Financial instruments (continued)

| Consolidated - 2017 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 133,266 | - | - | - | 133,266 |
| Other payables | - | 25,535 | - | - | - | 25,535 |
| Total non-derivatives | | <u>158,801</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>158,801</u> |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Due to their short-term nature the carrying amounts of financial instruments reflect their fair value.

Note 23. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|------------------------------|-----------------------|-----------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Short-term employee benefits | 659,480 | 519,357 |
| Post-employment benefits | 45,237 | 59,472 |
| Long-term benefits | (3,513) | 1,325 |
| Share-based payments | <u>215,354</u> | <u>46,503</u> |
| | <u><u>916,558</u></u> | <u><u>626,657</u></u> |

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO Audit Pty Ltd, the auditor of the company:

| | Consolidated | |
|---|----------------------|----------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Audit services - BDO Audit Pty Ltd</i> | | |
| Audit or review of the financial statements | <u>50,239</u> | <u>50,716</u> |
| <i>Other services - BDO Audit Pty Ltd</i> | | |
| Tax compliance services | <u>31,409</u> | <u>22,250</u> |
| | <u><u>81,648</u></u> | <u><u>72,966</u></u> |

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Note 25. Contingent assets

In respect of the disposal of the SCONI Project in September 2017 (refer Note 5), additional consideration of \$5,000,000 in cash or shares in Australian Mines Limited (the Production Payment), will be payable to the Group on commencement of commercial production. This additional consideration has not been recognised in the 30 June 2018 financial statements, as the receipt of the additional consideration is not virtually certain. The commencement of commercial production from the Project requires favourable commodity prices and markets, availability of funding and various government approvals.

Note 26. Contingent liabilities

The consolidated entity does not believe it has any contingent liability arising from any possible Native Title or other claims.

Note 27. Commitments

| | Consolidated | |
|--|-------------------------|-------------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Commitments for minimum expenditure on exploration permits</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 1,219,190 | 1,145,511 |
| One to five years | <u>285,000</u> | <u>778,000</u> |
| | <u><u>1,504,190</u></u> | <u><u>1,923,511</u></u> |
| <i>Commitments for environmental authority annual fee</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 5,480 | 7,824 |
| One to five years | <u>21,920</u> | <u>31,296</u> |
| | <u><u>27,400</u></u> | <u><u>39,120</u></u> |
| <i>Tenement rentals</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 68,630 | 140,280 |
| One to five years | <u>274,520</u> | <u>561,122</u> |
| | <u><u>343,150</u></u> | <u><u>701,402</u></u> |
| <i>Operating lease commitments payable</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | <u>55,054</u> | <u>97,453</u> |
| <i>Oresome Joint Venture - the group's share of the tenement commitments made jointly with other joint venturers</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 1,209,190 | 835,258 |
| One to five years | <u>1,879,038</u> | <u>1,290,277</u> |
| | <u><u>3,088,228</u></u> | <u><u>2,125,535</u></u> |

Commitments for minimum expenditure on exploration permits

The consolidated entity has certain commitments to meet minimum annual expenditure requirements on the mineral exploration assets it has an interest in. Any shortfalls are carried forward to subsequent years.

Operating lease commitments

Operating lease commitments represent contracted amounts for offices under a non-cancellable operating lease. The office lease expires within 1 year and there is an option to extend.

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Note 28. Related party transactions

Parent entity

Metallica Minerals Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Joint operations

Interests in joint operations are set out in note 31.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|---|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Other transactions: | | |
| Subscription for new ordinary shares by key management personnel as a result of the vesting of share rights | - | 40,000 |
| Subscription for new ordinary shares by key management personnel as a result of the rights issue | - | 69,680 |

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 29. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

| | Parent | |
|--------------------------------|---------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Profit/(loss) after income tax | 3,229,339 | (2,447,527) |
| Total comprehensive income | 3,229,339 | (2,447,527) |

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Note 29. Parent entity information (continued)

Statement of financial position

| | Parent | |
|------------------------------|----------------|--------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Total current assets | 7,805,716 | 3,824,676 |
| Total assets | 8,509,470 | 4,120,267 |
| Total current liabilities | 440,417 | 261,195 |
| Total liabilities | 7,610,294 | 7,453,585 |
| Equity | | |
| Issued capital | 36,422,427 | 35,650,900 |
| Share-based payments reserve | 8,324,865 | 8,093,236 |
| Accumulated losses | (43,848,116) | (47,077,454) |
| Total equity/(deficiency) | <u>899,176</u> | <u>(3,333,318)</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2017.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|------------------------------------|---|---------------------------|------------------|
| | | 2018 % | 2017 % |
| Oresome Australia Pty Limited | Australia | 100.00% | 100.00% |
| Greenvale Operations Pty Limited | Australia | 100.00% | 100.00% |
| Scandium Pty Limited | Australia | 100.00% | 100.00% |
| NORNICO Pty Limited | Australia | 100.00% | 100.00% |
| Phoenix Lime Pty Limited | Australia | 100.00% | 100.00% |
| Lucky Break Operations Pty Limited | Australia | 100.00% | 100.00% |
| Touchstone Resources Pty Limited | Australia | 100.00% | 100.00% |
| Oresome Bauxite Pty Limited* | Australia | 100.00% | 100.00% |

* Oresome Bauxite Pty Limited is a wholly owned subsidiary of Oresome Australia Pty Limited.

Unless otherwise stated, the subsidiaries have share capital consisting solely of ordinary shares that are held directly by the consolidated entity, and the proportion of ownership interests is equal to the proportion of voting rights held by the consolidated entity.

Note 30. Interests in subsidiaries (continued)

Significant restrictions

There are no significant restrictions on the ability of the consolidated entity to access or use the assets and settle the liabilities of the consolidated entity.

Note 31. Interests in joint operations

The consolidated entity has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications. Information relating to joint operations that are material to the consolidated entity are set out below:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|-----------------------|---|--------------------|-----------|
| | | 2018 % | 2017 % |
| Oresome Joint Venture | Australia | 50.00% | 50.00% |

On 1 August 2014 Metallica Minerals Limited executed a joint venture (JV) agreement with a private Chinese investor. The JV is between Oresome Australia Pty Ltd (a wholly owned subsidiary of Metallica Minerals Ltd) and Ozore Resources Pty Ltd (Ozore) (wholly owned by the Chinese investor). Under the JV agreement, Ozore has paid a total of A\$7,500,000 to develop the company's Urquhart Point HMS Project including construction of a Heavy Mineral Sands (HMS) plant in South Africa, and explore for other Heavy Mineral Sands and Bauxite deposits on its tenements on the western side of Queensland's Cape York Peninsula. The HMS plant arrived in Australia in December 2015 and is currently in storage. Given the continuing low heavy mineral sand prices, the JV has deferred construction of the HMS processing plant and the JV is currently evaluating options in relation to the plant.

The Oresome joint arrangement is classified as a joint operation under Australian Accounting Standards. Metallica Minerals Limited recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses.

During the year ended 30 June 2018, Ozore and Metallica contributed additional capital of \$788,150 and \$788,601 respectively. Consequently, Metallica has recognised a net cash outflow of \$225 in the statement of cash flows, which represents Ozore's share of the additional cash contributed by Metallica.

Note 32. Events after the reporting period

Merger

On 13 September 2018, the company announced that it had entered into a binding Arrangement Agreement (AA) to merge with Melior Resources Inc (TSX-V:MLR) (Melior) via a Plan of Arrangement to be approved by the court in British Columbia, Canada (Merger). The Merger is to be implemented by way of a Canadian Plan of Arrangement, whereby Metallica has agreed to acquire all of the issued capital of Melior by the issue of 20 new Metallica shares for every 1 Melior share held. Melior shareholders and Metallica shareholders will hold approximately 64% and 36% respectively of the merged entity. The AA contains a number of conditions precedent including: receipt of all regulatory, court and all other required approvals; and Metallica and Melior shareholder approval. The Merger is anticipated to be effective by December 2018, pending approvals.

Updated pre-feasibility study

On 12 September 2018 the company announced the results of the updated Pre-Feasibility Study (Updated PFS) for the Company's 50%-owned Urquhart Bauxite project (Urquhart), five kilometres southwest of Weipa on Queensland's Cape York. The Updated PFS Base Case points to a potential revenue stream nearing A\$390 million across 5.5 years of production, delivering a total operating margin (allowing for all costs including royalties) of approximately A\$10.50 per tonne with payback of just 1.3 years from October 2018. The Updated PFS was independently prepared by Brisbane-based international consultancy, IMC Mining Pty Ltd (IMC), which also completed the JORC (2012) resources estimate for Urquhart.

Shares allotted in Australian Mines Limited

On 6 July 2018, the company was allotted 16,811,916 shares in Australian Mines Limited (ASX: AUZ) under the SCONI Sale and Purchase Agreement (refer note 5). The value of the AUZ shares allotted was \$1,500,000 based on the 30 day volume weighted average price for AUZ.

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Note 32. Events after the reporting period (continued)

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 33. Reconciliation of profit/(loss) after income tax to net cash used in operating activities

| | Consolidated | |
|--|---------------------|--------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Profit/(loss) after income tax expense for the year | 3,195,557 | (2,559,121) |
| Adjustments for: | | |
| Depreciation and amortisation | 4,543 | 31,855 |
| Share-based payments | 231,629 | 46,503 |
| Impairment of plant and equipment | - | 950,481 |
| Impairment of financial assets | 186,017 | - |
| Impairment of exploration and evaluation expenditure | 103,123 | - |
| Net gain on disposal of SCONI Project | (6,000,000) | - |
| Income received on entering into SCONI farm-in agreement | - | (275,000) |
| Net loss/(gain) on introduction of additional equity in joint operation | 225 | (17,500) |
| Net gain on disposal of assets including inventory and property, plant and equipment | - | (90,000) |
| Change in operating assets and liabilities: | | |
| Decrease in trade and other receivables | 43,437 | 42,611 |
| Decrease in prepayments | - | 37,029 |
| Increase/(decrease) in trade and other payables | 17,281 | (143,967) |
| Increase in employee benefits | 15,456 | 23,627 |
| Net cash used in operating activities | <u>(2,202,732)</u> | <u>(1,953,482)</u> |

Note 34. Earnings per share

| | Consolidated | |
|---|---------------------|--------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Profit/(loss) after income tax attributable to the owners of Metallica Minerals Limited | <u>3,195,557</u> | <u>(2,559,121)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 321,782,795 | 243,369,034 |
| Adjustments for calculation of diluted earnings per share: | | |
| Share rights | 8,000,000 | - |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>329,782,795</u> | <u>243,369,034</u> |
| | Cents | Cents |
| Basic earnings per share | 0.99 | (1.05) |
| Diluted earnings per share | 0.97 | (1.05) |

Options are considered to be potential ordinary shares but were anti-dilutive in nature and were not included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

Metallica Minerals Limited
Notes to the financial statements
30 June 2018

Note 34. Earnings per share (continued)

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Metallica Minerals Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 35. Share-based payments

Incentive Plan

At the Annual General Meeting held on 29 November 2016, the company's shareholders approved the issue of share rights to key employees under the company's incentive plan approved the Board of Directors on 24 October 2016. The purpose of the incentive plan is to:

- (a) assist in the reward, retention and motivation of participants;
- (b) align the interests of participants with the interests of the company's shareholders;
- (c) promote the long-term success of the company and provide greater incentive for participants to focus on the company's longer term goals;
- (d) link the reward of participants to the performance of the company and the creation of shareholder value; and
- (e) provide participants with the opportunity to share in any future growth in value of the company.

Under the plan eligible participants may be granted share rights for nil consideration (unless otherwise provided under the relevant offer), which vest if certain vesting conditions are met. Upon vesting, subject to any exercise conditions, each share right entitles the participant to one share in the company.

In November 2016 the company granted 1,000,000 share rights to Simon Slesarewich (Managing Director) in lieu of a short term incentive. The fair value of the rights was \$40,000.

On 2 July 2017 the company granted 6,000,000 share rights to Simon Slesarewich (Managing Director). The value of these rights at grant date was \$341,941.

- (a) 2,000,000 rights vest upon commencement of production from the company's Urquhart Bauxite Project
- (b) 1,000,000 rights vest on 2 July 2018 being the third anniversary of Simon's commencement date
- (c) 1,000,000 rights vest on 2 July 2019 being the fourth anniversary of Simon's commencement date
- (d) 2,000,000 vest upon acquisition of a controlling interest in the Wagina Bauxite Project in Solomon Islands

On 11 November 2017 the company granted 1,000,000 share rights each to John Haley (CFO) and Chris Broadhead (General Manager). These rights will vest on the commencement of commercial production from the company's Urquhart Bauxite Project. The fair value of the rights was \$101,981.

Set out below are summaries of options granted:

| 2018 | | | | | | | |
|---------------------------------|-------------|----------------|----------------------------------|----------|-----------|---------------------------|--------------------------------|
| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
| 13/07/2015 | 12/07/2017 | \$0.1250 | 2,000,000 | - | - | (2,000,000) | - |
| 13/07/2015 | 12/07/2018 | \$0.1500 | 2,000,000 | - | - | (2,000,000) | - |
| | | | 4,000,000 | - | - | (4,000,000) | - |
| Weighted average exercise price | | | \$0.1400 | \$0.0000 | \$0.0000 | \$0.1400 | \$0.0000 |

Metallica Minerals Limited
Notes to the financial statements
30 June 2018

Note 35. Share-based payments (continued)

2017

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|----------------|----------------------------------|---------|-----------|---------------------------|--------------------------------|
| 03/08/2011 | 03/08/2016 | \$0.5000 | 1,000,000 | - | - | (1,000,000) | - |
| 20/12/2013 | 31/12/2016 | \$0.1000 | 500,000 | - | - | (500,000) | - |
| 21/08/2014 | 31/12/2016 | \$0.1000 | 500,000 | - | - | (500,000) | - |
| 13/07/2015 | 01/07/2016 | \$0.0750 | 2,000,000 | - | - | (2,000,000) | - |
| 13/07/2015 | 31/12/2016 | \$0.1000 | 2,000,000 | - | - | (2,000,000) | - |
| 13/07/2015 | 12/07/2017 | \$0.1250 | 2,000,000 | - | - | - | 2,000,000 |
| 13/07/2015 | 12/07/2018 | \$0.1500 | 2,000,000 | - | - | - | 2,000,000 |
| 24/11/2015 | 31/12/2016 | \$0.1000 | 2,000,000 | - | - | (2,000,000) | - |
| | | | 12,000,000 | - | - | (8,000,000) | 4,000,000 |

Weighted average exercise price \$0.1400 \$0.0000 \$0.0000 \$0.1400 \$0.1400

The weighted average remaining contractual life of options outstanding at the end of the 2017 financial year was 0.53 years.

Set out below are summaries of share rights granted under the incentive plan:

2018

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|----------------|----------------------------------|-----------|-----------|---------------------------|--------------------------------|
| 02/07/2017 | 09/11/2019 | \$0.0000 | - | 6,000,000 | - | - | 6,000,000 |
| 09/11/2017 | 09/11/2019 | \$0.0000 | - | 2,000,000 | - | - | 2,000,000 |
| | | | - | 8,000,000 | - | - | 8,000,000 |

2017

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|----------------|----------------------------------|-----------|-------------|---------------------------|--------------------------------|
| 29/11/2016 | 30/06/2017 | \$0.0000 | - | 1,000,000 | (1,000,000) | - | - |
| | | | - | 1,000,000 | (1,000,000) | - | - |

Measurement of fair values:

The fair value of the share rights granted during the year was measured using the Black-Scholes option pricing model. The valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|---------------------|----------------|-------------------------|--------------------------|
| 02/07/2017 | 09/11/2019 | \$0.0510 | 103.00% | - | 1.80% | \$0.057 |
| 09/11/2017 | 09/11/2019 | \$0.0510 | 103.00% | - | 1.80% | \$0.051 |

The share rights that were granted during the 2017 financial year, were not subject to any performance conditions and vested at the discretion of the Board of Directors. These rights were valued at their intrinsic value at the vesting date.

The total expense arising from share-based payment transactions recognised during the period as part of employee benefits expense was \$231,629 (2017: \$46,503).

Accounting policy for share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Note 35. Share-based payments (continued)

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Metallica Minerals Limited
Directors' declaration
30 June 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- the remuneration disclosures contained in the Remuneration Report comply with s300A of the Corporations Act 2001.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



P Turnbull
Chairman

28 September 2018
Brisbane

INDEPENDENT AUDITOR'S REPORT

To the members of Metallica Minerals Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Metallica Minerals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of exploration and evaluation assets

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|---|--|
| <p>Refer to note 12 in the financial report</p> <p>The carrying value of the Group's exploration and evaluation asset is impacted by the Group's ability, and intention, to continue to explore this asset.</p> <p>The results of exploration work also determine to what extent the mineral reserves and resources may or may not be commercially viable for extraction. This impacts the ability of the Group to recover the carrying value of the exploration and evaluation assets either through the successful development or sale.</p> <p>Due to the quantum of this asset and the subjectivity involved in determining whether it's carrying value will be recovered through successful development or sale, we have determined this is a key audit matter.</p> | <p>We have critically evaluated management's assessment of each impairment trigger per AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>, including but not limited to:</p> <ul style="list-style-type: none"> • Reviewing the directors' assessment of the carrying value of the exploration and evaluation costs, ensuring that management have considered the effect of potential impairment indicators, commodity prices and the stage of the Group's project against the standard of AASB 6 • Obtaining from management a schedule of areas of interest held by the Group and assessed as to whether the Group had rights of tenure over the relevant exploration areas by obtaining external confirmation from the relevant government agency and also considered whether the Group maintains tenements in good standing • Making enquiries of management with respect to the status of ongoing exploration programs in the respective areas of interest and assessing the Group's cashflow budget for the level of budgeted spend on exploration projects • Considering whether any other data exists which indicates that the carrying amount of the exploration and evaluation asset that is unlikely to be recovered in full from successful development or by sale <p>We have also assessed the appropriateness of the disclosures included in note 12 to the financial report.</p> |

Going Concern

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|---|
| <p>Note 1 of the financial statements outlines the basis of preparation of financial statements which indicates being prepared on a going concern basis.</p> <p>As the group generates no revenue and is reliant on funding from other sources such as capital raising, there is significant judgement involved in determining whether a material uncertainty relating to going concern exists and is critical to the understanding of the financial statements as a whole. As a result, this matter was key to our audit.</p> | <p>In evaluating management’s assessment of the going concern assumption, we performed the following procedures but not limited to:</p> <ul style="list-style-type: none"> • Obtaining and evaluating management’s assessment of the group’s ability to continue as a going concern • Reviewing management’s assumptions in the cash flow forecasts to assess whether current cash levels along with expected cash inflows and expenditure can sustain the operations of the Group for a period of at least 12 months from the date of signing of the financial statements • Assessing the cash flow forecasts provided by management and challenging the assumptions therein in to determine if there is consistency with management’s intention and stated business and operational objectives • Performing a sensitivity analysis over cash flow forecasts as prepared by management based on a number of alternative scenarios • Assessed the adequacy of the disclosures in relation to going concern included in note 1 to the financial report. |

Disposal of SCONI Project tenements

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|---|--|
| <p>Refer to notes 5 and 10 and 25 in the financial report</p> <p>As disclosed in note 5 of the financial report, the Metallica Minerals Limited disposed SCONI Project tenements for cash and shares in Australian Mines Limited.</p> <p>The audit of the accounting for this acquisition is a key audit matter due to the materiality of the amount and the significant judgement involved in assessing the determination of the fair value of consideration and the final sales price which included contingent deferred consideration.</p> | <p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Reviewing the purchase and sale agreement to understand the terms and conditions of the acquisitions and evaluating management's application of the relevant accounting standards • Testing the gain on disposal by reconciling the consideration to the purchase and sale agreement and bank accounts • Verifying whether the gain on disposal was calculated in accordance with the relevant clauses of the agreement. <p>We have also assessed the appropriateness of the disclosures included in Notes 5, 10 and 25 to the financial report.</p> |

Carrying value of Heavy Mineral Sands (HMS) plant

| <i>Key audit matter</i> | <i>How the matter was addressed in our audit</i> |
|--|---|
| <p>As disclosed in note 11, plant and equipment includes Heavy Mineral Sands (HMS) plant of \$1,000,000 which represents a significant balance recorded in the consolidated statement of financial position.</p> <p>The evaluation of the recoverable amount of the HMS plant requires significant judgement in determining the key assumptions supporting the expected future cash flows of this asset.</p> | <p>We have evaluated the management's impairment assessment of plant and equipment per AASB 136 <i>Impairment of Assets</i>, and performed, amongst others, the following procedures:</p> <ul style="list-style-type: none"> • Critically assessing the judgements made by the Group in determining the fair value less costs to sell of plant and equipment • Reviewing third party documentation provided by management and obtaining documented representation from management of the discussions they have had that goes to support the fair value of the plant. <p>We have also assessed the appropriateness of the disclosures included in note 11 to the financial report.</p> |

Other information

The directors are responsible for the other information. The other information comprises the information contained in directors' report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 16 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Metallica Minerals Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

A handwritten signature in black ink, appearing to read 'R M Swaby', is written over a faint, light-colored BDO logo watermark.

R M Swaby

Director

Brisbane, 28 September 2018

Metallica Minerals Limited
Shareholder information
30 June 2018

The shareholder information set out below was applicable as at 19 September 2018.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares |
|---------------------------------------|---|
| 1 to 1,000 | 117 |
| 1,001 to 5,000 | 398 |
| 5,001 to 10,000 | 322 |
| 10,001 to 100,000 | 928 |
| 100,001 and over | 462 |
| | <hr/> |
| | 2,227 |
| | <hr/> <hr/> |
| Holding less than a marketable parcel | 1,070 |
| | <hr/> <hr/> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares % of total shares issued |
|---|---|
| | Number held |
| Jien Mining Pty Ltd | 40,099,678 |
| Plan-1 Pty Ltd | 13,287,502 |
| J P Morgan Nominees Australia Limited | 6,110,348 |
| Bondline Limited | 4,910,966 |
| Mr Paul Dostal | 4,500,000 |
| Corowa Nominees Pty Ltd | 4,380,098 |
| Mrs Carolyn Dow | 3,500,000 |
| MBM Corporation Pty Ltd | 3,200,000 |
| Latsod Pty Ltd - Dostal Superfund A/C | 3,000,000 |
| BNP Paribas Nominees Pty Ltd - IB Au Noms Retailclient DRP | 2,754,890 |
| Asden Investments Pty Limited - Asden P/L Staff S/F A/C | 2,745,121 |
| Mr Lewis Alfred Shotter | 2,680,000 |
| Gefrato Trading Pty Ltd | 2,610,000 |
| Australian Exports & Industrialisation Super Pty Ltd - Buck Family Super Fund A/C | 2,512,500 |
| Mr Graham Raymond Dow | 2,500,630 |
| Codan Trustees - The Mount Cotton Account | 2,500,000 |
| Minnelex Pty Ltd - Pyper Family A/C | 2,465,260 |
| Buckingham Investment Financial Services Pty Ltd - Lennox Head Property A/C | 2,000,000 |
| PWS Super Pty Ltd - Pure Water Systems S/F A/C | 2,000,000 |
| Mrs Zi Juan Qi - Chen Family A/C | 2,000,000 |
| | <hr/> |
| | 109,756,993 |
| | <hr/> <hr/> |
| | 34.04 |
| | <hr/> <hr/> |

Metallica Minerals Limited
Shareholder information
30 June 2018

Twenty largest quoted option holders

| | Options over ordinary shares | ordinary shares % of total options |
|---|------------------------------------|---|
| Mr Graham Raymond Dow | 2,025,000 | 5.33 |
| Mrs Carolyn Dow | 2,000,000 | 5.26 |
| MBM Corporation Pty Ltd | 2,000,000 | 5.26 |
| Latsod Pty Ltd - Dostal Superfund A/C | 1,997,675 | 5.26 |
| Mr Paul Dostal | 1,650,000 | 4.34 |
| Pine Air Pty Ltd - Argyle & Sutherland SF A/C | 1,600,000 | 4.21 |
| Mr Hongtao Cui | 1,449,717 | 3.82 |
| Jomot Pty Ltd | 1,300,496 | 3.42 |
| Mr Anthony Robert Ramage | 1,300,000 | 3.42 |
| Srejca Pty Ltd | 1,134,194 | 2.98 |
| Mrs Julie Anne Beynon | 1,102,500 | 2.90 |
| Mr David Gaze | 800,000 | 2.11 |
| Mr Robert Beynon & Mrs Julie Beynon - Beynon Super Fund A/C | 775,000 | 2.04 |
| Corowa Nominees Pty Ltd | 766,699 | 2.02 |
| Mr Grant Schmidlechner | 750,000 | 1.97 |
| Mr Ross Benjamin George - Adalta Holdings A/C | 635,964 | 1.67 |
| Plan-1 Pty Ltd | 572,725 | 1.51 |
| Plan-1 Pty Ltd | 568,751 | 1.50 |
| BNP Paribas Nominees Pty Ltd - Ib Au Noms Retailclient Drp | 532,500 | 1.40 |
| Steve Boulton | 500,000 | 1.32 |
| | <u>23,461,221</u> | <u>61.74</u> |

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

Substantial holders in the company are set out below:

| | Number held | Ordinary shares % of total shares issued |
|---------------------|-------------|---|
| Jien Mining Pty Ltd | 40,099,678 | 12.44 |

| | Options over ordinary shares | Ordinary shares % of total options |
|---------------------------------------|------------------------------------|---|
| Mr Graham Raymond Dow | 2,025,000 | 5.33 |
| Mrs Carolyn Dow | 2,000,000 | 5.26 |
| MBM Corporation Pty Ltd | 2,000,000 | 5.26 |
| Latsod Pty Ltd - Dostal Superfund A/C | 1,997,675 | 5.26 |

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Metallica Minerals Limited
Shareholder information
30 June 2018

There are no other classes of equity securities.