

**DIATREME RESOURCES LIMITED**

ABN 33 061 267 061

**ANNUAL FINANCIAL REPORT**

**for the year ended 31 December 2015**

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The Directors present their report on Diatreme Resources Limited (“Diatreme” or “the Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2015.

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  
Y Zhuang

### **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 2015.

### **REVIEW OF OPERATIONS**

#### **Overview**

During the course of the year, the process of commercially and technically de-risking Diatreme's major asset, the Cyclone Project, continued through advancement of final project permitting and a significant increase in mineral resource size.

In addition Diatreme continued with its focus of tenement consolidation, acquisition of immediate “value add” tenements and prioritising of expenditure towards projects that have highest potential for adding material value to the company through major discovery or transition to mining operations.

Diatreme also continues to actively monitor expenditure levels to ensure it is operating in a prudent and fiscally responsible manner.

#### **Major Activities**

Key highlights, presented chronologically during the period in review included;

- Finalisation, following a number of years of negotiation and discussions, the acquisition of Tick Hill mining leases from MIM Holdings (Glencore). This enables Diatreme and its project Joint Venture partner Superior Resources Limited to design work programs to fully assess tailings from the old mine workings and explore the potential for re-establishment of mining operations to exploit remnant ore left in the old workings. In addition, future exploration will be undertaken to examine if the main ore body, which abruptly finished at a relatively shallow depth, has been structurally re-located within the existing tenement area.
- Finalisation of acquisition of Cyclone Extended tenements from Image Resources Limited (Image) following payment by Diatreme of \$415,000. This acquisition adds a significant mineral resource to the Cyclone Project at a cost significantly less than comparative exploration expenditure.
- Post-acquisition from Image, following a detailed review of exploration data the company released a significant upgrade to the mineral resource of the Cyclone Project from 137 to 211 million tonnes.

- Following negotiation, finalisation of a \$3.0m convertible Note facility from a private Chinese Investor on highly favourable terms to the company. First drawdown of \$500,000 effected in May 2015 followed by a further drawdown in September of \$500,000 with further drawdowns in \$500,000 lots to follow into 2016 until facility is fully drawn.
- Following exhaustive technical studies by Diatreme and its external environmental consultants the Cyclone Project Public Environmental report (PER) was released for public comment and review by Government line agencies. Public and line agency comments were then addressed in further final submissions to the Office of the Environmental Protection Agency (OEPA) who are the approving State entity. Final submissions and EPA Board presentations were undertaken by Diatreme in December 2015 with approvals anticipated during second quarter 2016.
- Following mobilisation of the Diatreme owned drill rig to site at Tick Hill and two separate drilling programs, Diatreme announced a 22,000 oz gold (Au) resource contained within the Tick Hill tailings dams with an overall grade of 1.08 grams/tonne Au based on results from 55 aircore drill holes.
- Metallurgical studies undertaken externally by ALS laboratories indicate the tailings gold is highly amenable to cyanide leaching with recovery rates of 95-98% when tails residue is reground to <15um. These results indicate the tailings are attractive for re-processing with an anticipated high recovery rate, confirming the potential commerciality of gold recovery operations.
- Cyclone Extended tenement heavy mineral resources were assimilated into the projects existing mining plan and an Ore Reserve increase of 47% was announced to now stand at 140 million tonnes.

### **Fundraising**

During the course of 2015 Diatreme finalised the following fund raising activities;

- \$1.0m was received during the first quarter as part of a placement program to new and existing investors following a capital raising "road show" undertaken through Qld, NSW and Victoria with the assistance of Beer & Co Corporate advisors to the program.
- In May a \$3.0m convertible note was negotiated with a Chinese based investor. The note is to be progressively drawn down over the course of 2015/16.

Diatreme's fund raising program was set against a very difficult and turbulent capital market background. All minerals exploration companies, and certainly those within Diatreme's market capitalisation comparative are experiencing these fund raising difficulties. However the company has been able even within that difficult external environment to raise the capital required to ensure operations continue to be funded and indeed priority programs are implemented ensuring that value adding activities for the company continue.

### **Exploration**

Exploration operations undertaken during the year in review included:

- Integration of exploration data from the Cyclone Extended deposit with the company's Cyclone database.
- Reporting of a global mineral resource estimate for the Cyclone Project of 211 million tonnes (Mt) at 2.3% heavy minerals (HM) at a 1% HM cut-off grade, containing 4.8Mt of HM.
- A review of exploration tenure within the general Cyclone Project area resulted in costs associated with the Wanna East tenement being written down during the year due to the low development potential of the Zephyr resource. Similarly, costs associated with the Wanna South tenement were written down during the year due to the low development potential of the nearshore mineralisation within the tenement.

- Relocation of the company's drilling equipment, and some exploration equipment to North Queensland. Planning and implementation of a reconnaissance exploration drilling program and an infill drilling program at the Tick Hill project to assess the potential for gold contained within the on-site tailings dam and alluvial/eluvial gold adjacent to the old open pit.
- Closure of the Clermont regional office, with exploration equipment relocated to North Queensland and data relocated to the Brisbane head office. Costs associated with the Clermont tenements were written down during the year due to a series of partial relinquishments and difficult market conditions for metals projects generally.

The Company maintains tight control over expenditure and has established rigorous protocols to ensure any capital allocated to exploration programs is linked to tangible benefit to company and ultimately linked to the potential for major discoveries or confirmation of commercially viable mineral deposits.

### **OPERATING RESULTS**

The net loss of the Group for the financial year ended 31 December 2015 was \$3,877,435 (2014: loss of \$7,252,709).

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 several share placements to sophisticated and professional investors. As a result issued capital increased by \$940,000 (from \$47,108,903 to \$48,048,903) from the issue of 83,333,334 ordinary shares.

The Company also entered into a funding agreement with a private investor for provision of a \$3 million convertible note facility. As at 31 December 2015, the Company had drawn \$1,100,000. During 2016, further tranches totalling \$1,900,000 million will be progressively drawn down.

### **EVENTS SUBSEQUENT TO REPORTING DATE**

Scheduled drawdown of \$500,000 on convertible note facility due for 31 December 2015 (refer ASX announcement 19th May 2015) only partially received (\$100,000), with balance of \$400,000 delayed into January due to remittance delays over public holiday period. Balance of \$400,000 was received in full as at 21st January 2016.

### **FUTURE DEVELOPMENTS**

The Group intends to continue its exploration activities on its existing projects, and progress 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 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

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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

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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

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### COMPANY SECRETARY

Mr Tuan Do was appointed Company Secretary in May 2011 and is also the Group Financial Controller. The previous Joint Company Secretary was Ms. Leni Pia Stanley who resigned on 30 April 2015.

**MEETINGS OF DIRECTORS**

The number of meetings of the board of Directors held during the year ended 31 December 2015, and the number of meetings attended by each Director was:

Name	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
A Tsang	2	-	-	-	-	-
C Wang	2	2	2	2	-	-
Y Zhuang	2	2	2	2	-	-

**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.

		2011	2012	2013	2014	2015
Share price at year end	\$/share	0.07	0.02	0.02	0.01	0.01
Market capitalisation	\$	24,821,820	9,471,648	12,191,649	7,264,157	8,097,490
Revenue	\$	510,638	223,274	263,729	267,799	153,374
Total assets	\$	24,859,782	23,064,562	22,102,096	15,237,360	13,545,426
Net profit/(loss) after tax	\$	(4,377,262)	(4,908,468)	(4,797,128)	(7,252,709)	(3,877,435)

**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)

T Do – Group Financial Controller/Company Secretary

L Stanley – Joint Company Secretary (resigned 30 April 2015)

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

2015	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 \$
<b>Non-executive Directors</b>						
A Tsang <sup>(1)</sup>	32,000	3,040	-	-	-	35,040
C Wang <sup>(1)</sup>	32,000	3,040	-	-	-	35,040
Y Zhuang	90,000	8,550	-	-	-	98,550
<b>Other key management personnel</b>						
N J McIntyre	179,825	-	-	-	-	179,825
T Do <sup>(2)</sup>	141,041	12,255	-	-	-	153,296
L Stanley <sup>(3)</sup>	10,500	-	-	-	-	10,500
<b>Total</b>	<b>485,366</b>	<b>26,885</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>512,251</b>

(1) The Directors voluntarily reduced their fees and salaries during the year ended 31 December 2015 due to the need for the Company to conserve cash.

(2) Employees worked at reduced hours per working week during the year ended 31 December 2015 due to the need for the Company to conserve cash.

(3) Resigned 30 April 2015.



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 \$
<b>Non-executive Directors</b>						
G H White <sup>(1)</sup>	16,664	1,541	-	-	3,568	21,773
A Tsang <sup>(2)</sup>	32,875	3,081	-	-	3,568	39,524
C Wang <sup>(2)</sup>	32,875	3,081	-	-	3,568	39,524
Y Zhuang	84,473	7,926	-	-	-	92,399
<b>Executive Directors</b>						
A J Fawdon <sup>(2) (3)</sup>	95,325	8,818	-	300,113	3,568	407,824
D H Hall <sup>(2) (4)</sup>	76,565	7,082	-	245,935	3,568	333,150
<b>Other key management personnel</b>						
N J McIntyre <sup>(5)</sup>	125,875	1,561	-	-	3,568	131,004
D Jelley <sup>(6) (7)</sup>	83,850	7,756	-	62,397	4,145	158,148
L Stanley	31,500	-	-	-	-	31,500
T Do <sup>(7)</sup>	135,770	12,094	-	-	4,145	152,009
<b>Total</b>	<b>715,772</b>	<b>52,940</b>	<b>-</b>	<b>608,445</b>	<b>29,698</b>	<b>1,406,855</b>

- (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 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 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 Jelley was made redundant on 1 July 2014. As a result, Mr Jelley 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.

## 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.
- The agreement may be terminated by 1 month notice from either party
- In the event that the position is made redundant, redundancy payment will be made equivalent to minimum of 4 weeks' pay up to maximum of 12 weeks' pay, dependent on years of service with the company.

*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/ 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.
- In the event that the position is made redundant, redundancy payment will be made equivalent to minimum of 4 weeks' pay up to maximum of 12 weeks' pay, dependent on years of service with the company.

**E Share-based compensation**

*Options provided as remuneration and shares issued on exercise of such options*

No new options or performance rights were granted as compensation to Directors and other key management personnel during the 2015 and 2014 financial years.

2015	Beginning balance	Granted as remuneration	Exercised during the year	Options lapsed	Balance at end of year
A Tsang	1,000,000	-	-	-	1,000,000
C Wang	1,000,000	-	-	-	1,000,000
Y Zhuang	-	-	-	-	-
N J McIntyre	1,000,000	-	-	-	1,000,000
T Do	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 Tsang	111,536,110	-	-	-	111,536,110
C Wang	2,637,822	-	-	-	2,637,822
Y Zhuang	59,660,000	-	-	-	59,660,000
N J McIntyre	-	-	-	-	-
T Do	-	-	-	-	-
<b>Total</b>	<b>173,833,932</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>173,833,932</b>

*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:

	<b>Balance at the start of the year</b>	<b>Granted</b>	<b>Additions</b>	<b>Expired/ forfeited/ other</b>	<b>Balance at the end of the year</b>
<i>Options over ordinary shares</i>					
A Tsang	8,333,333	-	-	-	8,333,333
C Wang	-	-	-	-	-
Y Zhuang	-	-	-	-	-
N J McIntyre	-	-	-	-	-
T Do	-	-	-	-	-
<b>Total</b>	<b>8,333,333</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,333,333</b>

**G Transactions with related parties**

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Trade debtor owing by Director related entity	-	71,352

At 31 December 2014 Diatreme Resources Limited (the Company) was owed \$71,352 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. In 2015 all of the \$71,352 has been written off as bad debt as the amount is now considered to be uncollectible.

**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:

<b>Issue/grant date</b>	<b>Expiry date</b>	<b>Exercise price</b>	<b>Number under option</b>	
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	5,000,000	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

29 March 2016  
Brisbane

**DIATREME RESOURCES LIMITED**  
**ABN 33 061 267 061**  
**AUDITOR'S DECLARATION OF INDEPENDENCE**



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

As lead auditor of Diatreme Resources Limited for the year ended 31 December 2015, 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 audit; and

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 year.

A handwritten signature in black ink, appearing to be 'A J Whyte', written over a circular scribble.

**A J Whyte**  
Director

**BDO Audit Pty Ltd**

Brisbane, 29 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
for the year ended 31 December 2015

	Note	Consolidated 2015 \$	2014 \$
Revenue	6	153,374	267,799
Other income	6	45,024	22,423
Employee benefits expenses		(713,821)	(707,681)
Termination benefits expenses		(57,200)	(608,445)
Depreciation expenses	6 & 11	(62,597)	(97,583)
Exploration assets written off	12	(2,309,339)	(5,817,234)
Other expenses	6	(884,200)	(1,104,872)
Finance costs		(48,676)	(5,155)
<b>Loss before income tax</b>		<u>(3,877,435)</u>	<u>(8,050,748)</u>
Income tax benefit	7	-	798,039
<b>Net Loss for the year</b>		<u>(3,877,435)</u>	<u>(7,252,709)</u>
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive loss for the year</b>		<u>(3,877,435)</u>	<u>(7,252,709)</u>

		Cents	Cents
<b>Loss per share</b>			
Basic earnings per share	30	(0.5)	(1.2)
Diluted earnings per share	30	(0.5)	(1.2)

*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 2015

		<b>Consolidated</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b>\$</b>	<b>\$</b>
<b>Current Assets</b>			
Cash and cash equivalents	8	20,320	354,422
Trade and other receivables	9	63,142	134,098
<b>Total Current Assets</b>		<b>83,462</b>	<b>488,520</b>
<b>Non-current Assets</b>			
Available-for-sale financial assets	10	3,252	3,252
Property, plant and equipment	11	231,262	305,501
Exploration and evaluation assets	12	13,114,514	14,120,130
Other assets	13	112,936	319,957
<b>Total Non-current Assets</b>		<b>13,461,964</b>	<b>14,748,840</b>
<b>Total Assets</b>		<b>13,545,426</b>	<b>15,237,360</b>
<b>Current Liabilities</b>			
Trade and other payables	14	361,702	450,845
Provisions	15	5,546	5,546
<b>Total Current Liabilities</b>		<b>367,248</b>	<b>456,391</b>
<b>Non-current Liabilities</b>			
Borrowings	16	983,409	-
Provisions	15	272,000	-
<b>Total Non-current Liabilities</b>		<b>1,255,409</b>	<b>-</b>
<b>Total Liabilities</b>		<b>1,622,657</b>	<b>456,391</b>
<b>Net Assets</b>		<b>11,922,769</b>	<b>14,780,969</b>
<b>Equity</b>			
Issued capital	17	48,048,903	47,108,903
Reserve	18	271,173	191,938
Accumulated losses	19	(36,397,307)	(32,519,872)
<b>Total Equity</b>		<b>11,922,769</b>	<b>14,780,969</b>

*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 2015

	Note	Issued capital	Share- based payment reserve	Convertible note reserve	Accumulated losses	Total
		\$	\$	\$	\$	\$
<b>Balance at 1 January 2014</b>		<b>45,733,401</b>	<b>131,567</b>	-	<b>(25,267,163)</b>	<b>20,597,805</b>
Total comprehensive income: Loss for the year		-	-	-	(7,252,709)	(7,252,709)
<b>Transactions with owners in their capacity as owners:</b>						
Shares issued		1,496,433	-	-	-	1,496,433
Share issue costs		(120,931)	-	-	-	(120,931)
Options issued		-	60,371	-	-	60,371
<b>Balance at 31 December 2014</b>		<b>47,108,903</b>	<b>191,938</b>	-	<b>(32,519,872)</b>	<b>14,780,969</b>
Total comprehensive income: Loss for the year		-	-	-	(3,877,435)	(3,877,435)
<b>Transactions with owners in their capacity as owners:</b>						
Shares issued		1,000,000	-	-	-	1,000,000
Share issue costs		(60,000)	-	-	-	(60,000)
Convertible note draw down		-	-	79,235	-	79,235
<b>Balance at 31 December 2015</b>	17 to 19	<b>48,048,903</b>	<b>191,938</b>	<b>79,235</b>	<b>(36,397,307)</b>	<b>11,922,769</b>

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 2015

		<b>Consolidated</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Receipts in the course of operations		124,366	224,555
Receipts from research and development tax claims		-	718,236
Payments to suppliers and employees		(1,579,603)	(2,159,329)
Interest received		12,701	31,070
Finance costs		(3,389)	(5,155)
<b>Net cash used in operating activities</b>	<b>29</b>	<b>(1,445,925)</b>	<b>(1,190,623)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(3,388)	-
Receipt from Perpetual Mining Holding Limited	27	-	2,000,000
Payments for exploration and evaluation assets		(680,882)	(3,141,857)
Proceeds from sale of property, plant and equipment		37,409	35,001
Payments for tenement acquisition	28	(415,000)	(20,000)
Refund of security deposits		200,421	382,003
<b>Net cash used in investing activities</b>		<b>(861,440)</b>	<b>(744,853)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		1,000,000	1,422,546
Payments for share issue costs		(66,737)	(114,194)
Proceeds from drawdowns of borrowings		1,100,000	-
Payments for borrowing costs		(60,000)	-
<b>Net cash from financing activities</b>		<b>1,973,263</b>	<b>1,308,352</b>
Net increase/(decrease) in cash and cash equivalents		(334,102)	(627,124)
Cash and cash equivalents at the beginning of the financial year		354,422	981,546
<b>Cash and cash equivalents at the end of the financial year</b>	<b>8</b>	<b>20,320</b>	<b>354,422</b>

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

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## 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 2015 comprise the Company and its subsidiaries (together referred to as the “Group”).

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 29 March 2016.

### (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

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 January 2015. Information on the more significant standard(s) is presented below.

AASB 2014-1 *Amendments to Australian Accounting Standards* (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles).

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the IASB of International Financial Reporting Standards *Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle*.

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2010-2012 Cycle*:

- clarify that the definition of a ‘related party’ includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity)
- amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria

Among other improvements, the amendments arising from *Annual Improvements to IFRSs 2011-2013 Cycle* clarify that an entity should assess whether an acquired property is an investment property under AASB 140 *Investment Property* and perform a separate assessment under AASB 3 *Business Combinations* to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014.

The adoption of these amendments has not had a material impact on the Group as they are largely of the nature of clarification of existing requirements.

#### **(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 2015 of \$3,877,435, and a net cash outflow from operations of \$1,445,925. At 31 December 2015, the Group's current liabilities exceeded its current assets by \$283,786.

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 2015, the Group raised \$1,000,000 from share placements to sophisticated and professional investors, and secured a \$3 million convertible note facility. At 31 December 2015, \$1,100,000 of this facility had been drawn down and the balance of \$1,900,000 is expected to be drawn down during 2016.

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 2015. 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	20%
Motor vehicles	20%
Plant and equipment	20-40%

**(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.



**(p) Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**(q) Rehabilitation provision**

A provision for rehabilitation is recognised when there is a present obligation to rehabilitate an area disturbed, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. An asset is created as part of the exploration and evaluation assets which is offset by a provision for rehabilitation.

**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 \$2,309,339 (2014: \$5,817,234) be written off in the year ended 31 December 2015.

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.

*(ii) Provision for rehabilitation*

The Group's exploration activities are subject to various laws and regulations governing the protection of the environment which require the rehabilitation of permit areas following the completion of exploration and/or production. The group estimates the future rehabilitation costs at the time of

disturbance or when a disturbed area is acquired. Rehabilitation could involve re-vegetation of the land area affected and the removal of contaminants. In some cases the rehabilitation will occur many years into the future. The Group recognises managements' best estimate of the nature, extent and cost of the rehabilitation obligations in the period in which they arise. In addition, future changes to environmental laws and regulations, production estimates and discount rates could affect the calculation of the estimated cost of the rehabilitation estimates. As a result, actual costs incurred in future periods could differ materially from the estimates.

## 5. SEGMENT INFORMATION

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

## 6. REVENUE, OTHER INCOME AND EXPENSES

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>a) Revenue</b>		
Interest	12,701	31,070
Management fees	5,258	5,056
Other	135,415	231,673
	<u>153,374</u>	<u>267,799</u>
<b>b) Other income</b>		
Gain disposal of non-current assets	22,380	22,423
Gain on loan	22,644	-
	<u>45,024</u>	<u>-</u>
<b>c) Depreciation</b>		
Furniture and fittings	1,579	4,479
Motor vehicles	11,735	21,886
Plant and equipment	49,283	71,218
	<u>62,597</u>	<u>97,583</u>
<b>d) Other expenses</b>		
Professional fees	86,095	134,003
Rental expenses on operating leases	390,925	383,482
Listing and share registry expenses	68,976	78,148
Administration costs	338,204	509,239
	<u>884,200</u>	<u>1,104,872</u>

**7. INCOME TAX**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>(a) The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:</b>		
Loss before income tax	(3,877,435)	(8,050,748)
Prima facie income tax benefit at 30% (2014: 30%)	(1,163,230)	(2,415,224)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share-based payments	-	40,277
Other	7,576	
	(1,155,654)	(2,374,947)
Deferred tax assets not recognised	1,155,654	2,374,947
	-	-
Recognition of research & development tax claim	-	(798,039)
Total income tax benefit	-	(798,039)
<b>(b) The components of income tax benefit:</b>		
Current tax	-	-
Deferred tax	-	-
Research & development tax claim	-	(798,039)
Total income tax benefit	-	(798,039)
<b>(c) Deferred tax</b>		
<b>Deferred tax assets</b>		
Unused tax losses	3,312,099	3,771,000
Unused capital losses	4,507	4,507
Temporary differences:		
- Property, plant and equipment	130,957	16,024
- Accruals	94,640	8,941
- Employee benefits	15,029	14,767
- Capital raising costs	179,826	217,309
- Other	197,296	197,296
	3,934,354	4,229,844
<b>Deferred tax liabilities</b>		
- Exploration expenditure	(3,934,354)	(4,229,803)
- Other	-	(41)
	(3,934,354)	(4,229,844)
Net deferred tax asset/liability	-	-
<b>(d) Unrecognised deferred tax assets</b>		
Unused tax losses	45,686,957	41,667,020
Potential tax effect at 30%	13,706,087	12,500,106

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 2015. The recoupment of available tax losses as at 31 December 2015 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;
- (iii) The conditions for deductibility imposed by tax legislation continuing to be complied with; and
- (iv) There being no changes in tax legislation which adversely affect the Group from realising the benefit.
- (v) Given the Group is in a taxable loss position there is no franking credit to report.

**8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	20,320	354,422

**9. CURRENT ASSETS – TRADE & OTHER RECEIVABLES**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	40,457	120,248
Allowance for doubtful debt <sup>(1)</sup>	-	(44,005)
Other receivables <sup>(2)</sup>	22,685	28,440
Prepayments <sup>(3)</sup>	-	29,415
	<u>63,142</u>	<u>134,098</u>

<sup>(1)</sup> An allowance for doubtful debt was provided for a trade receivable amount that is past due in 2014. This amount has since been written off in 2015.

<sup>(2)</sup> Other receivables do not contain impaired assets and are not past due.

<sup>(3)</sup> Prepayments in 2014 include \$20,000 non-refundable deposit relating to the acquisition of Cyclone Extended mineral resource from Image Resources NL on 10<sup>th</sup> November 2014. (Refer also to Note 28).

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

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Shares in an unlisted company		
Opening cost	162,586	162,586
Less impairment	(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 20 (f)).

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

Consolidated	Furniture and fittings	Motor vehicles	Leased Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$	\$
<b>Year ended 31 December 2014</b>					
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 <sup>(1)</sup>	-	31,850	(31,850)	-	-
Closing net book amount	7,753	68,095	-	229,653	305,501
<b>At 31 December 2014</b>					
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
<b>Year ended 31 December 2015</b>					
Opening net book amount	7,753	68,095	-	229,653	305,501
Additions	-	-	-	3,388	3,388
Disposals	(70)	(12,512)	-	(2,448)	(15,030)
Depreciation charge	(1,579)	(11,735)	-	(49,283)	(62,597)
Closing net book amount	6,104	43,848	-	181,310	231,262
<b>At 31 December 2015</b>					
Cost	134,723	225,274	-	1,056,269	1,416,266
Accumulated depreciation	(128,619)	(181,426)	-	(874,959)	(1,185,004)
Net book amount	6,104	43,848	-	181,310	231,262

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

## 12. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS

	Consolidated	
	2015 \$	2014 \$
Exploration and evaluation assets – at cost less impairment	13,114,514	14,120,130
Opening balance	14,120,130	19,598,602
Tenement acquisition	415,000	-
Costs capitalised during the year	883,723	338,762
Costs written off during the year (#)	(2,304,339)	(5,817,234)
Closing balance	13,114,514	14,120,130

(#) During the years ended 31 December 2015 and 31 December 2014, reviews of exploration data in conjunction with management assessment, resulted in these write-off of exploration assets.

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 \$13,114,514 of which \$10,674,000 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 Cyclone Zircon Project. All amounts have been fully expended at 31 December 2014. (Refer also to Note 27 below).

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

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

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

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

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

At 31 December 2015, SPQ has not earned any interest in the joint venture.

**13. NON-CURRENT ASSETS – OTHER**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Rent guarantee deposit	105,669	105,669
Security deposits	7,267	214,288
	112,936	319,957

**14. CURRENT LIABILITIES – TRADE & OTHER PAYABLES**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Unsecured</b>		
Trade payables	66,825	186,969
Other payables and accruals	250,328	220,200
Employee benefits	44,550	43,676
	361,703	450,845

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

**15. PROVISIONS**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Current liabilities</b>		
Employee benefits	5,546	5,546
	5,546	5,546
<b>Non-current liabilities</b>		
Rehabilitation	272,000	-
	272,000	-

**16. NON-CURRENT LIABILITY –  
BORROWINGS**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Unsecured:		
Convertible notes	463,409	-
Loan	463,409	-
Deferred gain on initial recognition of loan	56,591	-
	983,409	-

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

The facility terms are as follows:

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

As at 31 December 2015, the Company had drawn \$1,100,000. During 2016, further tranches totalling \$1,900,000 million will be progressively drawn down.

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

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Convertible note liability	463,409	-
Convertible note reserve	79,235	-
	542,644	-

The above is made up of:

Face value of notes drawdown	550,000	-
Cost of convertible note facility	(30,000)	-
Interest accrual	22,644	-
	542,644	-

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

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Loan	463,409	-
Deferred gain on initial recognition of loan	56,591	-
	520,000	-

The above is made up of:

Face value of notes drawdown	550,000	-
Cost of convertible note facility	(30,000)	-
Interest accrual	22,644	-
Recognition of gain on loan	(22,644)	-
	520,000	-

The effective interest rate is 14%.

## 17. ISSUED CAPITAL

	Consolidated	
	2015	2014
	\$	\$
809,749,043 (Dec 2014 726,415,709) ordinary shares	48,048,903	47,108,903

### (a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price \$	\$
1 January 2014	Opening balance	609,582,431		45,733,401
Mar <sup>(2)</sup>	Shares issued	11,572,276	0.020	231,446
May <sup>(3)</sup>	Shares issued	3,694,335	0.020	73,887
Aug <sup>(1) (4)</sup>	Shares issued	50,000,000	0.012	600,000
Aug <sup>(1)</sup>	Shares issued	27,700,000	0.011	304,700
Oct <sup>(1) (5)</sup>	Shares issued	16,666,667	0.012	200,000
Dec <sup>(1)</sup>	Shares issued	7,200,000	0.012	86,400
	Shares issue costs	-		(120,931)
31 December 2014	Balance	726,415,709		47,108,903
Jan 2015 <sup>(1)</sup>	Shares issued	25,000,000	0.012	300,000
Mar <sup>(1)</sup>	Shares issued	16,666,667	0.012	200,000
Apr <sup>(1)</sup>	Shares issued	41,666,667	0.012	500,000
	Shares issue costs	-		(60,000)
31 December 2015	Balance	809,749,043		48,048,903

<sup>(1)</sup> During both the 2014 and 2015 years the Company completed several placements to sophisticated and professional investors.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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.

<sup>(5)</sup> 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	
		2015	2014
11 March 2016 (listed) <sup>(1)</sup>	\$0.02	15,266,611	15,266,611
30 June 2016 (unlisted) <sup>(2)</sup>	\$0.02	33,333,333	33,333,333
30 April 2019 (unlisted) <sup>(3)</sup>	\$0.10	8,000,000	9,400,000



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- (1) 15,266,611 listed options were issued during the 2014 year. (Refer Note 17(a) above).  
 (2) 33,333,333 unlisted options were issued during the 2014 year. (Refer Note 17(a) above).  
 (3) 1,400,000 unlisted options expired during the 2015. (Refer also to Note 31 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.

## 18. RESERVE

	Share based payment reserve \$	Convertible note reserve \$	Total \$
Balance 31 December 2013	131,567	-	131,567
Share based payments relating to unlisted options issued	60,371	-	60,371
Balance 31 December 2014	191,938	-	191,938
Equity component of convertible note drawdowns	-	79,235	79,235
Balance 31 December 2015	191,938	79,235	271,173

### *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.

### *Nature and purpose of convertible note reserve*

The convertible note reserve is used to recognise the fair value of the equity component of the convertible loan facility as described in Note 16 above.

## 19. ACCUMULATED LOSSES

	Consolidated	
	2015 \$	2014 \$
Accumulated losses at the beginning of the year	(32,519,872)	(25,267,163)
Net Loss for the year	(3,877,435)	(7,252,709)
Accumulated losses at the end of the year	(36,397,307)	(32,519,872)

## 20. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash, short-term deposits, trade payables and borrowings. 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	
	2015 \$	2014 \$
<b>Financial assets</b>		
Cash and cash equivalents	20,320	354,422
Trade and other receivables	63,142	134,098
Security and other deposits	112,936	319,957
Available-for-sale financial assets	3,252	3,252
Total financial assets	199,650	811,729

**Financial liabilities**

Trade and other payables	361,702	450,845
Borrowings	983,409	-
Total financial liabilities	<u>1,345,111</u>	<u>450,845</u>

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:

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents (variable interest rates)	20,320	354,422
Security deposits (fixed interest rates)	<u>7,267</u>	<u>214,288</u>
	<u>27,587</u>	<u>568,710</u>

*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 \$176 (2014: \$4,550). 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.

At 31 December 2015 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.

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:

<b>Consolidated</b>	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>&lt; 6 months</b>	<b>6-12 months</b>	<b>1-3 years</b>	<b>&gt; 3 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>31 Dec 2015</b>						
Trade and other payables	361,702	(361,702)	(361,702)	-	-	-
Borrowings	983,409	(1,256,000)	(26,000)	(26,000)	(1,204,000)	-
	<u>1,345,111</u>	<u>(1,889,703)</u>	<u>(659,703)</u>	<u>(26,000)</u>	<u>(1,204,000)</u>	<u>-</u>

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

**21. 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**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	485,366	715,772
Post-employment benefits	26,885	52,940
Termination benefits	-	608,445
Share-based payments	-	29,698
	<u>512,251</u>	<u>1,406,855</u>

**Transactions with related parties**

<b>Consolidated</b>	
<b>2015</b>	<b>2014</b>
<b>\$</b>	<b>\$</b>

The following transactions occurred with related parties:

Payment for specialist market and consultancy services from Fortune Corporation Australia Pty Limited (director-related entity of William Wang)	99,743	88,100
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**22. REMUNERATION OF AUDITORS**

<b>Consolidated</b>	
<b>2015</b>	<b>2014</b>
<b>\$</b>	<b>\$</b>

Amounts received, or due and receivable, by the Group's auditor – BDO Audit Pty Ltd:

- Audit and review of the financial statements	35,500	32,500
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The auditor did not provide any other services.

**23. CONTINGENT LIABILITY**

The Group does not have any contingent liability at 31 December 2015.

**24. 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:

<b>Consolidated</b>		
<b>2015</b>	<b>2014</b>	
<b>\$</b>	<b>\$</b>	
Payable within 1 year	372,945	436,974
Payable between one and five years	1,847,154	1,176,740
	<u>2,220,099</u>	<u>1,613,714</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 2015 cash security bonds totalling \$7,267 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (2014: \$212,688).

**(b) Operating lease commitments**

<b>Consolidated</b>		
<b>2015</b>	<b>2014</b>	
<b>\$</b>	<b>\$</b>	
Payable within 1 year	186,097	310,319
Payable between one and five years	-	195,308
	<u>186,097</u>	<u>505,627</u>

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

## 25. 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 26.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in Note 21 and remuneration report in the directors' report.

## 26. 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	
			2015	2014
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.

## 27. 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% interest in the Project 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.

## 28. PAYMENT FOR TENEMENT ACQUISITION

The Group's 100% owned subsidiary, Lost Sands Pty Ltd ("Lost Sands") executed a purchase agreement with Image Resources NL on 10th November 2014 to acquire its Eucla Basin tenement R69/1, including the Cyclone Extended Heavy Mineral Resource.

A non-refundable deposit of \$20,000 was paid at agreement execution date of 10th November 2014. During the year ended 31 December 2015, the balance of the purchase price of \$415,000 was paid thereby effecting full settlement of the acquisition.

29. RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOW USED IN OPERATING ACTIVITIES	Consolidated	
	2015 \$	2014 \$
Loss for the year	(3,877,435)	(7,252,709)
Non-cash items		
Depreciation	62,597	97,583
Capitalised exploration expenditure written-off	2,304,339	5,817,234
Gain on loan	79,235	-
Share-based payment expense	-	134,258
(Profit)/loss on sale of fixed assets	(22,380)	(22,423)
Movements in operating assets and liabilities		
(Increase)/decrease in receivables	71,701	286,977
(Increase)/decrease in other assets	6,600	-
Increase / (decrease) in payables	87,888	(120,685)
Increase / (decrease) in provisions	-	(130,858)
Net cash used In operating activities	<u>(1,445,925)</u>	<u>(1,190,623)</u>

30. EARNINGS PER SHARE	Consolidated	
	2015 Cents	2014 Cents
Basic earnings per share (loss)	<u>(0.5)</u>	<u>(1.2)</u>
Diluted earnings per share (loss)	<u>(0.5)</u>	<u>(1.2)</u>

Weighted average number of shares used as the denominator	Number	
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>755,654,872</u>	<u>620,416,548</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>755,654,872</u>	<u>620,416,548</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 \$3,900,079 (2014: loss \$7,252,709).

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 17.

#### 31. 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.

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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:

2015							
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	6,400,000	-	-	(1,400,000)	5,000,000

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

The remaining contractual life of the above share options outstanding at the end of the period was 3.3 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:

2015							
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	3,000,000	-	-	-	3,000,000

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

The remaining contractual life of the above share options outstanding at the end of the period was 3.3 years

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

Grant date	Expiry date	2015 Number	2014 Number
15/03/2013	30/04/2019	5,000,000	6,400,000
31/05/2013	30/04/2019	3,000,000	3,000,000

### 32. PARENT ENTITY INFORMATION

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Financial position</b>		
Current assets	73,292	354,806
Non-current assets	15,277,267	23,628,903
Total assets	<u>15,350,559</u>	<u>23,982,903</u>
Current liabilities	140,100	135,594
Non-current liabilities	1,255,408	-
Total liabilities	<u>1,395,508</u>	<u>135,594</u>
<b>Net assets</b>	<u>13,955,051</u>	<u>23,847,309</u>
Shareholders' equity		
Contributed equity	48,048,903	47,108,903
Reserve	271,173	191,938
Accumulated losses	(34,365,025)	(23,453,532)
<b>Total equity</b>	<u>13,955,051</u>	<u>23,847,309</u>
Loss for the year	(10,911,493)	(8,666,443)
Total comprehensive loss for the year	<u>(10,911,493)</u>	<u>(8,666,443)</u>

#### Non-Current Assets

Non-current assets include \$11,092,810 (2014: \$20,302,833) 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 2015.

#### Guarantees

The parent entity does not have any guarantees at 31 December 2015.

### 33. EVENTS SUBSEQUENT TO REPORTING DATE

Scheduled drawdown of \$500,000 on convertible note facility due for 31 December 2015 (refer ASX announcement 19th May 2015) only partially received (\$100,000), with balance of \$400,000 delayed into January due to remittance delays over public holiday period. Balance of \$400,000 was received in full as at 21st January 2016.

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 2015.

### 34. 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 2015. 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 2015

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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 2015

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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 2015 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

29 March 2016  
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 2015, 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 2015 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 9 of the directors' report for the year ended 31 December 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit Pty Ltd**

BDO



**A J Whyte**

Director

Brisbane, 29 March 2016