DIATREME RESOURCES LIMITED

ABN 33 061 267 061

HALF-YEAR REPORT – 30 JUNE 2013

Contents

General information

The financial report covers Diatreme Resources Limited (the "Company") and the entities it controlled (together referred to as the "Group"). The financial report is presented in Australian dollars, which is Diatreme Resources Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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

Level 2, 87 Wickham Terrace
Spring Hill
Queensland 4000

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 22 August 2013.

DIRECTORS' REPORT

Your directors present their report on the Group consisting of Diatreme Resources Limited and the entities it controlled at the end of, or during, the half-year ended 30 June 2013.

Directors

The following persons were directors of Diatreme Resources Limited during the whole of the half-year and up to the date of this report:

A J Fawdon
D H Hall
G White
A Tsang
C Wang
N McIntyre

Principal activities

During the financial half-year the principal continuing activity of the Group was exploration for heavy mineral sands, copper, gold and base metals in Australia.

Review of operations

The loss after income tax of the Group for the half-year was $2,388,924 (2012: loss $1,399,634). The loss reflects the nature of the Group's principal activity.

During the half-year, Diatreme Resources Limited scaled back its mineral exploration activities and the Cyclone Zircon Project ("Cyclone") feasibility studies to conserve the Company's cash position. Efforts to secure corporate and project funding were undertaken both locally and overseas, resulting in share placements being confirmed during the period raising $850,000 (before costs). Further funds are expected through this process and possibly by way of joint venture agreements.

Advancements in the Cyclone feasibility studies concentrated upon bulk sample analytical testwork, the establishment of water drilling target areas for future mine development, and the progressing of road access proposals from Forrest, on the Transcontinental railway, to the Cyclone Mining Lease Application. To assist in the search for deep and large groundwater supplies, Miscellaneous Licence 69/18 has been granted close to Cyclone for the purpose of securing shallow water supplies for future drilling.

In addressing a desire to locate and establish further mineral sand resources for a future mining operation at Cyclone, a new exploration tenement has been applied for adjacent to and along strike from the current resource. This tenement contains known heavy mineral prospects along with untested ground.

The Company has a number of exploration tenements targeting mineral sands in WA, SA and Queensland. However, work cannot commence until the State governments responsible grant title.

In 2012, negotiations between the Company and Antofagasta Minerals S.A. (a large international copper miner) commenced toward a farm-in agreement over the Clermont Copper Project. With the farm-in agreement signed in January 2013, an initial reverse circulation / diamond drilling program was immediately commenced. Following its conclusion in late February, follow-up studies and field visits have now assisted the Company to develop further drilling programs to be conducted over the farm-in area during the second half of 2013.

Following historic data compilation and prospect review studies over the Gilbert River Project tenements in north Queensland, low cost ground exploration was undertaken to establish specific targets for detailed geological mapping and sampling.

A Heads of Agreement for iron exploration over areas within the Anabama Copper Project was negotiated with Braemar Iron Pty Ltd ('Braemar"). Under the tenement conditions, the Company retains the right to continue to explore for minerals, other than Braemar's iron target. Braemar are committed to exploration funding of $500,000 over an initial two years to earn a 51% interest in the iron project.

With market conditions remaining less than ideal, the Company maintains tight control over expenditure whilst aiming to ensure that the Company assets retain their true value.

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

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 on page 3

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.:

A J Fawdon
Executive Chairman/CEO
22 August 2013

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Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
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DECLARATION OF INDEPENDENCE BY C J SKELTON TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

As lead auditor for the review of Diatreme Resources Limited for the half-year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Diatreme Resources Limited and the entities it controlled during the period.

C J Skelton

Director

BDO Audit Pty Ltd

Brisbane: 22 August 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2013

		Half-year	
	Note	2013 $	2012 $
Revenue	3	159,112	130,174
Employee benefits expenses		(517,347)	(562,468)
Depreciation expenses		(58,366)	(82,218)
Exploration assets written off		(1,376,783)	(134,891)
Impairment of available-for-sale financial assets	3	-	(130,069)
Share based payment expense	4	(39,764)	-
Other expenses	3	(553,580)	(615,763)
Finance costs		(2,196)	(4,399)
Loss before income tax		(2,388,924)	(1,399,634)
Income tax expense		-	-
Loss after income tax for the half-year		(2,388,924)	(1,399,634)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to the owners of Diatreme Resources Limited		(2,388,924)	(1,399,634)

	Cents	Cents
Loss per share		
Basic earnings per share	(0.5)	(0.4)
Diluted earnings per share	(0.5)	(0.4)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Note	30 Jun 2013 $	31 Dec 2012 $
ASSETS			
Current assets			
Cash and cash equivalents		1,810,692	1,973,713
Trade and other receivables		175,749	182,830
Current tax asset		-	401,061
Total current assets		1,986,441	2,557,604
Non-current assets			
Available-for-sale financial assets		32,517	32,517
Property, plant and equipment		470,709	521,654
Exploration and evaluation assets		18,217,487	19,251,664
Other assets		707,204	701,123
Total non-current assets		19,427,917	20,506,958
Total assets		21,414,358	23,064,562
LIABILITITES			
Current liabilities			
Trade and other payables		274,537	289,172
Interest-bearing liabilities		6,787	20,359
Provisions		136,404	135,314
Total current liabilities		417,728	444,845
Total liabilities		417,728	444,845
Net assets		20,996,630	22,619,717
EQUITY			
Issued capital	4	43,815,825	43,089,752
Reserve	5	39,764	-
Accumulated losses		(22,858,959)	(20,470,035)
Total equity		20,996,630	22,619,717

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2013

	Issued capital	Share based payments reserve	Accumulated losses	Total equity
	$	$	$	$
Balance at 1 January 2012	**39,853,242**	**-**	**(15,561,567)**	**24,291,675**
Loss after income tax expense for the half-year	-	-	(1,399,634)	(1,399,634)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income/(loss) for the half-year	-	-	(1,399,634)	(1,399,634)
Transactions with owners in their capacity as owners:				
Issue of share capital, net of transaction costs	-	-	-	-
At 30 June 2012	**39,853,242**	**-**	(16,961,201)	**22,892,041**

	Issued capital	Share based payments reserve	Accumulated losses	Total equity
	$	$	$	$
At 1 January 2013	**43,089,752**	**-**	**(20,470,035)**	**22,619,717**
Loss after income tax expense for the half-year	-	-	(2,388,924)	(2,388,924)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income/(loss) for the half-year	-	-	(2,388,924)	(2,388,924)
Transactions with owners in their capacity as owners:				
Issue of share capital, net of transaction costs	726,073	-		726,073
Non-cash share based payments	-	39,764	-	39,764
At 30 June 2013	**43,815,825**	**39,764**	**(22,858,959)**	**20,996,630**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2013

	Note	Half-year 2013 $	Half-year 2012 $
Cash flows from operating activities			
Receipts in the course of operations		100,737	35,600
Receipts from research and development tax claims		401,061	-
Payments to suppliers/employees		(1,096,215)	(1,168,327)
Interest received		46,501	66,384
Finance costs		(2,196)	(4,399)
Net cash used in operating activities		(550,112)	(1,070,742)
Cash flows from investing activities			
Payments for property, plant and equipment		(7,422)	(22,035)
Receipt from Antofagasta Minerals S.A.	6	828,281	383,941
Payments for exploration and evaluation assets		(1,187,744)	(1,783,635)
Proceeds from sale of property, plant and equipment		-	69,545
Payments for security deposits		(2,500)	-
Refund of security deposit		-	5,000
Net cash used in investing activities		(369,385)	(1,347,184)
Cash flows from financing activities			
Proceeds from issue of shares		850,000	-
Payments for share issue costs		(123,927)	-
Receipt of deposit on shares placement		43,975	
Repayment of interest-bearing liabilities		(13,572)	(91,055)
Net cash used in financing activities		756,476	(91,055)
Net increase/(decrease) in cash and cash equivalents		(163,021)	(2,508,981)
Cash and cash equivalents at the beginning of the half-year		1,973,713	3,650,010
Cash and cash equivalents at the end of the half-year		1,810,692	1,141,029

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2013

1. STATEMENT OF SIGNIFICANT ACOUNTING POLICIES

a) Statement of compliance

These general purpose financial statements for the interim half-year reporting period ended 30 June 2013 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2012 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

b) Critical judgements in applying accounting policies

The accounting policies include the capitalisation of exploration and evaluation expenditure which as at 30 June 2013 amounts to $18,217,487 (31 December 2012: $19,251,664). This represents a significant asset of the Group. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the relevant areas or where activities in the areas have not reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the areas are continuing.

c) Material uncertainty regarding going concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has incurred a net loss after tax for the half-year ended 30 June 2013 of $2,388,924 (2012: $1,399,634), and a net cash outflow from operations of $550,112 (2012: $1,070,742). At 30 June 2013, the Group had net current assets of $1,568,713 (31 December 2012: $2,112,759).

The Group’s ability to continue as a going concern and pay its debts as and when they fall due, given the Group’s intended operational plans, assumes the following:

- further capital raisings in the next six months; and
- active management of the current level of discretionary expenditure in line with the funds available to the Group.

The Directors have reviewed the business outlook and cash flow forecasts and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will achieve the matters set out above. As such, the Directors believe that they will continue to be successful in securing additional capital through debt or equity issues as and when the need to raise working capital arises.

For the previous twelve months to 31 December 2012, the Group had raised $2,540,000 (before costs) from share placements to sophisticated and professional investors, and $791,382 from a Share Purchase Plan. During the current half-year to 30 June 2013, the Group raised a further $850,000 (before costs) from share placements to sophisticated and professional investors.

In the event that adequate funds cannot be raised as required, there will exist a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the ordinary course of business.

The Directors believe that they will continue to be successful in securing additional funds through the issue of securities as and when required. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

d) Available for sale financial assets

As detailed in Note 20 (f) of the previous annual financial statements, the available for sale financial assets are recorded at cost as there is no active market for the shares of the investee company.

The Group follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement to determine when an available-for-sale financial asset is impaired.

This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

e) New, revised or amending Accounting Standards and Interpretations

There were new standards and amendments to standards that were mandatory for the first time for the financial year beginning 1 January 2013. The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 10 Consolidated Financial Statements establishes a revised control model that applies to all entities. It replaces the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements and AASB Interpretation 112 Consolidation – Special Purpose Entities. The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional application guidance.

Under AASB 10, the group controls an entity when the group 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 over the entity.

The Group has reassessed its consolidation conclusions in light of the new control principles in AASB 10 and concluded that no changes are required. Accordingly, the adoption of AASB 10 has not resulted in any adjustments to the carrying amounts in the financial statements.

The Group has applied *AASB 11 Joint Arrangements* from 1 January 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of AASB 11 had no effect on the financial position or performance of the Group at 30 June 2013, but there may be an effect on the Group for the six-month period ended 31 December 2013.

Other new and amended accounting standards that apply for the first time include *AASB 12 Disclosure of Interests in Other Entities, AASB 13 Fair Value Measurement, AASB 119 Employee Benefits (September 2011), AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13, AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities and AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*. While these standards introduced new disclosure requirements, they did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

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

2. SEGMENT INFORMATION

Operating segments are reported in a manner that is consistent with the internal reporting to the chief operating decision maker ("CODM"), which has been identified by the Group as the Chairman and the other members of the Board of directors.

(i) Identification of reportable segments
The Group has identified that it operates in only one segment based on the internal reports that are reviewed and used by the CODM in assessing performance and determining the allocation of resources. The Group operates in one business segment as an explorer for heavy mineral sands, copper, gold and base metals in Australia.

(ii) Revenue and assets by geographical region
The Group's revenue is received from sources and assets that are located wholly within Australia.

(iii) Financial Information
Reportable items required to be disclosed in this note are consistent with the information disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position and are not duplicated here.

3. REVENUE, IMPAIRMENT AND OTHER EXPENSES

	6 months ended	
	30 Jun 2013	**30 Jun 2012**
	$	**$**
(a) Revenue		
Interest	53,664	70,330
Management fees	2,394	1,151
Other	103,054	58,693
	159,112	130,174
(b) Impairment		
Impairment of available-for-sale financial assets	-	130,069

At the half-year 30 June 2012, an assessment of the fair value of all available-for-sale financial assets resulted in an impairment loss of $130,069 being recognised in the statement of comprehensive income. The Group's assessment of the fair value was made in accordance with AASB 139 and was based on the decline in financial health of and short-term business outlook for the investee.

3. REVENUE, IMPAIRMENT AND OTHER EXPENSES (Continued)

	6 months ended	
	30 Jun 2013	30 Jun 2012
	$	$
(b) Other expenses		
Professional fees	58,114	72,780
Rental expenses on operating leases	179,358	167,945
Listing and share registry expenses	34,991	38,650
Administration costs	281,117	336,388
	553,580	615,763

4. SHARE BASED PAYMENT EXPENSE

The Company established an employee share option plan (ESOP 2012) which was approved by shareholders at the AGM on 24 May 2012. The purpose of the scheme was to give an additional incentive to Directors, employees and consultants, to provide dedicated and on-going commitment and effort to the Company.

Consequently, 9,400,000 share options were issued to the Company's employees and consultants on 15 March 2013. The exercise price of the options is $0.10 per share vesting on 1 May 2014, and with an expiry date of 30 April 2019.

On 31 May 2013, following shareholders' approval, 6,000,000 share options were issued to the Directors. The exercise price of the options is $0.10 per share vesting on 1 May 2014, and with an expiry date of 30 April 2019.

All options issued during the half year were valued using the Black-Scholes model. The fair value of options granted during the six months ended 30 June 2013 was estimated on the date of issue using the following assumptions:

	Issue date	
	15 Mar 2013	31 May 2013
Exercise price ($)	0.10	0.10
Share price volatility (%)	103.68	107.76
Risk-free interest rate (%)	3.28	3.28
Expected life of the options (years)	6.13	5.92
Share price at issue date ($)	0.02	0.01

For the six months ended 30 June 2013, the Company has recognised $39,764 of share based payment transactions expense in the consolidated statement of profit or loss and other comprehensive income (30 June 2012: Nil).

5. ISSUED CAPITAL

	30 Jun 2013 $	31Dec 2012 $
507,582,422 (Dec 2012: 473,582,422) fully paid ordinary shares	43,815,825	43,089,752

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
1 January 2012	Opening balance	354,597,423		39,853,242
July 2012	Shares issued to sophisticated investors	8,432,432	0.037	312,000
July	Exercise of listed options	4	0.150	-
August	Shares issued to sophisticated investors	5,405,405	0.037	200,000
September	Shares issued to sophisticated investors	15,891,892	0.037	588,000
October	Shares issued to sophisticated investors	57,600,000	0.025	1,440,000
December	Shares issued to sophisticated investors	31,655,266	0.025	791,382
	Share issue costs	-		(94,872)
31 December 2012	Balance	473,582,422		43,089,752
May 2013	Shares issued to sophisticated investors	4,797,363	0.025	119,934
Jun	Shares issued to sophisticated investors	29,202,637	0.025	730,066
	Share issue costs	-		(123,927)
30 June 2013	Balance	507,582,422		43,815,825

(b) Share options

Number of options	Exercise price	Expiry	
88,650,035 (listed)	15 cents	30 September 2013	
9,400,000 (unlisted)	10 cents	30 April 2019	(Refer Note 4 above)
6,000,000 (unlisted)	10 cents	30 April 2019	(Refer Note 4 above)

6. RESERVE

Share-based payment reserve

	30 Jun 2013 $	31 Dec 2012 $
Opening balance	-	-
Options issued during the period (Refer to Note 4)	39,764	-
Closing balance	39,764	-

7. RECEIPT FROM ANTOFAGASTA

The Group's 100% owned subsidiary, Chalcophile Resources Pty Ltd entered into a Memorandum of Understanding ("MoU") on 27 March 2012 with Antofagasta Minerals S.A.

("Antofagasta") in respect of the Company's Clermont Copper Project. The Group subsequently executed a Farm-In Agreement with Antofagasta on 18 January 2013.
For the half-year ended 30 June 2013, and under the agreed terms, the Company received \$828,281 (\$US \$863,585) from Antofagasta Minerals S.A to fund exploration at the Clermont Copper Project. From this receipt, the Company had incurred \$744,870 (\$US \$765,710) as at 30 June 2013, with the balance of \$83,411 (\$US 97,875) to be spent in July 2013.

8. CONTINGENCIES

There has been no change in contingent liabilities since the end of the previous annual reporting date.

9. COMMITMENTS

(a) Tenement expenditure commitments

So as to maintain current rights to tenure of exploration tenements, the Group will be required to outlay amounts in respect of tenement rent to the relevant governing authorities and to meet certain annual exploration expenditure commitments. These outlays (exploration expenditure and rent), which arise in relation to granted tenements, inclusive of tenement applications are as follows:

	30 Jun 2013 $	31 Dec 2012 $
Payable within 1 year	1,124,004	943,437
Payable between one and five years	4,534,038	4,179,067
	5,658,042	5,122,504

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. Cash security bonds totalling \$599,935 (2012: \$593,855) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

Performance bonds totalling \$351,000 (2012: \$351,000) have been issued by the Australia and New Zealand Banking Group Limited ("ANZ") on behalf of one of the Company's subsidiaries, in respect of several Western Australian tenements. ANZ will indemnify against any loss arising from the performance bonds and the indemnities are secured against the cash security bonds above.

(b) Operating lease commitments

	30 Jun 2013 $	31 Dec 2012 $
Payable within 1 year	314,791	305,968
Payable between one and five years	650,574	796,782
	965,365	1,102,750

The Company has leasing arrangements for the rental of office space expiring on 31 July 2016.

10. EVENTS SUBSEQUENT TO REPORTING DATE

On 23 July 2013 the Company announced that it had received firm commitments for placements totaling 80,000,000 ordinary shares at $0.02 (two cents) each to raise a total of $1.6 million.

The placements, to new and existing sophisticated investor shareholders, have been negotiated on the basis that the funding is directed toward the advancement of feasibility studies over the Cyclone Zircon Project.

The placements were completed by 20 August 2013.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 5 to 15 are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(b) give a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date.

In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors and is signed for and on behalf of the Directors by:

A J Fawdon
Executive Chairman/CEO

Brisbane, 22 August 2013

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Diatreme Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Diatreme Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Diatreme Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Diatreme Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Diatreme Resources Limited is not in accordance with the *Corporations Act 2001* including:

A. giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and

B. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter - Material Uncertainty Regarding Going Concern

Without modifying our conclusion, we draw attention to Note 1(c) in the half-year financial report. The half-year financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of the business. The ability of the consolidated entity to maintain continuity of normal business activities and to pay its debts as and when they fall due, is dependent upon the ability of the consolidated entity to successfully raise additional funding and/or the successful exploration and subsequent exploitation of its areas of interest through sale or development. As a result of these factors, there exists a material uncertainty regarding the ability of the consolidated entity to continue as a going concern. Therefore the consolidated entity may be unable to realise its assets and extinguish its liabilities in the normal course of business.

BDO Audit Pty Ltd

BDO

Chris Skelton

C J Skelton

Director

Brisbane: 22 August 2013