

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

ANNUAL FINANCIAL REPORT

for the year ended 31 December 2014

CONTENTS

	Page
Directors' Report	1
Auditor's Independence Declaration	12
Consolidated Statement of Profit or Loss and Other Comprehensive Income	13
Consolidated Statement of Financial Position	14
Consolidated Statement of Changes in Equity	15
Consolidated Statement of Cash Flows	16
Notes to the Consolidated Financial Statements	17
Directors' Declaration	41
Independent Auditor's Report	42

DIRECTORS' REPORT

The Directors present their report on Diatreme Resources Limited ("the Company") and its subsidiaries (the "Group") for the year ended 31 December 2014.

Current directors

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

A Tsang
C Wang (appointed Non-executive Chairman on 1 July 2014)
Y Zhuang

Past directors that resigned and/or departed during the year and until the date of this report:

G H White
Non-executive Director
Appointed 21 April 2006
Mr White resigned as Non-Executive Director on 28 May 2014.

A J Fawdon
Executive Chairman/CEO
Appointed 12 January 2001
Mr Fawdon departed the Company on a negotiated early retirement and redundancy package on 1 July 2014.

D H Hall
Executive Director - Operations
Appointed 12 January 2001
Mr Hall departed the Company on a negotiated early retirement and redundancy package on 1 July 2014.

N J McIntyre
Chief Executive Officer
Appointed Acting Managing Director on 1 July 2014; resigned as Director and appointed Chief Executive Officer on 26 August 2014

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration for heavy mineral sands, copper and gold in Australia. There were no changes in the nature of the Group's principal activities during the year.

DIVIDENDS

No dividend has been paid since the end of the previous year and the Directors do not recommend the payment of any dividend for the year ended 31 December 2014.

REVIEW OF OPERATIONS

Background

Diatreme Resources Limited (Diatreme) operates as a diversified mineral explorer within Australia, targeting heavy mineral sands, copper and gold.

On 1 July 2014 the Company announced that following a corporate structural review undertaken by the Board that the incumbent Chairman/CEO, Executive Director Operations and Exploration Manager would depart the Company on negotiated early retirement and redundancy packages, in accordance with their contractual obligations, effective as at 1 July 2014.

This restructure enabled the Company to undertake further comprehensive strategy and commercial objective reviews leading to further Board, management and operational changes. This new strategy included in part a corporate shift away from Diatreme's historic focus on green field exploration tenement holdings to instead focus company resources on key existing assets (Cyclone, Tick Hill, Clermont and Cape Bedford) that offer a higher probability for positive shorter term commercial outcomes for the company.

This review led to the progressive relinquishment and divestment of over 20 tenement areas during the course of 2014 that management and Board felt did not fit this new commercial template.

In addition, the reduction in required staff, tenement management, regional office and explorations costs has significantly reduced Diatreme's carried corporate and exploration overheads during the year under review.

Diatreme's Board felt a leaner management structure and a more commercial focus would ensure the Company's longer term future in a difficult trading market (ASX) where companies within the small cap minerals exploration sector were routinely struggling to raise sufficient capital to fund operations.

Fundraising

Diatreme corporately has been successful, with the renewed support of a number of its major shareholders following the mid-year company restructuring, in its efforts to secure operational and project funding.

Further funds are expected through this same process into 2015 and given progress of the Cyclone Zircon Project towards final project permitting, discussions are ongoing with external parties regarding future finance requirements being met by way of project joint venture agreements, direct project equity or potential offtake finance options.

Major Tenement Activities & Progress

The Company's flagship asset, the Cyclone Zircon Project located in Western Australia, continues to be the primary focus and has progressed significantly in the second half of 2014 with the following key highlights:

- Negotiations with Perpetual Mining Holding Limited completed and Heads of Agreement signed on 9th January 2014; this resulted in a \$2.0m investment into Diatreme's wholly owned subsidiary Lost Sands Pty Ltd ("Lost Sands") for direct project equity of 6%. Lost Sands holds the Cyclone Project. Final drawdown of these funds was received in October 2014. The funds were used to progress detailed commercial studies and permitting.
- The final phases of Flora and Fauna surveys were completed over the project area and the proposed mineral haul road to Forrest as part of the West Australian government Public Environmental Review (PER) process. A comprehensive environmental studies report was submitted to the WA Environmental Protection Authority during October 2014 as required for the PER. WA Government agencies and authorities are in the final stages of reviewing the report prior to it being released for public comment. The PER process is scheduled for completion during third quarter 2015 which will finalise the environmental approval process for the project.
- The Cyclone Project was referred to the Commonwealth Environmental Protection and Biodiversity Commission (EPBC). The EPBC has determined that the Project is not a controlled action under Commonwealth legislation.
- Hydrogeology report received for the Cyclone water bore drilled in December 2013; the report confirms the potential high yield of the aquifer underlying Cyclone and its ability to act as the water supply for the Project. The test bore constructed in 2013 is suitable for use as part of the water supply borefield.
- Updated resource estimate (JORC 2012) reported for the Cyclone Deposit – 137 million tonnes (Mt) at 2.2% heavy minerals (HM) at a 1% HM cut-off grade, containing 3.0Mt of HM.

- A conditional purchase agreement was executed by Lost Sands with Image Resources on 10th November 2014 to acquire the Cyclone Extended mineral resource, providing a 50% increase in the Cyclone Project HM resource and improvements to proposed mine life and mine planning options.
- A Project Agreement for the Cyclone Zircon Project was signed on-site by Lost Sands and traditional owners, the Spinifex People on the 15th November 2014.
- Following lodgement of the Cyclone Project Agreement with the WA Mines Department, the Cyclone Mining Lease (M69/141) was granted to Lost Sands for a 21 year term on the 18th November 2014.
- An internal review of the Cyclone Project identified potential savings of an estimated \$77M in capital expenditure and \$11M in annual operating costs, significantly increasing project commercial viability.

In addition to the outstanding Cyclone Zircon Project progress, as per ASX announcement dated 7th November 2014 Diatreme has been able to complete, through an implementation deed, the final assignment of Mining Leases (ML's 7094, 7096 and 7097) from Mount Isa Mines (MIM) relating to the Tick Hill Gold Mine (subject to final Qld State Government regulatory consents anticipated in early 2015). This is a major achievement for Diatreme and a potential "company maker" project.

The final assignment and transfer of interest also satisfies certain conditions precedent for the commencement of the Diatreme Farm-in and Joint Venture Agreement with Superior Resources Limited (ASX:SPQ) over the Tick Hill Gold Project.

The pursuit of immediate opportunities for tailings processing and alluvial deposit mining contained within the Mining Lease areas will be a priority for Diatreme and its JV partner Superior Resources for first quarter 2015.

Exploration operations during the year involved:

- Review of regional mineral sand targets in the Eucla Basin (WA), resulting in the withdrawal of tenement applications in the GVDNR south of Cyclone, surrender of two tenements north of Cyclone and the partial relinquishment of others. Costs associated with the Wanna East tenement were written down during the year due to the reduced development potential of the Zephyr resource.
- A review of regional mineral sand targets in the Eucla Basin (SA) and completion of a reconnaissance exploration program within the Noorina tenement in the Eucla Basin (SA), resulting in the withdrawal of tenement applications and the surrender of the last two remaining Eucla Basin EL's in SA.
- Completion of a reconnaissance and infill drilling program at the Serpentine tenement immediately east of Cyclone to assess the Barton shoreline and potential extensions of the Monsoon prospect. A review of previous and new drill data resulted in the surrender of the EL.
- Following review of proposed cultural heritage conditions for the Mandora EL application in the Canning Basin the application was withdrawn.
- The Elliston tenement in SA was surrendered following a review of exploration potential and likely environmental constraints on exploration drilling.

With market conditions remaining difficult for junior explorers, the Company maintains tight control over expenditure whilst aiming to ensure that the Company assets retain their true value.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2014 was \$7,252,709 (2013: loss of \$4,797,128).

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio. The Group monitors cash flow requirements for operational, exploration and evaluation expenditure and will continue to use capital market issues to satisfy anticipated funding requirements.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the Company successfully completed a rights issue, and several share placements to sophisticated and professional investors. As a result issued capital increased by \$1,375,502 (from \$45,733,401 to \$47,108,903) from the issue of 116,833,278 ordinary shares.

EVENTS SUBSEQUENT TO REPORTING DATE

21 January 2015	Placement of 25,000,000 ordinary fully paid shares raising \$300,000 before costs.
23 March 2015	Full financial settlement of the acquisition of Cyclone Extended mineral resource

FUTURE DEVELOPMENTS

The Group intends to continue its exploration activities on its existing projects and development of the Cyclone Project.

INFORMATION ON DIRECTORS

Name:	Cheng (William) Wang
Title:	Non-executive Chairman
Qualifications:	MBA
Experience:	Mr Wang was appointed Director in May 2011. For 15 years he held senior management positions in several Chinese state owned companies. Now domiciled in Australia, he has been active with Australian companies including directorships with China Century Capital Limited and Jupiter Mines Limited. He is currently Director of Investment Banking for the AIMS Financial Group and Director of Gulf Alumina Limited. Mr Wang was appointed Non-executive Chairman on 1 July 2014.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of audit committee
Interests in shares:	2,637,822 ordinary shares
Interests in options:	1,000,000 unlisted options

Name:	Andrew Tsang
Title:	Non-executive Director
Qualifications:	None
Experience:	Mr Tsang is a naturalised Australian citizen who was born and educated in China and who has successfully established and run construction, engineering and property development businesses both in China and Australia as well as establishing successful import agencies for Australian manufactured goods into China.
Other current directorships:	Mindax Limited (since 28 March 2008)
Former directorships (last 3 years):	None
Special responsibilities:	Member of remuneration committee
Interests in shares:	111,536,110 ordinary shares
Interests in options:	8,333,333 listed options 1,000,000 unlisted options

DIRECTORS' REPORT

Name:	Yufeng (Daniel) Zhuang
Title:	Non-executive Director
Qualifications:	BA (Beijing, China), MSc (New Jersey, USA)
Experience:	Mr. Zhuang was nominated to the Board by the (former) association of Chinese shareholders Messrs Zhensheng Zhuang, Chenfei Zhuang and Qi Lin, to represent their significant investment and ongoing corporate commitments toward the Company. He has worked for Ping An Securities in Beijing and Fujian Minxing Group in Zhangzhou, China.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of audit committee
Interests in shares:	59,660,000 ordinary shares
Interests in options:	None

COMPANY SECRETARY

The Company Secretaries are Leni Pia Stanley (CA, B.Com) and Tuan Do (CA, B.Com). Ms Stanley is currently a partner with a Chartered Accounting firm and holds the office of Company Secretary with other companies. Mr Do was appointed in May 2011 and is also the Group Financial Controller.

MEETINGS OF DIRECTORS

The number of meetings of the board of Directors held during the year ended 31 December 2014, and the number of meetings attended by each Director was:

Name	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
A J Fawdon	3	3	-	-	-	-
D H Hall	3	3	3	3	-	-
G H White	2	2	3	3	-	-
A Tsang	4	2	-	-	-	-
C Wang	4	4	1	1	-	-
N J McIntyre	3	3	3	3	-	-
Y Zhuang	4	2	1	1	-	-

REMUNERATION REPORT - AUDITED

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

- A Principles used to determine the nature and amount of remuneration
- B Relationship of remuneration with Group performance
- C Details of remuneration
- D Service agreements
- E Share-based compensation
- F Additional disclosures relating to key management personnel
- G Transactions with related parties

A Principles used to determine the nature and amount of remuneration

The board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

(i) Executive Directors

The combination of Directors' fees, salary, non-cash benefits and superannuation make up the Executive Directors' total remuneration. The salary component of Executive Directors' remuneration packages is reviewed annually to ensure the Executives' pay is competitive with the market. Executive Directors' pay is not directly linked to the financial performance of the Group. (Refer to Note B below).

(ii) Non-executive Directors

Fees and payments to Non-executive Directors reflect the demands which are made on, and the responsibilities of, the Director. Non-executive Directors' fees and payments are reviewed annually by the Remuneration Committee.

(iii) Directors' fees

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 per annum plus statutory superannuation.

B Relationship of remuneration with Group performance

The Directors consider that, as the Group is in an exploration phase of its development, it is not appropriate that remuneration for employees and Directors be linked to the financial performance of the Group. Once the Group enters a sustained production phase, this assessment may change accordingly.

		2010	2011	2012	2013	2014
Share price at year end	\$/share	0.07	0.07	0.02	0.02	0.01
Market capitalisation	\$	18,616,317	24,821,820	9,471,648	12,191,649	7,264,157
Revenue	\$	240,809	510,638	223,274	263,729	267,799
Total assets	\$	22,657,772	24,859,782	23,064,562	22,102,096	15,273,360
Net profit/(loss) after tax	\$	(4,000,451)	(4,377,262)	(4,908,468)	(4,797,128)	(7,252,709)

C Details of remuneration

The key management personnel of the Group include the Directors as per the "Directors" sections above and the following persons:

N J McIntyre – Chief Executive Officer (appointed 26 August 2014)

D Jelley – Exploration Manager (terminated 1 July 2014)

L Stanley – Joint Company Secretary

T Do – Group Financial Controller/Joint Company Secretary

DIRECTORS' REPORT

Details of the remuneration of the key management personnel of the Group are set out in the following tables.

2014	Short-term employee benefits	Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments	
Name	Cash salary, fees & leave \$	Superannuation \$	Long service leave \$	Termination payments \$	Options \$	Total \$
Non-executive Directors						
G H White ⁽¹⁾	16,664	1,541	-	-	3,568	21,773
A Tsang ⁽²⁾	32,875	3,081	-	-	3,568	39,524
C Wang ⁽²⁾	32,875	3,081	-	-	3,568	39,524
Y Zhuang	84,473	7,926	-	-	-	92,399
Executive Directors						
A J Fawdon ^{(2) (3)}	95,325	8,818	-	300,113	3,568	407,824
D H Hall ^{(2) (3)}	76,565	7,082	-	245,935	3,568	333,150
Other key management personnel						
N J McIntyre ⁽⁵⁾	125,875	1,561	-	-	3,568	131,004
D Jelly ^{(6) (7)}	83,850	7,756	-	62,397	4,145	158,148
L Stanley	31,500	-	-	-	-	31,500
T Do ⁽⁷⁾	135,770	12,094	-	-	4,145	152,009
Total	715,772	52,940	-	608,445	29,698	1,406,855

(1) Represents remuneration from 1 January 2014 to 28 May 2014 (date of resignation).

(2) The Directors voluntarily reduced their fees and salaries during the year ended 31 December 2014 due to the need for the Company to conserve cash.

(3) Mr Fawdon departed the Company on a negotiated early retirement and redundancy package, in accordance with his contractual obligations, on 1 July 2014. As a result Mr Fawdon is entitled to termination benefits totalling \$300,113. For the 6 months to 31 December 2014, he received termination payments of \$270,113, with the balance of \$30,000 to be paid over 4 months to April 2015.

(4) Mr Hall departed the Company on a negotiated early retirement and redundancy package, in accordance with his contractual obligations, on 1 July 2014. As a result Mr Hall is entitled to termination benefits totalling \$245,935. For the 6 months to 31 December 2014, he received termination payments of \$218,735, with the balance of \$27,200 to be paid over 4 months to April 2015.

(5) Mr McIntyre was appointed Acting Managing Director on 1 July 2014; he resigned as a Director and appointed Chief Executive Officer on 26 August 2014. His fees for the year ended 31 December 2014 include the fees in his capacity as Non-executive Director.

(6) Mr Jelly was made redundant on 1 July 2014. As a result, Mr Jelly received a termination payment of \$62,397 in accordance with the terms of his employment contract.

(7) Employees worked at reduced hours per working week during the year ended 31 December 2014 due to the need for the Company to conserve cash.

2013	Short-term employee benefits	Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments	
Name	Cash Salary, fees & leave \$	Superannuation \$	Long service leave \$	Termination payments \$	Options \$	Total \$
Non-executive Directors						
G H White	45,000	4,106	-	-	6,310	55,416
A Tsang	45,000	4,106	-	-	6,310	55,416
C Wang	45,000	4,106	-	-	6,310	55,416
N J McIntyre	45,000	4,106	-	-	6,310	55,416
Y Zhuang ⁽¹⁾	13,068	1,209	-	-	-	14,277
Executive Directors						
A J Fawdon	258,602	23,196	4,251	-	6,310	292,359
D H Hall	233,184	21,045	-	-	6,310	260,539
Other key management personnel						
D Jelley	219,299	19,128	-	-	9,968	248,395
L Stanley	31,500	-	-	-	-	31,500
T Do	163,033	14,714	-	-	9,968	187,715
Total	1,098,686	95,716	4,251	-	57,796	1,256,449

(1) Appointed Non-executive Director on 1 August 2013

D Service agreements

A Tsang, Non-executive Director

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$49,163.
- No termination benefit is specified in the agreement.

C Wang, Non-executive Chairman

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$49,163.
- No termination benefit is specified in the agreement.

Y Zhuang, Non-executive Director & Financial Investment Advisor

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$98,325.
- No termination benefit is specified in the agreement.

N J McIntyre, Chief Executive Officer

- Term of agreement – 12 months, with continuous renewal option for further 12 months.
- Fixed monthly fee - \$15,000.
- The agreement may be terminated by 1 month notice from the employee and 3 months' notice from the company.
- No termination benefit is specified in the agreement.

T Do, Group Financial Controller/ Joint Company Secretary

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$176,166.
- The agreement may be terminated by 1 month notice from either party.
- No termination benefit is specified in the agreement.

L Stanley, Joint Company Secretary

- Term of agreement – no fixed term.
- Fixed monthly fee - \$2,625.
- No termination benefit is specified in the agreement.

E Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2014.

Options

The number of unlisted options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 31 December 2014 and 31 December 2013 are set out below:

	Number of options granted during the year 2013	Number of options vested during the year 2013	Number of options granted during the year 2014	Number of options vested during the year 2014	Number of options cancelled during the year 2014	Number of options outstanding at 31 Dec 2014
A J Fawdon	1,000,000	-	-	1,000,000	1,000,000	-
D H Hall	1,000,000	-	-	1,000,000	1,000,000	-
G H White	1,000,000	-	-	1,000,000	1,000,000	-
A Tsang	1,000,000	-	-	1,000,000	-	1,000,000
C Wang	1,000,000	-	-	1,000,000	-	1,000,000
N J McIntyre	1,000,000	-	-	1,000,000	-	1,000,000
D Jelley	1,000,000	-	-	1,000,000	1,000,000	-
L Stanley	-	-	-	-	-	-
T Do	1,000,000	-	-	1,000,000	-	1,000,000

F 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 Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of compensation	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
A J Fawdon *	3,869,577	-	967,395	(4,836,972)	-
D H Hall *	2,950,000	-	250,000	(3,200,000)	-
G H White *	216,667	-	-	(216,667)	-
A Tsang	94,869,443	-	16,666,667	-	111,536,110
C Wang	2,577,822	-	60,000	-	2,637,822
Y Zhuang	59,560,000	-	100,000	-	59,660,000
N J McIntyre	-	-	-	-	-
D Jelly	-	-	-	-	-
L Stanley	-	-	-	-	-
T Do	-	-	-	-	-
Total	164,043,509	-	18,044,062	(8,253,639)	173,833,932

* Disposals/other represents shares held at resignation date.

Option holding – non-remuneration

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

	Balance at the start of the year	Granted	Additions	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
A J Fawdon	-	-	-	-	-
D H Hall	-	-	-	-	-
G H White	-	-	-	-	-
A Tsang	-	-	8,333,333	-	8,333,333
C Wang	-	-	-	-	-
N J McIntyre	-	-	-	-	-
Y Zhuang	-	-	-	-	-
D Jelley	-	-	-	-	-
L Stanley	-	-	-	-	-
T Do	-	-	-	-	-
Total	-	-	8,333,333	-	8,333,333

G Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2014	2013
	\$	\$
Trade debtor owing by Director related entity	71,352	81,352

Diatreme Resources Limited (the Company) is owed \$71,352 (2013 \$81,352) by Xiang Rong Management Trust relating to costs of a former employee of the Company which was being reimbursed by Xiang Rong Management Trust. Mr Andrew Tsang, who is a director of the Company, is also a director and unitholder of Xiang Rong Management Trust.

END OF AUDITED REMUNERATION REPORT

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Issue/grant date	Expiry date	Exercise price	Number under option	
24 March 2014	11 March 2016	2 cents	11,572,276	Listed
21 May 2014	11 March 2016	2 cents	3,694,335	Listed
1 August 2014	30 June 2016	2 cents	25,000,000	Unlisted
29 October 2014	30 June 2016	2 cents	8,333,333	Unlisted
31 May 2013	30 April 2019	10 cents	3,000,000	Unlisted
15 March 2013	30 April 2019	10 cents	6,400,000	Unlisted

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.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

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

BDO Audit Pty Ltd, the Company's current auditor, did not perform any other services in addition to their statutory audit duties.

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 the following page.

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



William Wang
Non-executive Chairman

27 March 2015
Brisbane

DECLARATION OF INDEPENDENCE BY C J SKELTON TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

As lead auditor of Diatreme Resources Limited for the year ended 31 December 2014, 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 Diatreme Resources Limited and the entities it controlled during the period.



C J Skelton
Director

BDO Audit Pty Ltd

Brisbane, 27 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014

		Consolidated	
	Note	2014	2013
		\$	\$
Revenue	6	267,799	263,729
Other income	6	22,423	-
Employee benefits expenses		(707,681)	(1,146,564)
Termination benefits expenses		(608,445)	-
Depreciation expenses	6 & 11	(97,583)	(119,173)
Exploration assets written off	12	(5,817,234)	(3,128,127)
Impairment of available-for-sale financial assets	6	-	(29,265)
Other expenses	6	(1,104,872)	(1,073,604)
Finance costs		(5,155)	(5,286)
Loss before income tax		(8,050,748)	(5,238,290)
Income tax benefit	7	798,039	441,162
Net Loss for the year		(7,252,709)	(4,797,128)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(7,252,709)	(4,797,128)

		Cents	Cents
Loss per share			
Basic earnings per share	29	(1.2)	(1.0)
Diluted earnings per share	29	(1.2)	(1.0)

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 31 December 2014

		Consolidated	
	Note	2014	2013
		\$	\$
Current Assets			
Cash and cash equivalents	8	354,422	981,546
Trade and other receivables	9	134,098	401,074
Total Current Assets		<u>488,520</u>	<u>1,382,620</u>
Non-current Assets			
Available-for-sale financial assets	10	3,252	3,252
Property, plant and equipment	11	305,501	415,662
Exploration and evaluation assets	12	14,120,130	19,598,602
Other assets	13	319,957	701,960
Total Non-current Assets		<u>14,748,840</u>	<u>20,719,476</u>
Total Assets		<u>15,237,360</u>	<u>22,102,096</u>
Current Liabilities			
Trade and other payables	14	450,845	1,367,887
Provisions	15	5,546	136,404
Total Current Liabilities		<u>456,391</u>	<u>1,504,291</u>
Total Liabilities		<u>456,391</u>	<u>1,504,291</u>
Net Assets		<u>14,780,969</u>	<u>20,597,805</u>
Equity			
Issued capital	16	47,108,903	45,733,401
Reserve	17	191,938	131,567
Accumulated losses	18	(32,519,872)	(25,267,163)
Total Equity		<u>14,780,969</u>	<u>20,597,805</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 year ended 31 December 2014

	Note	Issued capital	Share- based payment reserve	Accumulated losses	Total
		\$	\$	\$	\$
Balance at 1 January 2013		43,089,752	-	(20,470,035)	22,619,717
Total comprehensive income:					
Loss for the year		-	-	(4,797,128)	(4,797,128)
Transactions with owners in their capacity as owners:					
Shares issued		2,890,001	-	-	2,890,001
Share issue costs		(246,352)	-	-	(246,352)
Options issued		-	131,567	-	131,567
Balance at 31 December 2013		45,733,401	131,567	(25,267,163)	20,597,805
Total comprehensive income:					
Loss for the year		-	-	(7,252,709)	(7,252,709)
Transactions with owners in their capacity as owners:					
Shares issued		1,496,433	-	-	1,496,433
Share issue costs		(120,931)	-	-	(120,931)
Options issued		-	60,371	-	60,371
Balance at 31 December 2014	16,17 &18	47,108,903	191,938	(32,519,872)	14,780,969

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Note	Consolidated	
		2014 \$	2013 \$
Cash flows from operating activities			
Receipts in the course of operations		224,555	170,672
Receipts from research and development tax claims		718,236	842,223
Payments to suppliers and employees		(2,159,329)	(2,260,663)
Interest received		31,070	87,466
Finance costs		(5,155)	(5,286)
Net cash used in operating activities	28	<u>(1,190,623)</u>	<u>(1,165,588)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		-	(16,038)
Receipt from Perpetual Mining Holding Limited	26	2,000,000	-
Receipt from Antofagasta Minerals S.A.	27	-	1,155,356
Payments for exploration and evaluation assets		(3,141,857)	(3,593,687)
Proceeds from sale of property, plant and equipment		35,001	-
Payments for security deposits		-	(15,500)
Refund of security deposits		382,003	20,000
Payments for other deposits	9	(20,000)	-
Net cash used in investing activities		<u>(744,853)</u>	<u>(2,449,869)</u>
Cash flows from financing activities			
Proceeds from issue of shares		1,422,546	2,890,001
Payments for share issue costs		(114,194)	(246,352)
Repayment of interest-bearing liabilities		-	(20,359)
Net cash from financing activities		<u>1,308,352</u>	<u>2,623,290</u>
Net increase/(decrease) in cash and cash equivalents		(627,124)	(992,167)
Cash and cash equivalents at the beginning of the financial year		<u>981,546</u>	<u>1,973,713</u>
Cash and cash equivalents at the end of the financial year	8	<u>354,422</u>	<u>981,546</u>

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

Contents of the notes to the consolidated financial statements

1	Reporting entity
2	Basis of preparation
3	Significant accounting policies
4	Critical accounting estimates and judgments
5	Segment information
6	Revenue and expenses
7	Income tax
8	Current assets - cash and cash equivalents
9	Current assets – trade and other receivables
10	Non-current assets – available-for-sale financial assets
11	Non-current assets - property, plant and equipment
12	Non-current assets - exploration and evaluation assets
13	Non-current assets - other
14	Current liabilities – trade and other payables
15	Current liabilities - Provisions
16	Issued capital
17	Reserve
18	Accumulated losses
19	Financial instruments
20	Key management personnel disclosures
21	Remuneration of auditors
22	Contingencies
23	Commitments
24	Related party transactions
25	Group entities
26	Receipt from Perpetual Mining Holding Limited
27	Receipt from Antofagasta Minerals S.A.
28	Reconciliation of net profit/(loss) to net cash used in operating activities
29	Earnings per share
30	Share-based payments
31	Parent entity information
32	Events subsequent to reporting date
33	New accounting standards and interpretations

1. CORPORATE INFORMATION

Diatreme Resources Limited (the “Company”) is a public company listed on the Australian Securities Exchange (trading under the code DRX), and is incorporated and domiciled in Australia. The address of the Company’s registered office and principal place of business is 87 Wickham Terrace, Spring Hill, Queensland 4000. The Group financial statements as at and for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the “Group”).

Separate financial statements for Diatreme Resources Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, limited financial information for the Company as an individual entity is included Note 31.

The principal activity of the Group during the course of the financial year was the exploration for heavy mineral sands, copper, gold and base metals in Australia.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 26 March 2015.

(b) Basis of measurement

The Group financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These Group financial statements are presented in Australian dollars, which is the Company’s functional currency and the functional currency of the Group.

(d) Adoption of new and revised accounting standards

The following new standards and amendments to standards which are most relevant to the Group, and are mandatory for the first time for the financial year beginning 1 January 2014:

- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement – amends AASB 124 Related Party Disclosures to remove the individual Key Management Personnel (‘KMP’) disclosures required by Australian specific paragraphs. As a result of these amendments, the Group has transferred certain individual Key Management Personnel disclosures relating to shareholdings, options / rights holdings, loans and other transactions from the notes to the financial statements to the remuneration report.
- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities - adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlements
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets - address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

(e) 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 year ended 31 December 2014 of \$7,252,709 (2013: \$4,797,128), and a net cash outflow from operations of \$1,190,623 (2013: \$1,165,588). At 31 December 2014, the Group's current assets exceeded its current liabilities by \$32,129 (2013 current liabilities exceeded current assets: \$121,671).

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.

During the year ended 31 December 2014, the Group raised \$231,500 (before costs) from a Rights Issue, and \$1,104,000 (before costs) from share placements to sophisticated and professional investors. In addition, the Group received \$2,000,000 from Perpetual Mining Holding Limited to fund the Cyclone Zircon Project. Also, on 8 December 2014 Diatreme announced that it had received commitments for placements totalling \$1,061,680 (before costs) for the issue of 88,473,333 ordinary fully paid shares. Diatreme received \$86,400 of those funds in December 2014 while a further \$300,000 has been received during January 2015. Diatreme anticipates receiving the final \$675,280 prior to 31 March 2015.

In the event that adequate funds cannot be raised as required, there exists 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 December 2014. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

(b) Revenue

Revenue is recognised at the fair value of the consideration received or receivable, and recognised when the service is provided, or ownership of the product has passed to the customer. Interest revenue is recognised on a time proportion basis using the effective interest method.

(c) Income tax

The income tax expense or revenue for the year is the tax payable on the taxable income based upon the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

Tax consolidation legislation

The Company and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 January 2004.

Where applicable, each entity in the Group recognises its own current and deferred tax assets and liabilities. Amounts resulting from unused tax losses and tax credits are then immediately assumed by the parent entity. The current tax liability of each subsidiary entity is then also assumed by the parent entity.

The entities have also entered into a tax sharing and funding arrangement. Under the terms of this agreement, the wholly-owned entities reimburse the Company for any current income tax payable by the Company arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due.

In the opinion of the Directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by the Company.

(d) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call, 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 and bank overdrafts. Bank overdrafts are shown in interest-bearing liabilities in the statement of financial position.

(e) Trade and other receivables

Trade and other receivables are recognised at nominal amount less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 120 days overdue. On confirmation that the receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

(f) Available-for-sale financial assets

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial asset, and are classified as non-current assets (unless management intends to dispose of the investments within 12 months of the end of the reporting period).

The available-for-sale financial assets are recorded at cost less allowance for impairment 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.

(g) Property, plant and equipment

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

Depreciation is calculated on a diminishing value basis. Estimates of remaining useful lives are made on a regular basis for all assets.

The depreciation rates used for each class of assets are as follows:

Furniture and fittings	40%
Motor vehicles	20%
Plant and equipment	40%
Leased motor vehicles	20%

(h) Leases

(i) Finance leases

Assets acquired under finance leases which result in the Group receiving substantially all the risks and rewards of ownership of the asset are capitalised at the lease's inception at the lower of the fair value of the leased property or the estimated present value of the minimum lease payments. The corresponding finance lease obligation, net of finance charges, is included within interest bearing liabilities. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the liability for each accounting

period. The leased asset is included in property, plant and equipment and is depreciated over the shorter of the estimated useful life of the asset or the lease term.

(ii) Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

(i) Exploration and Evaluation Costs

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the profit or loss.

Exploration and evaluation assets are only recognised if the rights to the tenure of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
- activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

(j) Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

The carrying values of capitalised exploration and evaluation expenditure and property, plant and equipment are assessed for impairment when indicators of such impairment exist. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment.

(k) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period and which remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Employee Benefits

(i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Equity settled share based compensation

The Group issues equity-settled share-based payments to directors and employees. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of options is ascertained using a valuation which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instrument that eventually vest.

(m) Issued Capital

Ordinary shares are classified as equity.

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

(n) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company, 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 year.

(ii) 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.

(o) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of 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 taxation authority is included with other receivables or payables in the statement of financial position.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

(i) Carrying value of exploration and evaluation assets

The Group performed a detailed review of its exploration tenements and the associated exploration data at period end to determine whether the related expenditure should continue to be capitalised under AASB 6 Exploration for and Evaluation of Mineral Resources or written off. As a result of this review, management has determined that \$5,817,234 (2013: \$3,128,127) be written off in the year ended 31 December 2014.

The ultimate recoupment of cost carried forward for the exploration and evaluation assets is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest. Ultimate exploitation through the development of mines will depend on raising the necessary funding.

5. SEGMENT INFORMATION

Operating segments are now 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 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, and gold 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.

6. REVENUE, OTHER INCOME AND EXPENSES

	Consolidated	
	2014	2013
	\$	\$
a) Revenue		
Interest	31,070	92,801
Management fees	5,056	2,394
Other	231,673	168,534
	<u>267,799</u>	<u>263,729</u>
b) Other income		
Gain disposal of non-current assets	<u>22,423</u>	-
c) Impairment		
Impairment of available-for-sale financial assets	-	<u>29,265</u>

At 31 December 2013, an assessment of the fair value of all available-for-sale financial assets resulted in an impairment loss of \$29,265 being recognised in the statement of profit or loss and other comprehensive income. The Group's assessment of the fair value was made in

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

accordance with AASB 139 and was based on the decline in financial health of and short-term business outlook for the investee.

	Consolidated	
	2014	2013
	\$	\$
d) Depreciation		
Furniture and fittings	4,479	8,204
Motor vehicles	21,886	17,037
Leased motor vehicles	-	7,962
Plant and equipment	71,218	85,970
	<u>97,583</u>	<u>119,173</u>
e) Other expenses		
Professional fees	134,003	130,386
Rental expenses on operating leases	383,482	369,295
Listing and share registry expenses	78,148	71,189
Loss on disposal of non-current assets	-	2,857
Administration costs	509,239	499,877
	<u>1,104,872</u>	<u>1,073,604</u>

7. INCOME TAX

	Consolidated	
	2014	2013
	\$	\$
(a) The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:		
Loss before income tax	(8,050,748)	(5,238,290)
Prima facie income tax benefit at 30% (2013: 30%)	(2,415,224)	(1,571,487)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share-based payments	40,277	39,470
Entertainment	-	(1,493)
	(2,374,947)	(1,533,510)
Deferred tax assets not recognised	2,374,947	1,533,510
	-	-
Recognition of research & development tax claim	(798,039)	(441,162)
Total income tax benefit	(798,039)	(441,162)
(b) The components of income tax benefit:		
Current tax	-	-
Deferred tax	-	-
Research & development tax claim	(798,039)	(441,162)
Total income tax benefit	(798,039)	(441,162)
(c) Deferred tax		
Deferred tax assets		
Unused tax losses	3,771,000	5,276,498
Unused capital losses	4,507	4,507
Temporary differences:		
- Property, plant and equipment	16,024	20,078
- Accruals	8,941	10,748
- Employee benefits	14,767	53,221
- Capital raising costs	217,309	277,729
- Other	197,296	197,298
	4,229,844	5,840,079
Deferred tax liabilities		
- Exploration expenditure	(4,229,803)	(5,835,247)
- Other	(41)	(4,832)
	(4,229,844)	(5,840,079)
Net deferred tax asset/liability	-	-
(d) Unrecognised deferred tax assets		
Unused tax losses	41,667,020	35,900,173
Potential tax effect at 30%	12,500,106	10,770,052

The net deferred tax assets arising from these balances have not been recognised as an asset because recovery is not probable as at 31 December 2014. The recoupment of available tax losses as at 31 December 2014 is contingent upon the following:

- (i) The Group deriving future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) The conditions for deductibility imposed by tax legislation continuing to be complied with; and
- (iii) There being no changes in tax legislation which adversely affect the Group from realising the benefit.
- (iv) Given the Group is in a taxable loss position there is no franking credit to report.

8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2014	2013
	\$	\$
Cash at bank and in hand	354,422	981,546
No cash is held in term deposits as at 31 December 2014 (2013: Nil)		

9. CURRENT ASSETS – TRADE & OTHER RECEIVABLES

	Consolidated	
	2014	2013
	\$	\$
Trade receivables	120,248	123,161
Allowance for doubtful debt ⁽¹⁾	(44,005)	(22,053)
Other receivables ⁽²⁾	76,243	101,108
Prepayments ⁽³⁾	28,440	265,983
	29,415	33,983
	<u>134,098</u>	<u>401,074</u>

⁽¹⁾ An allowance for doubtful debt has been provided for a trade receivable amount that is past due.

⁽²⁾ Other receivables do not contain impaired assets and are not past due.

⁽³⁾ Prepayments in 2014 include \$20,000 non-refundable deposit relating to the acquisition of Cyclone Extended mineral resource from Image Resources NL on 10th November 2014. (Refer also to Note 23 (a)).

10. NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated	
	2014	2013
	\$	\$
Shares in an unlisted company		
Opening cost	162,586	162,586
Less impairment (Refer also to Note 6 (c))	(159,334)	(159,334)
Balance at end of year	<u>3,252</u>	<u>3,252</u>

Unlisted shares comprise an investment in Opal Horizon Limited. (Refer also to Note 19 (f)).

11. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Furniture and fittings	Motor vehicles	Leased Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2013					
Opening net book amount	13,459	85,198	39,812	383,185	521,654
Additions	6,977	-	-	9,061	16,038
Disposals	-	(2,354)	-	(503)	(2,857)
Depreciation charge	(8,204)	(17,037)	(7,962)	(85,970)	(119,173)
Closing net book amount	12,232	65,807	31,850	305,773	415,662
At 31 December 2013					
Cost	142,465	231,543	116,539	1,139,215	1,629,762
Accumulated depreciation	(130,233)	(165,736)	(84,689)	(833,442)	(1,214,100)
Net book amount	12,232	65,807	31,850	305,773	415,662
Year ended 31 December 2014					
Opening net book amount	12,232	65,807	31,850	305,773	415,662
Additions	-	-	-	-	-
Disposals	-	(7,676)	-	(4,902)	(12,578)
Depreciation charge	(4,479)	(21,886)	-	(71,218)	(97,583)
Transfer ⁽¹⁾	-	31,850	(31,850)	-	-
Closing net book amount	7,753	68,095	-	229,653	305,501
At 31 December 2014					
Cost	142,465	285,741	-	1,101,230	1,529,436
Accumulated depreciation	(134,712)	(217,646)	-	(871,577)	(1,223,935)
Net book amount	7,753	68,095	-	229,653	305,501

⁽¹⁾ Leased liabilities relating to the motor vehicles were fully repaid at 31 December 2013.

12. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS

	Consolidated	
	2014 \$	2013 \$
Exploration and evaluation assets – at cost less impairment	14,120,130	19,598,602
Opening balance	19,598,602	19,251,664
Costs capitalised during the year	338,762	3,475,065
Costs written off during the year (#)	(5,817,234)	(3,128,127)
Closing balance	14,120,130	19,598,602

(#) During the year ended 31 December 2014, a review of exploration data in conjunction with management assessment, resulted in these write-off of exploration assets.

During the year ended 31 December 2013 geological test-work downgraded the prospectivity of various Western Australia, South Australia and Queensland tenements resulting in their full or partial relinquishments, which necessitates the writing off their respective costs.

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. (Refer also to Note 4 (i)).

At balance date the carrying amount of exploration and evaluation assets was \$14,120,130 of which \$9,677,806 is attributable to the significant exploration of the Group's Cyclone Zircon Project.

For the year ended 31 December 2014, and under the agreed terms, the Company received \$2,000,000 (GST incl.) from Perpetual Mining Holding Limited ("PMHL") to fund exploration at the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

Cyclone Zircon Project. All amounts have been fully expended at 31 December 2014. (Refer also to Note 26 below).

For the year ended 31 December 2013, and under the agreed terms, the Company received \$1,155,356 (\$US 1,169,055) from Antofagasta Minerals S.A to fund exploration at the Clermont Copper Project. All amounts have been fully expended at 31 December 2013. (Refer also to Note 27 below).

Impairment of Assets

The current low commodity prices environment during the year has led the Group to make an assessment of the recoverability of the exploration and evaluation asset relating to the Cyclone Zircon Project. The recoverable amount has been determined based on the fair value less costs to sell calculation. The calculation relied on a the transaction to purchase a 6% interest in the project for \$1.8m, namely, the Cyclone Zircon Project Farm-in and Joint venture Heads of Agreement as disclosed to the ASX on 9 January 2014.

As the resulting fair value exceeded the carrying value no impairment or write-down is required at year end.

13. NON-CURRENT ASSETS – OTHER

	Consolidated	
	2014	2013
	\$	\$
Rent guarantee deposit	105,669	105,669
Security deposits	214,288	596,291
	319,957	701,960

14. CURRENT LIABILITIES – TRADE & OTHER PAYABLES

	Consolidated	
	2014	2013
	\$	\$
Unsecured		
Trade payables	186,969	1,239,514
Other payables and accruals	220,200	87,374
Employee benefits	43,676	40,999
	450,845	1,367,887

Trade payables are non-interest bearing and are normally settled on 30 day terms.

15. CURRENT LAIBILITY - PROVISIONS

	Consolidated	
	2014	2013
	\$	\$
Employee benefits – current	5,546	136,404
Employee benefits – non-current	-	-
	5,546	136,404

16. ISSUED CAPITAL

	Consolidated	
	2014	2013
	\$	\$
726,415,709 (Dec 2013 609,582,431) ordinary shares	47,108,903	45,733,401

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price \$	\$
1 January 2013	Opening balance	473,582,422		43,089,752
May ⁽¹⁾	Shares issued	4,797,363	0.025	119,934
June ⁽¹⁾	Shares issued	29,202,637	0.025	730,066
July ⁽¹⁾	Shares issued	22,000,000	0.020	440,000
August ⁽¹⁾	Shares issued	80,000,000	0.020	1,600,000
September		9	0.150	1
	Shares issue costs	-		(246,352)
31 December 2013	Balance	609,582,431		45,733,401
Mar 2014 ⁽²⁾	Shares issued	11,572,276	0.020	231,446
May ⁽³⁾	Shares issued	3,694,335	0.020	73,887
Aug ^{(1) (4)}	Shares issued	50,000,000	0.012	600,000
Aug ⁽¹⁾	Shares issued	27,700,000	0.011	304,700
Oct ^{(1) (5)}	Shares issued	16,666,667	0.012	200,000
Dec ⁽¹⁾	Shares issued	7,200,000	0.012	86,400
	Shares issue costs	-		(120,931)
31 December 2014	Balance	726,415,709		47,108,903

⁽¹⁾ During both the 2013 and 2014 years the Company completed several placements to sophisticated and professional investors.

⁽²⁾ In March 2014, the Company completed a renounceable rights issue to shareholders on a 1 for 4 basis. As a consequence, \$231,446 was raised through the issue of 11,572,276 fully paid ordinary shares at 2 cents each, each with a free attaching listed option exercisable at 2 cents expiring on 11 March 2016.

⁽³⁾ 3,694,235 shares (and 3,694,235 free attaching listed options) issued as full consideration for the Corporate Advisory and Management Fees incurred under the Lead Manager mandate for the 2014 renounceable rights issue. Each option is exercisable at 2 cents with 11 March 2016 expiry date.

⁽⁴⁾ 50,000,000 shares were issued with 25,000,000 free attaching unlisted options. Each option is exercisable at 2 cents with 30 June 2016 expiry date.

⁽⁵⁾ 16,666,667 shares were issued with 8,333,333 free attaching unlisted options. Each option is exercisable at 2 cents with 30 June 2016 expiry date.

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.

(b) Share Options

Expiry date	Exercise Price	Number at end of year	
		2014	2013
11 March 2016 (listed) ⁽¹⁾	\$0.02	15,266,611	-
30 June 2016 (unlisted) ⁽²⁾	\$0.02	33,333,333	-
30 April 2019 (unlisted) ⁽³⁾	\$0.10	9,400,000	15,400,000

⁽¹⁾ 15,266,611 listed options were issued during the 2014 year. (Refer Note 16(a) above).

⁽²⁾ 33,333,333 unlisted options were issued during the 2014 year. (Refer Note 16(a) above).

⁽³⁾ 6,000,000 unlisted options expired during the 2014 year out of the 15,400,000 unlisted options that were issued during the 2013 year. (Refer Note 30 below).

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.

17. RESERVE

	Consolidated	
	2014	2013
Share-based payment reserve	\$	\$
Opening balance	131,567	-
Share based payments relating to unlisted options issued	60,371	131,567
Closing balance	191,938	131,567

Nature and purpose of share-based payment – option reserve

The share-based payment reserve is used to recognise the fair value of options issued under the employee share option plan.

18. ACCUMULATED LOSSES

	Consolidated	
	2014	2013
	\$	\$
Accumulated losses at the beginning of the year	(25,267,163)	(20,470,035)
Net Loss for the year	(7,252,709)	(4,797,128)
Accumulated losses at the end of the year	(32,519,872)	(25,267,163)

19. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to fund the Group's operations.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Categories of financial instruments

	Consolidated	
	2014	2013
	\$	\$
Financial assets		
Cash and cash equivalents	354,422	981,546
Trade and other receivables	134,098	401,074
Security and other deposits	319,957	701,960
Available-for-sale financial assets	3,252	3,252
Total financial assets	811,729	2,087,832
Financial liabilities		
Trade and other payables	450,845	1,367,887
Total financial liabilities	450,845	1,367,887

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework which is summarised below:

(b) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. As an emerging explorer, the Group does not establish a return on capital. Capital management requires the maintenance of strong cash balance to support ongoing exploration. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

(c) Market risk

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earning volatility on floating rate instruments. The Group does not have a formal policy in place to mitigate interest rate risks as the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

At balance date, the Group had the following financial assets which are interest bearing:

	Consolidated	
	2014	2013
	\$	\$
Cash and cash equivalents (variable interest rates)	354,422	981,546
Security deposits (fixed interest rates)	214,288	596,291
	<hr/>	<hr/>
	568,710	1,577,837

Interest rate sensitivity analysis

An increase of 80 basis points in interest rates at the reporting date, with all other variables held constant, would have decreased the Group's loss and increased equity by \$4,550 (2013: \$12,623). Where interest rates decreased, there would be an equal and opposite impact on the loss and equity.

Price risk

The Group is exposed to equity securities price risk. This arises from an investment held by the Group and classified on the consolidated statement of financial position as an available-for-sale financial asset.

The price risk for unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. A sensitivity analysis has therefore not been performed.

The Group is not exposed to commodity price risk or currency risk.

(d) Credit risk

Credit risk is the risk that a counter party will not complete its obligation under a financial instrument that will result in a financial loss to the Group. The carrying amount of financial assets represents the maximum credit exposure.

The Group manages any credit risk associated with its funds on deposit by ensuring that it only invests its funds with reputable financial institutions. The Group currently has deposits with the ANZ and Suncorp banks.

At 31 December 2014 trade and other receivables are mostly receivable within 30 days.

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount \$	Contractual cash flow \$	< 6 months \$	6-12 months \$	1-3 years \$	> 3 years \$
31 Dec 2014						
Trade and other payables	450,845	(450,845)	(450,845)	-	-	-
	<u>450,845</u>	<u>(450,845)</u>	<u>(450,845)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Consolidated	Carrying amount \$	Contractual cash flow \$	< 6 months \$	6-12 months \$	1-3 years \$	> 3 years \$
31 Dec 2013						
Trade and other payables	1,367,887	(1,367,887)	(1,367,887)	-	-	-
	<u>1,367,887</u>	<u>(1,367,887)</u>	<u>(1,367,887)</u>	<u>-</u>	<u>-</u>	<u>-</u>

(f) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their respective fair values, other than as noted below.

The fair value of the non-current asset comprising available-for-sale financial assets has been valued at cost less allowance for impairment. As disclosed in the above Note 10, the assets are shares in an unlisted company Opal Horizon Limited and as such their fair value cannot be determined reliably as there is no active market. The intention at this stage is to not dispose of the shares.

20. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

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

Key management personnel compensation

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	715,772	1,098,686
Post-employment benefits	52,940	95,716
Termination benefits	608,445	4,251
Share-based payments	29,698	57,796
	<u>1,406,855</u>	<u>1,256,449</u>

21. REMUNERATION OF AUDITORS

	Consolidated	
	2014	2013
	\$	\$
Amounts received, or due and receivable, by the Group's auditor – BDO Audit Pty Ltd:		
- Audit and review of the financial statements	32,500	32,500
The auditor did not provide any other services.		

22. CONTINGENT LIABILITY

The Group does not have any contingent liability at 31 December 2014.

23. COMMITMENTS

(a) Exploration asset expenditure commitment

The Group's 100% owned subsidiary, Lost Sands Pty Ltd ("Lost Sands") executed a conditional purchase agreement with Image Resources NL on 10th November 2014 to acquire the Cyclone Extended mineral resource.

A non-refundable deposit of \$20,000 was paid at agreement execution date of 10th November 2014. The balance of the purchase price of \$415,000 will be paid within 120 days of agreement execution date linked to a successful capital raising being undertaken by Diatreme within that period.

(b) 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:

	Consolidated	
	2014	2013
	\$	\$
Payable within 1 year	436,974	616,657
Payable between one and five years	1,176,740	1,480,825
	<u>1,613,714</u>	<u>2,097,482</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. Cash security bonds totalling \$212,688 (2013: \$594,691) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

Performance bonds totalling \$190,420 (2013: \$351,000) have been issued by the Australia and New Zealand Banking Group Limited ("ANZ") on behalf of one of the Group'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.

(c) Operating lease commitments

	Consolidated	
	2014	2013
	\$	\$
Payable within 1 year	310,319	327,183
Payable between one and five years	195,308	536,914
	<u>505,627</u>	<u>864,097</u>

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

24. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity in the Group is Diatreme Resources Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 25.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 20 and remuneration report in the directors' report.

25. INTERESTS IN SUBSIDIARIES

Set out below details of the subsidiaries held directly by the Group:

Name of subsidiary	Country of Incorporation	Principal activity	Ownership Interest	
			2014	2013
Subsidiaries				
Regional Exploration Management Pty Ltd	Australia	Logistical support	100%	100%
Chalcophile Resources Pty Ltd *	Australia	Metals exploration	100%	100%
Lost Sands Pty Ltd	Australia	Mineral sands exploration	100%	100%

* This entity is 100% owned by Regional Exploration Management Pty Ltd.

26. RECEIPT FROM PMHL

The Group's 100% owned subsidiary, Lost Sands Pty Ltd ("Lost Sands") executed a Heads of Agreement ("HoA") on 9 January 2014 with Perpetual Mining Holding Limited ("PMHL") for \$2 million (GST incl.) investment in the Cyclone Zircon Project. Under the HoA, PMHL agreed to invest \$2 million (GST incl.) into the Project to earn 6% equity by way of a series of cash calls.

For the year ended 31 December 2014 Lost Sands received all of the \$2 million (GST incl.) from PMHL. All amounts have been fully expended at 31 December 2014.

27. 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.

For the year ended 31 December 2013, and under the agreed terms, the Company received \$1,155,356 (\$US 1,169,055) from Antofagasta Minerals S.A to fund exploration at the Clermont Copper Project. All amounts have been fully expended at 31 December 2013.

In October 2013 Antofagasta terminated the farm-in agreement under the MoU, and consequently exited the Clermont Copper Project without earning an interest.

28. RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOW USED IN OPERATING ACTIVITIES	Consolidated	
	2014 \$	2013 \$
Loss for the year	(7,252,709)	(4,797,128)
Non-cash items		
Depreciation	97,583	119,173
Capitalised exploration expenditure written-off	5,817,234	3,128,127
Impairment of available-for-sale financial assets	-	29,265
Share-based payment expense	134,258	131,567
(Profit)/loss on sale of fixed assets	(22,423)	2,857
Movements in operating assets and liabilities		
(Increase)/decrease in receivables	286,977	182,816
(Increase)/decrease in other assets	-	(5,336)
Increase / (decrease) in payables	(120,685)	41,981
Increase / (decrease) in provisions	(130,858)	1,090
Net cash used In operating activities	<u>(1,190,623)</u>	<u>(1,165,588)</u>

29. EARNINGS PER SHARE	Consolidated	
	2014 Cents	2013 Cents
Basic earnings per share (loss)	<u>(1.2)</u>	<u>(1.0)</u>
Diluted earnings per share (loss)	<u>(1.2)</u>	<u>(1.0)</u>

Weighted average number of shares used as the denominator	2014	2013
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>620,416,548</u>	<u>479,683,967</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>620,416,548</u>	<u>479,683,967</u>

Information concerning earnings per share

Earnings for the purpose of the calculation of basic earnings per share and also diluted earnings per share, is the loss attributable to owners of Diatreme Resources Limited of \$7,252,709 (2013: loss \$4,797,128).

Options granted are usually considered to be potential ordinary shares and taken into account in the determination of diluted earnings per share and are not included in the determination of basic earnings per share. In the circumstances of the Group, the options are not dilutive and are therefore not used in the calculation of diluted earnings per share. Details of the options are set out in Note 30.

30. SHARE-BASED PAYMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

Consequently, 9,400,000 share options were issued to the Company's employees and consultants (including Other Key Management Personnel) on 15 March 2013. Information relating to these options is as follows:

2014							
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
15/03/2013	30/04/2019	\$0.10	9,400,000	-	-	(3,000,000)	6,400,000

2013							
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
15/03/2013	30/04/2019	\$0.10	-	9,400,000	-	-	9,400,000

The remaining contractual life of the above share options outstanding at the end of the period was 4.3 years

On 31 May 2013, following shareholders' approval, 6,000,000 share options were issued to the Directors (Key Management Personnel). Information relating to these options is as follows:

2014							
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
31/05/2013	30/04/2019	\$0.10	6,000,000	-	-	(3,000,000)	3,000,000

2013							
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
31/05/2013	30/04/2019	\$0.10	-	6,000,000	-	-	6,000,000

The remaining contractual life of the above share options outstanding at the end of the period was 4.3 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2014 Number	2013 Number
15/03/2013	30/04/2019	6,400,000	-
31/05/2013	30/04/2019	3,000,000	-

Fair Value of options granted

All options issued during the year ended 31 December 2013 were valued using the Black-Scholes model. The fair value of options 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	104%	108%
Expected dividend yield	0%	0%
Risk-free interest rate	3.28%	3.28%
Life of the options	6 years	6 years
Share price at issue date	\$0.02	\$0.01
Fair value per option	\$0.0142	\$0.0099

Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the year were as follows:

	Consolidated	
	2014	2013
	\$	\$
Share based payments made during the period ⁽¹⁾	73,887	-
Share based option payments made during the period ⁽²⁾	60,371	131,567
	<u>134,258</u>	<u>131,567</u>

⁽¹⁾ 3,694,235 shares at an issue price of 2 cents per share (and 3,694,235 free attaching listed options) were issued as full consideration for the Corporate Advisory and Management Fees incurred under the Lead Manager mandate for the 2014 renounceable rights issue. The expense has been recognised as part of other expense.

⁽²⁾ The expense arising from the issue of 9,400,000 unlisted options to employees and 6,000,000 unlisted options to Directors, and has been recognised as part of employee benefits expense.

31. PARENT INFORMATION	ENTITY	2014 \$	2013 \$
Financial position			
Current assets		354,806	1,016,912
Non-current assets		23,628,903	30,340,838
Total assets		<u>23,982,903</u>	<u>31,357,750</u>
Current liabilities		135,594	279,872
Total liabilities		<u>135,594</u>	<u>279,872</u>
Net assets		<u>23,847,309</u>	<u>31,077,878</u>
Shareholders' equity			
Contributed equity		47,108,903	45,733,401
Option reserve		191,938	131,567
Accumulated losses		(23,453,532)	(14,787,090)
Total equity		<u>23,847,309</u>	<u>31,077,878</u>
		2014 \$	2013 \$
Loss for the year		(8,666,443)	(1,688,318)
Total comprehensive loss for the year		<u>(8,666,443)</u>	<u>(1,688,318)</u>

Non-Current Assets

Non-current assets include \$20,302,833 (2013: \$27,090,943) of Intercompany Receivables balances with recoverability of the debt based on successful exploitation of various tenement sites.

Contingent Liabilities

The parent entity does not have any contingent liability.

Contractual commitments

The parent entity does not have any contractual commitments for property, plant and equipment at 31 December 2014.

Guarantees

The parent entity does not have any guarantees at 31 December 2014.

32. EVENTS SUBSEQUENT TO REPORTING DATE

21 January 2015	Placement of 25,000,000 ordinary fully paid shares raising \$300,000 before costs.
23 March 2015	Full financial settlement of the acquisition of Cyclone Extended mineral resource

No other matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial years subsequent to 31 December 2014.

33. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial report, certain Standards and Interpretations were on issue but not yet effective. These Standards and Interpretations, including AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers, have not been adopted in the preparation of the financial report for the year ended 31 December 2014. None of these Standards and Interpretations is expected to have significant effect on the consolidated financial statements of the Group,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

The Group expects to first apply these Standards and Interpretations in the financial report of the Group relating to the annual reporting period beginning after the effective date of each pronouncement.

DIRECTORS' DECLARATION
for the year ended 31 December 2014

In the directors' opinion:

- the attached financial statements and notes thereto 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 thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2014 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 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



William Wang
Non-executive Chairman

27 March 2015
Brisbane

INDEPENDENT AUDITOR'S REPORT

To the members of Diatreme Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Diatreme Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2014, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, 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 report.



Opinion

In our opinion:

- (a) the financial report of Diatreme Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2(e) in the 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 2(e), 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 10 of the directors' report for the year ended 31 December 2014. 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.

Opinion

In our opinion, the Remuneration Report of Diatreme Resources Limited for the year ended 31 December 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

C J Skelton

Director

Brisbane, 27 March 2015