

DIATREME RESOURCES LIMITED
ABN 33 061 267 061

HALF-YEAR REPORT – 30 JUNE 2016

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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:

Unit 8
61 Holdsworth Street
Coorparoo
Queensland 4151

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 29 August 2016.

COMPETENT PERSON STATEMENTS

The information in this report, insofar as it relates to Exploration Results and Mineral Resources is based on information compiled by Mr Ian Reudavey, who is a full time employee of Diatreme Resources Limited and a Member of the Australian Institute of Geoscientists. Mr Reudavey has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Reudavey consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

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 2016.

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 Tsang
C Wang
Y Zhuang

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 ended 30 June 2016 was \$942,422 (2015: loss \$2,371,326). The loss reflects the nature of the Group's principal activity.

During the half-year, Diatreme Resources Limited continued with its focus on advancing the key projects of Cyclone (Cyclone Zircon Project), Tick Hill (Tick Hill Gold Project) and Cape Bedford (Cape Bedford Silica & HM Sands Project).

Management continue to examine tenement areas currently held and were possible opportunities to reduce holding costs are reviewed to ensure only the most prospective areas are held by the company.

The Cyclone Project continues to be progressed through the last stage of a de-risking process. The last stage of which is obtaining the environmental permitting needed for the mine access road and all associated camp infrastructure. In addition, in order to update the previously undertaken Pre-Feasibility Studies (PFS) an independent review and update of the Project was undertaken by an independent engineering services firm Sedgman Ltd. This report confirmed the project's commercial viability within the current day context and current commercial parameters.

Key highlights during the period in review include;

- The Western Australian EPA provided Lost Sands Pty Ltd with draft conditions relating to environmental approvals for the Cyclone Zircon Project, these were reviewed by Diatreme and comments submitted to the EPA. Final conditions, with particular reference to environmental offsets, are under review by the EPA. Next step is release of the EPA report with environmental conditions attached to the Western Australian Minister for the Environment for final approval. Final regulatory approval expected during third quarter 2016.
- An independent Cyclone Project Enhancement and Update Study that was undertaken by consultants Sedgman Limited generated financial modelling results of \$121M NPV with payback in under 3 years.
- Reporting of a mineral resource estimate for the Tick Hill tailings material, and the subsequent completion of a scoping study for re-processing of the Tick Hill tailings material.
- Final award by the Queensland regulator of the Cape Bedford EPM to Diatreme Resources Ltd for a five-year term.
- Continued drawdowns of a \$3.0m convertible Note facility from a private Chinese Investor on favourable terms to the company. Total drawn to 30th June 2016 was \$2.06m with balance to be drawn during second half of 2016.

Exploration operations during the half year involved:

- Reporting of an updated global ore reserve estimate for the Cyclone Project of 138 million tonnes (Mt) at 2.6% heavy minerals (HM) at a 1% HM cut-off grade, containing 3.5Mt of HM.

- Costs associated with the Wanna South tenement were written off during the year due to the relinquishment of the tenement.
- A maiden mineral resource estimate was reported for the Tick Hill tailings material, comprising 630kt at 1.08 g/t Au containing 680kg of gold (22,000 troy ounces). The estimate was based on the data from two aircore drilling programs and positive results obtained from metallurgical testwork on bulk samples from each of the tailings cells.
- A scoping study report for the Tick Hill Tailings Project confirmed the potential viability of a standalone operation extracting, re-grinding and processing the tailings through a standard CIP/CIL circuit.
- Cape Bedford EPM17795 in North Queensland was granted for a five-year term in June 2016. The EPM lies some 40km north of Cooktown and covers the majority of the Cape Bedford – Cape Flattery dunefield, surrounding the Cape Flattery silica sand mining operations. Extensive silica sand has been identified by previous exploration, and Diatreme plans to follow-up previous reports of HM occurrences.

With market conditions remaining difficult for junior explorers, the Company maintains tight control over expenditure whilst aiming to ensure that the Company advances its priority exploration assets towards establishment where commercially viable of actual mining operations.

Significant changes in the state of affairs

During the current half-year to 30 June 2016, the Company drew down \$965,000 from the convertible note facility, with a further \$435,000 drawn down during July 2016.

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 4.

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



W Wang
Chairman
29 August 2016



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DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

As lead auditor for the review of Diatreme Resources Limited for the half-year ended 30 June 2016, 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 review; and
2. 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.

A handwritten signature in black ink, appearing to be 'A J Whyte', written over a faint circular stamp or watermark.

A J Whyte
Director

BDO Audit Pty Ltd

Brisbane, 29 August 2016

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2016**

	Note	Half-year	
		2016 \$	2015 \$
Revenue	3	56,286	107,108
Other income		761	-
Employee benefits expenses		(390,431)	(373,879)
Termination benefits expenses		-	(57,200)
Depreciation expenses		(23,812)	(31,223)
Exploration assets written off	3	(108,747)	(1,557,884)
Other expenses	3	(379,467)	(457,168)
Finance costs		(97,012)	(1,080)
Loss before income tax		(942,422)	(2,371,326)
Income tax expense		-	-
Net loss for the half-year		(942,422)	(2,371,326)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year		(942,422)	(2,371,326)
		Cents	Cents
Loss per share			
Basic earnings per share		(0.1)	(0.3)
Diluted earnings per share		(0.1)	(0.3)

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 2016**

	Note	30 Jun 2016 \$	31 Dec 2015 \$
ASSETS			
Current assets			
Cash and cash equivalents		47,855	20,320
Trade and other receivables		68,096	63,142
Total current assets		<u>115,951</u>	<u>83,462</u>
Non-current assets			
Available-for-sale financial assets		3,252	3,252
Property, plant and equipment		194,524	231,262
Exploration and evaluation assets	1(b) & 4	13,239,288	13,114,514
Other assets		126,301	112,936
Total non-current assets		<u>13,563,365</u>	<u>13,461,964</u>
Total assets		<u>13,679,316</u>	<u>13,545,426</u>
LIABILITIES			
Current liabilities			
Trade and other payables		441,051	361,702
Provisions	5	5,546	5,546
Total current liabilities		<u>446,597</u>	<u>367,248</u>
Non-current liabilities			
Borrowings	6	1,914,052	983,409
Provisions	5	272,000	272,000
Total non-current liabilities		<u>2,186,052</u>	<u>1,255,409</u>
Total liabilities		<u>2,632,649</u>	<u>1,622,657</u>
Net assets		<u>11,046,667</u>	<u>11,922,769</u>
EQUITY			
Issued capital	7	48,053,223	48,048,903
Reserve		333,173	271,173
Accumulated losses		<u>(37,339,729)</u>	<u>(36,397,307)</u>
Total equity		<u>11,046,667</u>	<u>11,922,769</u>

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 2016**

	Issued capital	Share based payments reserve	Convertible note reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
At 1 January 2015	47,108,903	191,938	-	(32,519,872)	14,780,969
Total comprehensive income:					
Loss for the half-year	-	-	-	(2,371,326)	(2,371,326)
Transactions with owners in their capacity as owners:					
Shares issued, net of transaction costs	940,000	-	-	-	940,000
At 30 June 2015	48,048,903	191,938	-	(34,891,198)	13,349,643

	Issued capital	Share based payments reserve	Convertible note reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
At 1 January 2016	48,048,903	191,938	79,235	(36,397,307)	11,922,769
Total comprehensive income:					
Loss for the half-year	-	-	-	(942,422)	(942,422)
Transactions with owners in their capacity as owners:					
Shares issued, net of transaction costs	4,320	-	-	-	4,320
Convertible note drawdown	-	-	62,000	-	62,000
At 30 June 2016	48,053,223	191,938	141,235	(37,339,729)	11,046,667

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 2016**

	Note	Half-year	
		2016 \$	2015 \$
Cash flows from operating activities			
Receipts in the course of operations		48,575	70,484
Payments to suppliers and employees		(740,958)	(881,641)
Interest received		1,530	12,480
Finance costs		(1,808)	(1,080)
Net cash inflow/(outflow) from operating activities		(692,661)	(799,757)
Cash flows from investing activities			
Payments for property, plant and equipment		(4,486)	(929)
Payment for tenement acquisition		-	(415,000)
Payments for exploration and evaluation assets		(249,446)	(368,230)
Proceeds from sale of property, plant and equipment		18,173	37,511
Payment for security deposit		(13,365)	-
Refund of security deposit		-	200,421
Net cash inflow/(outflow) from investing activities		(249,124)	(546,227)
Cash flows from financing activities			
Proceeds from issue of shares		4,370	1,000,000
Payments for share issue costs		(50)	(66,737)
Proceeds from drawdowns of borrowings	6	965,000	500,000
Net cash inflow/(outflow) from financing activities		969,320	1,433,263
Net increase in cash and cash equivalents		27,535	87,279
Cash and cash equivalents at the beginning of the half-year		20,320	354,422
Cash and cash equivalents at the end of the half-year		47,855	441,701

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 2016****1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****a) Statement of compliance**

These general purpose financial statements for the interim half-year reporting period ended 30 June 2016 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 2015 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 2016 amounts to \$13,239,288 (31 December 2015: \$13,114,514). 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 of interest or where activities in these 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 these areas of interest 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 2016 of \$942,422, and a net cash outflow from operations of \$692,661. At 30 June 2016, the Group's current liabilities exceeded its current assets by \$330,646.

During the current half-year to 30 June 2016, the Group drew down \$965,000 from the convertible note facility, with a further \$435,000 drawn down during July 2016. A final \$500,000 tranche is expected to be received in August 2016.

During July 2016 the Group raised \$754,000 comprising of \$519,000 from a Share Purchase Plan, and \$235,000 from a private placement.

The Group's ability to continue as a going concern and pay its debts as and when they fall due, is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the Group's tenements, and/or sale of non-core assets.

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.

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.

d) New, revised or amending Accounting Standards and Interpretations

No new, revised or amending Accounting Standards or Interpretations applied for the first time during the half year that had a material impact on the financial report.

e) Fair values

The fair values of the Group's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

2. SEGMENT INFORMATION

The Group currently operates in one business segment and one geographical segment, namely explorer for heavy mineral sands, copper, gold and base metals in Australia. The revenues and results of this segment are those of the Group as a whole and are set out in the Consolidated Statement Profit or Loss and Other Comprehensive Income.

	6 months ended	
	30 Jun 2016	30 Jun 2015
	\$	\$
3. REVENUE, IMPAIRMENT AND OTHER EXPENSES		
(a) Revenue		
Interest	1,530	12,480
Other	54,756	94,628
	56,286	107,108
(b) Other expenses		
Professional fees	38,520	55,439
Rental expenses on operating leases	202,434	193,991
Listing and share registry expenses	24,717	35,340
Administration costs	113,796	172,398
	379,467	457,168

(c) Exploration assets written off

\$108,747 of exploration asset cost associated with the Wanna South tenement was written off during the half year ended 30 June 2016 due to the relinquishment of the tenement. During the half year 30 June 2015 a review of exploration data in conjunction with management assessment, resulted in \$1,557,884 write-off of exploration assets.

4. EXPLORATION AND EVALUATION ASSETS

	30 Jun 2016	31 Dec 2015
	\$	\$
Exploration and evaluation assets – at cost less impairment	13,239,288	13,114,514
Opening balance	13,114,514	14,120,130
Tenement acquisition	-	415,000
Costs capitalised	233,521	883,723
Costs written off	(108,747)	(2,304,339)
	13,239,288	13,114,514

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest

On 20 March 2015, the Department of Natural Resources and Mines approved the transfer of the three mining leases comprising the Tick Hill Project (MLs 7094, 7096 and 7097) from Mount Isa Mines Limited (MIM) to the Company.

This event satisfied the final milestone under the Tick Hill Gold Project “Exploration Farm-in and Joint Venture Agreement”, dated 17 June 2013 (JVA), between Diatreme Resources Limited and Superior Resources Limited (SPQ).

In addition, on 30 January 2015, SPQ and the Company confirmed that the remaining conditions of the JVA have been waived and as a result, SPQ rights and obligations in relation to the Tick Hill Gold Project have commenced from that date.

Under the JVA, SPQ has the right to earn a 50% interest in the project by:

- spending a minimum of \$750,000 on exploration, which will include substantial drilling over a two year earn-in period;
- making a payment to the Company of \$100,000; and
- lodging 50% of the Queensland Government security bond on the tenements.

At 30 June 2016, SPQ has not earned any interest in the joint venture.

5. PROVISIONS

	30 Jun 2016	31 Dec 2015
	\$	\$
Current liabilities		
Employee benefits	5,546	5,546
Non-current liabilities		
Rehabilitation	272,000	272,000

6. NON-CURRENT LIABILITY - BORROWINGS

	30 Jun 2016	31 Dec 2015
	\$	\$
Unsecured		
Convertible notes	901,511	463,409
Loan	901,511	463,409
Deferred gain on initial recognition of loan	111,030	56,591
	1,914,052	983,409

During the year ended 31 December 2015, as part of the capital raising exercise, the Company entered into a funding agreement with a private investor for provision of a \$3 million facility.

The facility terms are as follows:

- Six \$500,000 tranches drawn quarterly over a 15 month period, starting from receipt of the deposit (1st tranche) during the period ended 30 June 2015, to comprise a fully drawn facility of \$3 million.
- Interest rate – 5.20% pa.
- Term – 36 months from last note drawdown date.
- Repayment:
 - 50% of notes (\$1.5 million) convertible to ordinary shares at maturity at fixed price of \$0.02 and repayable in cash in certain circumstances.
 - 50% of notes (\$1.5 million) in cash by the Company at maturity

As at 31 December 2015, the Company had drawn \$1,100,000. During the half-year ended 30 June 2016, a further \$965,000 was drawn down.

Accounting standards require for the convertible notes the separate recognition of the debt and equity components of the convertible note facility. At the date of recognition of the new convertible note, the debt and equity components of the facility were separated according to their fair values. The convertible notes are presented in the statement of financial position as follows:

	30 Jun 2016	31 Dec 2015
	\$	\$
Convertible note liability	901,511	463,409
Convertible note reserve	141,235	79,235
	<u>1,042,746</u>	<u>542,644</u>
The above is made up of:		
Face value of notes drawdown	1,032,500	550,000
Cost of convertible note facility	(60,000)	(30,000)
Interest accrual	70,246	22,644
	<u>1,042,746</u>	<u>542,644</u>

Accounting standards require for the loan to be recognised at fair value and to defer the difference between the fair value at initial recognition and the transaction price. The loan is presented in the statement of financial position as follows:

	30 Jun 2016	31 Dec 2015
	\$	\$
Loan	901,511	463,409
Deferred gain on initial recognition of loan	111,030	56,591
	<u>1,012,541</u>	<u>520,000</u>
The above is made up of:		
Face value of notes drawdown	1,032,500	550,000
Cost of convertible note facility	(60,000)	(30,000)
Interest accrual	70,246	22,644
Recognition of gain on loan	(30,205)	(22,644)
	<u>1,012,541</u>	<u>520,000</u>

The effective interest rate is 14%.

7. ISSUED CAPITAL

	30 Jun 2016	31 Dec 2015
	\$	\$
809,967,559 (Dec 2015: 809,749,043) fully paid ordinary shares	<u>48,053,223</u>	<u>48,048,903</u>

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	
			\$	\$
1 January 2015	Opening balance	726,415,709		47,108,903
Jan 2015 ⁽¹⁾	Shares issued	25,000,000	0.012	300,000
Mar ⁽¹⁾	Shares issued	16,666,667	0.012	200,000
Apr ⁽¹⁾	Shares issued	41,666,667	0.012	500,000
	Shares issue costs	-		(60,000)
31 December 2015	Balance	<u>809,749,043</u>		<u>48,048,903</u>
Mar 2016	Shares issued on exercise of listed options	218,516	0.020	4,370
	Shares issue costs	-		(50)
30 June 2016	Balance	<u>809,967,559</u>		<u>48,053,223</u>

⁽¹⁾ During 2015 the Company completed several placements to sophisticated and professional investors.

(b) Share options

Expiry date	Exercise price	Number 30 Jun 2016	Number 31 Dec 2015
11 March 2016 (listed) ⁽¹⁾	\$0.02	-	15,266,611
30 June 2016 (unlisted) ⁽²⁾	\$0.02	-	33,333,333
30 April 2019 (unlisted)	\$0.10	8,000,000	8,000,000

⁽¹⁾ 218,516 listed options were exercised during the half year 30 June 2016. The balance of 15,048,095 listed options expired without being exercised.

⁽²⁾ All 33,333,333 unlisted options expired without being exercised.

Share options issued by the Company carry no rights to dividends and no voting rights. All options are exercisable for cash on a 1:1 basis.

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 2016	31 Dec 2015
	\$	\$
Payable within 1 year	720,212	372,945
Payable between one and five years	2,402,783	1,847,454
	<u>3,122,995</u>	<u>2,220,099</u>

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. In 2016 cash security bonds totalling \$7,267 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (Dec 2015: \$7,267).

(b) Operating lease commitments

	30 Jun 2016	31 Dec 2015
	\$	\$
Payable within 1 year	48,600	186,097
Payable between one and five years	100,135	-
	<u>148,735</u>	<u>505,627</u>

The Company has leasing arrangements for the rental of office space expiring on 30 June 2019.

10. EVENTS SUBSEQUENT TO REPORTING DATE

During July 2016 the Company raised \$754,000 comprising of \$519,000 from a Share Purchase Plan, and \$235,000 from a private placement (refer ASX announcement 20 July 2016).

Scheduled drawdown on convertible note amount of \$500,000 due in the June quarter was progressively drawn to the amount of \$65,000 during the quarter. The balance of \$435,000 was drawn in early July 2016 (refer ASX announcement 22 July 2016).

There are no other matters or circumstances that have arisen since 30 June 2016 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 5 to 14 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 2016 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:



W Wang
Chairman
Brisbane, 29 August 2016

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 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the company 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 2016 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 2016 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

Without modifying our conclusion, we draw attention to Note 1(c) in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1(c), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit Pty Ltd



A J Whyte
Director

Brisbane, 29 August 2016