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DIATREME RESOURCES LIMITED

ABN 33 061 267 061

HALF-YEAR REPORT – 30 JUNE 2017

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General information

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

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

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

Unit 8
61 Holdsworth Street
Coorparoo
Queensland 4151

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 12 September 2017.

COMPETENT PERSON STATEMENTS

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

DIRECTORS' REPORT

Your directors present their report on the Group consisting of Diatreme Resources Limited and the entities it controlled at the end of, or during, the half-year ended 30 June 2017.

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

A Tsang
C Wang
Y Zhuang

Principal activities

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

Review of operations

The loss after income tax of the Group for the half-year ended 30 June 2017 was \$640,274 (2016: loss \$942,422). The loss reflects the nature of the Group's principal activity.

During the year, Diatreme Resources Limited was primarily focussed on the advancement of its major projects by advancing and obtaining key Government agency approvals and undertaking further commercial and technical studies to allow continued progress on Cyclone (Cyclone Zircon Project), Tick Hill (Tick Hill Gold Project) and Cape Bedford (Cape Bedford Silica & HM Sands Project).

Concurrently with the major project development program, management continue to examine tenement areas currently held and where possible actively pursues opportunities to reduce holding costs through tenement consolidation, reduction or relinquishment to ensure only the most prospective areas are held by the company and operational overheads are minimised. This process is ongoing and relentless in its pursuit of cost minimisation.

Diatreme's flagship project the "Cyclone Zircon Project" continues to be progressed through the last stage of a complex commercial, operational and permitting project de-risking process. This de-risking was identified by Diatreme following potential project participant's feedback during discussions and external project due diligence exercises, as key commercial/technical/permitting elements that needed to be actioned so that participation discussions could be advanced and finalised. In essence advancing Cyclone to a "turn-key" opportunity fully permitted ready for mine development.

These key approvals included finalisation of traditional owner mining project agreement, grant of mining lease, confirmation of adequate access to water on site, and project environmental approvals.

The last stage of this complex process, obtaining the WA Minister for Environment's approval on environmental permitting required to allow the mine access road and all associated camp infrastructure to be established, was granted in early January 2017. This crucial permitting allows for construction of mine road access for transport of mine product and development of all associated mining infrastructure.

This key permitting advance in conjunction with the full project enhancement and update report on the Project that was undertaken by independent engineering services firm Sedgman Ltd, which confirmed the project's robust economics within the current day context and current commercial parameters (product pricing, wage/labour rates, fuel and power generation costs, etc.), gives Diatreme the impetus to finalise the remaining aspects of the Cyclone Project studies (DFS studies) to ensure the establishment of a viable mining operation. This progress has allowed Diatreme to now engage in discussions with potential product offtakers to ascertain market appetite for the eventual mining operations of Zircon and Titanium products.

Diatreme has also been very encouraged by preliminary exploration activity at the Cape Bedford exploration tenement where early grab samples taken at various points within the tenement indicate high purity silica of export quality with additional potential for contained heavy minerals. These results will be followed up by an extensive drilling program scheduled for the third quarter of 2017.

Major Activities

Key operational highlights, in chronological order during the period in review include:

- Final ministerial consent (approval) was received on 9 January 2017 from the WA Environment Minister allowing the Cyclone project to: ***“Develop and operate the Cyclone Mineral Sands Mine, including open cut pits, mining and processing infrastructure, airstrip, accommodation camp, bore fields and haul road construction from the mine site to the Forrest rail siding.”***
- A Compensation and Conduct Agreement (CCA) with traditional land owners, the Hopevale Congress Aboriginal Corporation was negotiated, and executed on 18 January 2017, for the Cape Bedford Silica/Heavy Minerals Project (EPM17795).
- Preliminary metallurgical testwork on a 90kg sample of HM mineralised dune material immediately south of Elim Beach in EPM17795 reported highly encouraging processing characteristics and readily produced a range of saleable HM concentrates with acceptable grades and recoveries.
- In June 2017 Diatreme announced that advanced discussions are underway with potential Chinese offtake partners concerning the Company’s Cyclone Zircon Project in the Eucla Basin.

Fundraising

The final balance of \$300,000 on the convertible note facility was received during the first half of 2017. This has brought the convertible note facility total to \$3.0 million.

In July 2017, the company commenced a \$750,000 capital raising to sophisticated investors to fund specific exploration programs and working capital. Diatreme has received \$500,000 in firm commitments to date and will close this fundraising off in early September.

Exploration

Key Exploration operations during the year involved:

- Reporting of an updated global mineral resource estimate for the Cyclone Project of 203 million tonnes (Mt) at 2.3% heavy minerals (HM) at a 1% HM cut-off grade, containing 4.7Mt of HM.
- Six grab samples of silica sand were collected during a reconnaissance site visit to the dunefield at Cape Bedford. All samples were submitted for HM analysis with two samples returning HM assays of 3.3% HM and 1.6% HM, respectively. Together with the observation of HM slicks on some of the exposed beaches, this suggests that HM mineralisation may be present at several locations within the EPM. The silica “float” fraction of the grab samples was then submitted for XRF analysis, and all reported $\geq 99.8\%$ SiO₂ with low levels of Fe₂O₃ (average 0.014%) and Al₂O₃ (average 0.043%). This preliminary work confirms the potential of the widespread silica sand dune material to generate high quality silica sand.
- Preliminary metallurgical testwork was completed on a 90kg sample of dune material (assaying 2.6% HM) immediately south of Elim Beach in EPM17795. The sample processed readily and initial work indicates the sands to be amenable to the use of standard mineral sands process methodologies and equipment.

Capital market conditions continue to remaining difficult for junior explorers and Diatreme is not immune from these general capital market conditions. However, during the first half of 2017 we are starting to see within the heavy minerals sector with particular reference to Zircon and Titanium products some very positive market signs in terms of consistent, sustainable product price increases.

We remain optimistic that these product price increases and the associated effect these deliver to our Cyclone Project economics along with improved capital market sentiment will give us the impetus needed to deliver the project.

Significant changes in the state of affairs

The final balance of \$300,000 on the convertible note facility was received during the first half of 2017. This has brought the convertible note facility total to \$3.0 million.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

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



W Wang
Chairman
12 September 2017

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The Directors
Diatreme Resources Limited
Unit 8
61 Holdsworth Street
Coorparoo QLD 4151

Auditor's Independence Declaration

As lead auditor for the review of Diatreme Resources Limited for the half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif

Junaide Latif
A Member of the Firm

Brisbane: 12 September 2017

**CHARTERED ACCOUNTANTS
& ADVISORS**

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2017**

	Half-year	
	2017	2016
	\$	\$
Revenue	6,513	56,286
Other income	46,815	761
Employee benefits expenses	(353,959)	(390,431)
Depreciation expenses	(18,338)	(23,812)
Exploration assets written off	-	(108,747)
Other expenses	(154,849)	(379,467)
Finance costs	(166,456)	(97,012)
Loss before income tax	(640,274)	(942,422)
Income tax expense	-	-
Net loss for the half-year attributable to owners	(640,274)	(942,422)
Other comprehensive income for the half-year, net of tax	-	-
Total comprehensive loss for the half-year attributable to owners	(640,274)	(942,422)
	Cents	Cents
Loss per share		
Basic earnings per share	(0.1)	(0.1)
Diluted earnings per share	(0.1)	(0.1)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	Note	30 Jun 2017 \$	31 Dec 2016 \$ (restated)
ASSETS			
Current assets			
Cash and cash equivalents		51,463	310,362
Trade and other receivables		26,316	110,511
Total current assets		77,779	420,873
Non-current assets			
Available-for-sale financial assets		3,252	3,252
Property, plant and equipment		155,099	172,316
Exploration and evaluation assets	3	13,627,446	13,417,168
Other assets		46,632	46,632
Total non-current assets		13,832,429	13,639,368
Total assets		13,910,208	14,060,241
LIABILITIES			
Current liabilities			
Trade and other payables		294,476	296,056
Provisions		8,354	5,546
Borrowings	4	203,050	-
Share application monies		100,000	-
Total current liabilities		605,880	301,602
Non-current liabilities			
Borrowings	4	1,428,690	1,373,825
Provisions		272,000	272,000
Total non-current liabilities		1,700,690	1,645,825
Total liabilities		2,306,570	1,947,427
Net assets		11,603,638	12,112,814
EQUITY			
Issued capital		48,750,812	48,750,812
Reserves		1,657,637	1,526,539
Accumulated losses		(38,804,811)	(38,164,537)
Total equity		11,603,638	12,112,814

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2017**

	Issued capital	Share based payments reserve	Convertible note reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
At 1 January 2016	48,048,903	191,938	493,320	(36,297,084)	12,437,077
Total comprehensive income:					
Loss for the half-year	-	-	-	(942,422)	(942,422)
Transactions with owners in their capacity as owners:					
Shares issued, net of transaction costs	4,320	-	-	-	4,320
Convertible note drawdown	-	-	505,156	-	505,156
At 30 June 2016	48,053,223	191,938	998,476	(37,239,506)	12,004,131

	Issued capital	Share based payments reserve	Convertible note reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
At 1 January 2017	48,750,812	191,938	1,334,601	(38,164,537)	12,112,814
Total comprehensive income:					
Loss for the half-year	-	-	-	(640,274)	(640,274)
Transactions with owners in their capacity as owners:					
Convertible note drawdown	-	-	131,098	-	131,098
At 30 June 2017	48,750,812	191,938	1,465,699	(38,804,811)	11,603,638

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2017**

	Note	Half-year	
		2017 \$	2016 \$
Cash flows from operating activities			
Receipts in the course of operations		24,228	48,575
Payments to suppliers and employees		(529,754)	(740,958)
Interest received		313	1,530
Finance costs		(628)	(1,808)
		<hr/>	<hr/>
Net cash outflow from operating activities		(505,841)	(692,661)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,121)	(4,486)
Payments for exploration and evaluation assets		(151,937)	(249,446)
Proceeds from sale of property, plant and equipment		-	18,173
Payment for security deposit		-	(13,365)
		<hr/>	<hr/>
Net cash outflow from investing activities		(153,058)	(249,124)
Cash flows from financing activities			
Share application monies received		100,000	-
Proceeds from issue of shares		-	4,370
Payments for share issue costs		-	(50)
Proceeds from drawdowns of borrowings	4	300,000	965,000
		<hr/>	<hr/>
Net cash inflow from financing activities		400,000	969,320
Net (decrease)/increase in cash and cash equivalents		(258,899)	27,535
Cash and cash equivalents at the beginning of the half-year		310,362	20,320
Cash and cash equivalents at the end of the half-year		<hr/> <hr/>	<hr/> <hr/>
		51,463	47,855

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017****1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****a) Statement of compliance**

These general purpose financial statements for the interim half-year reporting period ended 30 June 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

b) Critical judgements in applying accounting policies

The accounting policies include the capitalisation of exploration and evaluation expenditure which as at 30 June 2017 amounts to \$13,627,446 (31 December 2016: \$13,417,168). This represents a significant asset of the Group. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the relevant areas of interest or where activities in these areas have not reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to these areas of interest are continuing.

c) Material uncertainty regarding going concern

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

The Group has incurred a net loss after tax for the half-year ended 30 June 2017 of \$640,274 and a net cash outflow from operations of \$505,841. At 30 June 2017, the Group's current liabilities exceeded its current assets by \$528,101.

During the current half-year to 30 June 2017, the Group drew down the final balance of \$300,000 from the convertible note facility.

The Group's ability to continue as a going concern and pay its debts as and when they fall due, is dependent upon the successful future raising of necessary funding through equity (refer to Note 7), extension of the maturity date of the convertible note facility, successful exploration and subsequent exploitation of the Group's tenements, securing product offtake agreements for the Cyclone Project, 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.

The reliance on securing additional capital through debt or equity gives rise to the existence of 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

c) Material uncertainty regarding going concern (continued)

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

d) New, revised or amending Accounting Standards and Interpretations

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

e) Fair values

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

2. SEGMENT INFORMATION

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

3. EXPLORATION AND EVALUATION ASSETS

	30 Jun 2017	31 Dec 2016
	\$	\$
Exploration and evaluation assets – at cost less impairment	13,627,446	13,417,168
Opening balance	13,417,168	13,114,514
Costs capitalised	210,278	560,657
Costs written off	-	(258,003)
	<u>13,627,446</u>	<u>13,417,168</u>

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.

4. BORROWINGS

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

The facility terms are as follows:

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

As at 31 December 2016, the Company had drawn \$2,700,000. During the half-year ended 30 June 2017, the final balance of \$300,000 was drawn down. Total borrowings are as follows:

	30 Jun 2017 \$	31 Dec 2016 \$(restated)
Unsecured Loan	1,631,740	1,373,825
Total borrowings	<u>1,631,740</u>	<u>1,373,825</u>
Current liability (interest payable)	203,050	-
Non-current liability	1,428,690	1,373,825
	<u>1,631,740</u>	<u>1,373,825</u>

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

	30 Jun 2017 \$	31 Dec 2016 \$(restated)
Borrowings	1,631,740	1,373,825
Convertible note reserve	1,465,699	1,334,601
	<u>3,097,439</u>	<u>2,708,426</u>

Refer to Note 8 for further information on the restatement.

5. CONTINGENCIES

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

6. COMMITMENTS**(a) Tenement expenditure commitments**

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

	30 Jun 2017	31 Dec 2016
	\$	\$
Payable within 1 year	668,334	466,211
Payable between one and five years	1,850,228	2,018,228
	<u>2,518,562</u>	<u>2,484,439</u>

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. In 2017 cash security bonds totalling \$33,267 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (Dec 2016: \$33,267).

(b) Operating lease commitments

	30 Jun 2017	31 Dec 2016
	\$	\$
Payable within 1 year	49,572	49,090
Payable between one and five years	50,563	75,146
	<u>100,135</u>	<u>124,236</u>

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

7. EVENTS SUBSEQUENT TO REPORTING DATE

In July 2017, Diatreme Resources Limited announced that it has commenced a capital raising program to sophisticated investors for the placement of 75,000,000 fully paid ordinary shares at \$0.01 (Placement Shares) with a free attaching 1 for 1 unlisted option exercisable at \$0.012 by 31 January 2018 (6 months from issue). Diatreme has received applications amounting to \$500,000 as at the date of this report.

On 11 September 2017, Diatreme Resources Limited announced that it had signed a non-binding Memorandum of Understanding (MOU) with China ENFI Engineering Corporation for completion of Cyclone Zircon Project's bankable feasibility study. The MOU is then targeted to be replaced with a binding heads of agreement (HOA) as soon as possible.

8. CORRECTION OF ERROR IN ACCOUNTING FOR THE CONVERTIBLE NOTE FACILITY

During the half year ended 30 June 2017, the accounting treatment of the convertible note facility was reviewed and it was determined that the accounting treatment applied in prior periods was incorrect.

As a consequence, financial liabilities were overstated and equity reserves were understated in the previously issued financial statements for the years ended 31 December 2015 and 31 December 2016 and the half years ended 30 June 2015 and 30 June 2016.

The error as described has been corrected by restating each of the affected consolidated statement of financial position line items for the 31 December 2016 year as follows:

	31 Dec 2016 (original)	Increase / (Decrease)	31 Dec 2016 (restated)
	\$		\$
Non-current liabilities - borrowings	2,623,466	(1,249,641)	1,373,825
Net Assets	10,863,173	1,249,641	12,112,814
Convertible note reserve	168,692	1,165,909	1,334,601
Accumulated losses	(38,248,269)	83,732	(38,164,537)

The restatement did not have a material impact on the comparative consolidated statement of profit or loss and other comprehensive income or consolidated statement of changes in equity for the half year ended 30 June 2016, and did not impact earnings per share.

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DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 6 to 14 are in accordance with the Corporations Act 2001 and:

- (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date.

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

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



W Wang
Chairman
Brisbane, 12 September 2017

Diatreme Resources Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Diatreme Resources Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity) on pages 6 to 15, which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Diatreme Resources Limited on pages 6 to 15 is not in accordance with the Corporations Act 2001 including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(c) in the financial report, which indicates that the Group incurred a net loss of \$640,274 during the half year ended 30 June 2017 and, as of that date, the Group's current liabilities exceeded its current assets by \$528,101 and had net cash outflows from operations of \$505,841. These events or conditions, along with other matters as set forth in Note 1(c), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

We draw your attention to Note 8 in the financial report, which states that financial liabilities were overstated and equity reserves were understated in previously issued financial reports for the years ended 31 December 2015 and 31 December 2016 and the half years ended 30 June 2015 and 30 June 2016.

The financial reports of the Company for the years ended 31 December 2015 and 31 December 2016 and the half years ended 30 June 2015 and 30 June 2016 were audited by another auditor who expressed an unmodified opinion on all reports.

Responsibilities of the Directors' for the Half-Year Financial Report

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

CHARTERED ACCOUNTANTS & ADVISORS

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Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of Diatreme Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif

Junaide Latif
A Member of the Firm

Brisbane: 12 September 2017

CHARTERED ACCOUNTANTS & ADVISORS

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