



DIATREME RESOURCES LIMITED

ABN 33 061 267 061

Financial Report Half year ended 30 June 2019

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These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

They do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Directory

Directors

Gregory Star
Chen (William) Wang
Yufeng (Daniel) Zhuang

Non-Executive Chairman
Non-Executive Director
Non-Executive Director

Chief Executive

Neil McIntyre

Company Secretary

Tuan Do

Registered Office

Unit 8, 55-61 Holdsworth Street
Coorparoo QLD 4151
Telephone: 07 3397 2222
Website: www.diatreme.com.au

Share Registry

Link Market Services Limited
Level 21, 10 Eagle Street
Brisbane QLD 4000
Telephone: 1300 554 474 02 8280 7454

Auditors

William Buck (Qld)
Level 21, 307 Queen Street
Brisbane QLD 4000

Directors' Report

The directors present their report on the Group consisting of Diatreme Resources Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 30 June 2019.

Directors

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

Mr Gregory Starr	Non-Executive Chairman
Mr William Wang	Non-Executive Director
Mr Yufeng Zhuang	Non-Executive Director

Review of operations

Company overview

Diatreme Resources Limited (DRX) is an Australian developer and explorer of mineral/silica sands. The Company is maintaining its focus on advancing development and exploration activities of its Cyclone Zircon Project and Galalar (Cape Bedford) Silica Sand Project.

Results of operations

The net loss of the Group for the half year to 30 June 2019 was \$187,574 (2018: loss of \$1,389,703). The loss for the half year arises primarily from corporate and marketing costs, administrative expenses incurred to support the Company's exploration and development activities for its Cyclone and Galalar projects.

No dividends were proposed or paid during the period (2018: nil). At 30 June 2019, the Company had cash at bank of \$237,396 (31 December 2018: \$858,299).

Galalar (Cape Bedford) Silica/HM Project

During the half-year the Company made significant progress on its Galalar project. Results from specialist independent bulk sample testing demonstrated the project's ability to produce a low Fe (iron), premium-grade product suitable for high-tech applications, potentially capable of attracting premium prices. The results were obtained from a specialist industry recognized silica testing facility in China, which analysed a bulk raw sand sample of 350kg provided from the North Queensland project.

This low iron level is in high demand by manufacturers and gives the end product glass the high levels of transparency required for production of high efficiency photovoltaic panels and ultra-clear glass, and other high end products.

Refer to the Company's ASX announcements of 24 January 2019 for further information.

The data from these results were subsequently incorporated into the resource definition and mine development planning process undertaken by independent consultants Ausrocks Pty Ltd.

On 14 May 2019 the Company announced a Maiden Indicated Resource estimated for the Silica Project. Based on an independent assessment by Ausrocks, with the addition of a newly identified satellite deposit at West Nob Point, the project's Maiden Indicated Resource has now been established at 21.5Mt > 99% SiO₂ with a balance of 8.7Mt in Inferred Resource giving it a significantly upgraded total of 30.2Mt > 99% SiO₂ (Indicated and Inferred) resource.

Directors' Report

Classification	Area	Silica Sand (Mt)	SiO ₂ Grade	Cut-off SiO ₂ %	Al ₂ O ₃ %	Fe ₂ O ₃ %	LOI%	TiO ₂ %
Inferred	East Nob Point	6.6	99.26	99.00	0.12	0.09	0.11	0.10
	West Nob Point	2.1	99.16	99.00	0.11	0.16	0.04	0.15
	Total	8.7	99.25		0.11	0.09	0.11	0.10
Indicated	East Nob Point	20.2	99.26	99.00	0.12	0.09	0.11	0.10
	West Nob Point	1.3	99.16	99.00	0.11	0.16	0.04	0.15
	Total	21.5	99.25		0.11	0.09	0.11	0.10

Table of Resource estimate – current as at 9 May 2019

In a further boost for the Galalar project, the Company undertook in June 2019 a hand auger exploration program with test results from sampling confirming that potential resource extension targets Elim Road North and South contained extremely high purity silica sand suitable for the premium silica market. The majority of the twenty (20) auger holes returned >99% SiO₂, showing the potential for a further resource upgrade.

Refer to the Company's ASX announcement of 21 June 2019 for further information.

Cyclone Zircon/Heavy Mineral (HM) Project

Following the release of a successful DFS (refer ASX announcement 15 November 2018), Diatreme commenced the process of engagement with potential development partners with the assistance of study authors China ENFI Engineering Corporation (ENFI)

In addition to ENFI's assistance, Australia-based specialist corporate advisers Blackbird Partners were engaged in January 2019 (refer ASX announcement 23 January 2019) to provide independent specialist corporate and financial advisory services to the Company. In particular, Blackbird is managing a structured, formal process to undertake and progress a detailed scope of work focused on assembling strategic third party interest for the funding and development of the Cyclone project.

Following Blackbird's appointment, the Company has been involved in detailed discussions following various expressions of interest being received for various levels of project participation. These discussions are ongoing as the Company seeks to further define, document and structure a transaction that ensures maximum value for the Company and shareholders.

Tick Hill

On 24 April 2019, Diatreme announced the completion of the sale of this non-core asset to ASX-listed Berkut Minerals Limited. Consideration comprised 7,211,539 fully paid ordinary shares in BMT, with Diatreme holding a 7.51% interest post-settlement. The agreement with Berkut (now renamed to Carnaby Resources (ASX: CNB)) has given Diatreme shareholders exposure to a portfolio of gold assets in western and eastern Australia. At half-year 30 June 2019, the CNB shares value has increased by \$447,115.

Corporate

During the half-year, supported by lead manager Hartleys, the Company received \$1,380,733 (before costs) through the issue of 125,521,205 fully paid ordinary shares at \$0.011 per share from a private placement program to both new professional and sophisticated investors, and existing shareholders. All of the shares were issued under the Company's existing ASX Listing Rule 7.1 capacity.

Directors' Report

Also, following shareholder approval at the Company's May 2019 AGM, the following securities were issued:

- 1) 1,500,000 fully paid ordinary shares to Non-executive Director, Mr. William Wang, who contributed \$16,500 to the placement, and
- 2) The following securities to Hartleys as consideration for capital raising and ongoing corporate advisory services:
 - (a) 5,113,636 fully paid ordinary shares equating to \$56,250, and
 - (b) 50,000,000 unlisted options, with exercise price of \$0.024 (2.4 cents) and 2 year expiry date

Auditor's independence declaration

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

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



Gregory B. Starr
Non-executive Chairman
Brisbane, 11 September 2019

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

Auditor's Independence Declaration

As lead auditor for the review of Diatreme Resources Limited for the half-year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif

Junaide Latif
Director

Brisbane, 11 September 2019

**CHARTERED ACCOUNTANTS
& ADVISORS**

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**Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 30 June 2019**

	Note	30 June 2019 \$	30 June 2018 \$
Revenue		10,976	7,036
Fair value movement in financial assets	5(b)	447,115	-
Other income		50,861	-
Reversal of provision for rehabilitation	5(b)	272,000	-
Total revenue and income		780,952	7,036
Employee benefits expenses		(322,444)	(278,810)
Depreciation expenses		(37,508)	(14,913)
Impairment of exploration asset	5(a)	-	(672,275)
Share based payment expense		(85,513)	-
Other expenses		(422,156)	(306,525)
Finance costs		(100,905)	(124,216)
Total expenses		(968,526)	(1,396,739)
Loss before income tax		(187,574)	(1,389,703)
Income tax expense		-	-
Net loss for the half-year attributable to owners		(187,574)	(1,389,703)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to owners		(187,574)	(1,389,703)
		Cents	Cents
Loss per share			
Basic earnings per share		(0.01)	(0.13)
Diluted earnings per share		(0.01)	(0.13)

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
At 30 June 2019**

		30 Jun	31 Dec
	Note	2019	2018
		\$	\$
Current assets			
Cash and cash equivalents		237,396	858,299
Trade and other receivables		4,607	76,448
Security deposits		336,844	-
Financial asset	5(b)	1,009,615	-
		<u>1,588,462</u>	<u>934,747</u>
Non-current assets classified as held for sale	5(a)	-	562,500
Total current assets		<u>1,588,462</u>	<u>1,497,247</u>
Non-current assets			
Property, plant and equipment		130,223	145,640
Right-of-use assets		88,364	-
Exploration and evaluation assets	6	15,786,729	15,154,429
Security deposits		15,632	417,320
Total non-current assets		<u>16,020,948</u>	<u>15,717,389</u>
Total assets		<u>17,609,410</u>	<u>17,214,636</u>
Current liabilities			
Trade and other payables		769,616	1,498,507
Borrowings	7	51,929	32,429
Lease liabilities		53,973	-
Provision for long service leave		3,530	9,238
Share application monies		100,000	-
Total current liabilities		<u>979,048</u>	<u>1,540,174</u>
Non-current liabilities			
Borrowings	7	1,500,000	1,500,000
Lease liabilities		60,112	-
Provision for long service leave		30,118	-
Provision for rehabilitation		-	272,000
Total non-current liabilities		<u>1,590,230</u>	<u>1,772,000</u>
Total liabilities		<u>2,569,278</u>	<u>3,312,174</u>
Net assets		<u>15,040,132</u>	<u>13,902,462</u>
Equity			
Issued capital	8	57,191,104	55,979,231
Reserves		200,670	255,496
Accumulated losses		(42,351,642)	(42,332,265)
Total equity		<u>15,040,132</u>	<u>13,902,462</u>

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

**Consolidated Statement of Changes in Equity
For the half year ended 30 June 2019**

	Issued capital	Share based payments reserve	Convertible note reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
At 1 January 2018	49,979,066	191,938	1,465,699	(39,583,063)	12,053,640
Total comprehensive income:					
Loss for the half-year	-	-	-	(1,389,703)	(1,389,703)
Transactions with owners in their capacity as owners:					
Shares issued	1,400,000	-	-	-	1,400,000
Share issue costs	(36,888)	-	-	-	(36,888)
At 30 June 2018	51,342,178	191,938	1,465,699	(40,972,766)	12,027,049

	Issued capital	Share based payments reserve	Convertible note reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
At 1 January 2019	55,979,231	255,496	-	(42,332,265)	13,902,462
Adjustment for change in accounting policy (note 3)	-	-	-	(23,741)	(23,741)
Balance at 1 January 2019 - restated	55,979,231	255,496	-	(42,356,006)	13,878,721
Total comprehensive income: Loss for the half-year	-	-	-	(187,574)	(187,574)
Transactions with owners in their capacity as owners:					
Shares issued	1,478,483	-	-	-	1,478,483
Share issue costs	(266,610)	-	-	-	(266,610)
Options and performance rights issued	-	137,112	-	-	137,112
Reverse portion relating to expired options	-	(191,938)	-	191,938	-
At 30 June 2019	57,191,104	200,670	-	(42,351,642)	15,040,132

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

Consolidated Statement of Cash Flows
For the half year ended 30 June 2019

	30 June 2019 \$	30 June 2018 \$
Cash flows from operating activities		
Receipts in the course of operations	7,116	5,885
Payments to suppliers and employees	(704,596)	(555,256)
Interest received	3,938	-
Finance costs	(19,500)	-
Net cash outflow from operating activities	(713,042)	(549,371)
Cash flows from investing activities		
Payments for exploration and evaluation assets	(1,336,177)	(1,085,167)
Refund of security deposit	64,844	2,500
Net cash outflow from investing activities	(1,271,333)	(1,082,667)
Cash flows from financing activities		
Share application monies received	100,000	100,000
Proceeds from issue of shares	1,397,233	1,450,000
Payments for share issue costs	(133,761)	(36,888)
Net cash inflow from financing activities	1,363,472	1,513,112
Net decrease in cash and cash equivalents	(620,903)	(118,926)
Cash and cash equivalents at the beginning of the half-year	858,299	158,011
Cash and cash equivalents at the end of the half-year	237,396	39,085

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

1. REPORTING ENTITY

These condensed consolidated interim financial statements ('interim financial statements') for the half year to 30 June 2019 comprise Diatreme Resources Limited (Diatreme or the Company) and the entities it controlled at the end of the half year ended 30 June 2019 (the Group).

2. BASIS OF PREPARATION

Statement of Compliance

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with the International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

They do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the changes in policies as a result of adopting *AASB 16 Leases*. These interim financial statements were authorised for issue by the Company's Board of Directors on 11 September 2019.

Judgements and Estimates

The accounting policies include the capitalisation of exploration and evaluation expenditure which as at 30 June 2019 amounts to \$15,786,729 (31 December 2018: \$15,154,429). This represents a significant asset of the Group. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the relevant areas of interest. Where activities in these areas have not reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, these costs are carried forward if the tenements are active or significant operations in relation to these areas of interest are continuing.

Material uncertainty regarding going concern

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

The Group has incurred a net loss after tax for the half-year ended 30 June 2019 of \$187,574 and a net cash outflow from operations of \$713,042. At 30 June 2019, the Group's current assets exceeded its current liabilities by \$609,414. The Group has a \$1.5million borrowing which is repayable on 31 July 2020.

The Group's ability to continue as a going concern and pay its debts as and when they fall due, is dependent upon the successful future raising of necessary funding through equity, successful exploration and subsequent exploitation of the Group's tenements, securing product offtake agreements for the Galalar and Cyclone Project (refer to Note 11), and/or sale of non-core assets.

The reliance on securing additional capital through debt or equity gives rise to the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the ordinary course of business

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. Accordingly, the financial statements do not include any adjustments relating to the recoverability and

Notes to the Financial Statements

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

Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

The impact of adopting a new accounting standard, AASB 16 Leases, is disclosed below.

Changes in Accounting Policy

AASB 16 Leases specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all major leases.

The Group has adopted AASB 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of AASB 16 the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The average lessee's incremental borrowing rate applied to the lease liabilities on 1 January was 8%.

The Group leases its Brisbane head office, on a three year rental contract beginning on 1 July 2016, with an extension option at the option of the lessee for a further period of two years. The Group has recently exercised that option to enter into a two-year rental contract which will expire on 30 June 2021.

Until the 2018 financial year, the property lease was classified as an operating lease. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The adoption of AASB 16 on 1 January 2019 affected the following items on the statement of financial position:

- Right-of-use assets – increase by \$110,455
- Lease liabilities – increase by \$134,115
- Accumulated loss increase by \$23,741

Notes to the Financial Statements

4. SEGMENT INFORMATION

The Group currently operates in one business segment and one geographical segment, namely exploration for heavy mineral sands, copper, 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 of Profit or Loss and Other Comprehensive Income.

5. CURRENT ASSETS

(a) Non-current assets classified as held for sale

On 5 June 2018, the Company signed a term sheet to sell its Tick Hill Gold Project into an Initial Public Offering (IPO) by Carnaby Resources Limited (Carnaby). Under the term sheet, the Company would have received a minimum of 3,225,000 shares and a maximum of 4,500,000 shares dependent on total subscriptions received priced at \$0.25 each (valued from \$806,250 to \$1,125,000) to be allocated in a successful public float by Carnaby. As the upper limit of the sale consideration of \$1,125,000 was assessed to be highly probable at the time, and as this value was less than the carrying amount, an impairment charge of \$672,275 was recorded for the Half Year to 30 June 2018. The IPO however did not proceed and the term sheet was superseded by the following event as detailed in Note 5(b) below. The sale consideration was deemed to be \$562,500 and the Tick Hill Gold Project was impaired to this value. An impairment charge of \$1,242,071 was recorded for the financial year ended 31 December 2018.

	30 Jun 2019	31 Dec 2018
	\$	\$
Opening balance	562,500	-
Transfer from exploration and evaluation assets	-	562,500
Disposal	(562,500)	-
Closing balance	<u>-</u>	<u>562,500</u>

(b) Financial Asset

On 11 March 2019, the Company executed a binding, conditional Heads of Agreement to sell its interest in the Tick Hill Gold Project, to a nominee of Berkut Minerals Limited (Berkut) (ASX: BMT). Berkut itself entered into a series of interdependent agreements whereby it first acquired Carnaby, and then through Carnaby (as its nominee) acquired 100% of the legal and beneficial interest in the Project. This sale transaction was completed on 24 April 2019, and the Company was issued with 7,211,529 shares in the capital of BMT to the value of \$562,500.

Berkut subsequently changed its name on 1 May 2019 to Carnaby Resources Limited (ASX: CNB).

The CNB shares are stated at fair value. The Company adopted AASB 9 from 1 January 2018, which requires fair value changes to be recognised in profit or loss.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 1) Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability;
- 3) Level 3 Inputs for the asset or liability that are not based on observable market data.

The CNB securities are traded in an active market, being the Australian Securities Exchange, and consequently they are measured as a Level 1 instrument on the fair value hierarchy. The quoted market price, used to determine the value of these securities is the bid price at balance date.

\$272,000 provision for rehabilitation in relation to the Tick Hill project was reversed as a result of the sale.

Notes to the Financial Statements

(b) Financial Asset (continued)

	30 Jun 2019	31 Dec 2018
	\$	\$
Opening balance	-	-
Shares received as consideration for the interest in the Tick Hill Gold Project	562,500	-
Revaluation	447,115	-
Closing balance	1,009,615	-

6. EXPLORATION AND EVALUATION ASSETS

	30 Jun 2019	31 Dec 2018
	\$	\$
Exploration and evaluation assets – at cost	15,786,729	15,154,429
Opening balance	15,154,429	13,988,080
Costs capitalised	632,300	2,970,920
Impairment of Tick Hill Project (refer Note 5)	-	(1,242,071)
Transfer Tick Hill Project to non-current assets classified as held for sale (refer Note 5)	-	(562,500)
	15,786,729	15,154,429

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.

7. BORROWINGS

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

During the year ended 31 December 2017, the convertible notes facility was drawn down. The Note matured on 31 July 2018.

After reaching an agreement with the holder of the Note on 25 July 2018, at an extraordinary general meeting held on 11 October 2018, shareholders approved the following:

- (i) Extension of the maturity date from 31 July 2018 to 31 July 2020 for the \$1.5 million cash component of the Note with interest of 5.20% p.a. payable quarterly in arrears;
- (ii) Conversion of \$1.5 million equity component of the Note into fully paid ordinary shares of the Company at \$0.02 per share, and
- (iii) all outstanding interest up to maturity date of 31 July 2018, on both the equity and cash component of the Note will be converted into ordinary shares of the Company, at the prevailing share price as at the date of conversion.

Accordingly on 24 October 2018, 75,000,000 shares were issued pursuant to item (ii) and 12,171,308 shares were issued pursuant to item (iii).

Total borrowings are as follows:

	30 Jun 2019	31 Dec 2018
	\$	\$
Unsecured loan	1,551,929	1,532,429
Total borrowings	1,551,929	1,532,429
Current liability	51,929	32,429
Non-current liability	1,500,000	1,500,000
	1,551,929	1,532,429

Notes to the Financial Statements

8. ISSUED CAPITAL

	30 Jun 2019 Shares	31 Dec 2018 Shares	30 Jun 2019 \$	31 Dec 2018 \$
Ordinary shares - fully paid	<u>1,464,522,617</u>	<u>1,330,304,442</u>	<u>57,191,104</u>	<u>55,979,231</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price \$	\$
Balance	1 Jan 2019	1,330,304,442		55,979,231
Share placement	4 Apr 2019	125,521,205	0.011	1,380,733
Issue of shares as compensation to CEO for achieving various KPI's	7 May 2019	2,083,334	0.012	25,000
Share placement	3 Jun 2019	1,500,000	0.011	16,500
Issue of shares to supplier as advisory fees	3 Jun 2019	5,113,636	0.011	56,250
Share issue costs				(266,610)
Balance	30 Jun 2019	<u>1,464,522,617</u>		<u>57,191,104</u>

9. CONTINGENCIES

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

10. COMMITMENTS

Tenement expenditure commitments

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

	30 Jun 2019 \$	31 Dec 2018 \$
Payable within 1 year	132,196	731,783
Payable between one and five years	1,069,423	1,420,951
	<u>1,201,619</u>	<u>2,152,734</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. At 30 June 2019 cash security bonds totalling \$339,344 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (Dec 2018: \$403,955).

11. EVENTS SUBSEQUENT TO REPORTING DATE

On 16 July 2019, the Company announced to the ASX the signing of a Memorandum of Understanding (MOU) with the Anhui Fengsha Mining Group Co Ltd (Fengsha Group or the Group) regarding the potential supply of up to 500,000 tonnes of photovoltaic grade silica sand (sub 100ppm Fe₂O₃) to be produced on-site from the Galalar Silica Project.

On 5 August 2019 the Company announced to the ASX the signing of a Memorandum of Understanding (MOU) with Hunan Rare Earth Industry Group for potential life of mine (LOM) offtake of heavy mineral concentrate (HMC) product and potential investment into the Company's Cyclone Zircon Project. Also, an Expression of Interest (EOI) was received from MCC International for potential provision of engineering, procurement and construction services (EPC) to the Cyclone Zircon Project and assistance in sourcing project finance.

Since 30 June 2019, \$190,000 share application monies were received.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 6 to 15 are in accordance with the Corporations Act 2001 and:

- (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year ended on that date.

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

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



Gregory B. Starr
Non-executive Chairman
Brisbane, 11 September 2019

Diatreme Resources Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Diatreme Resources Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity) on pages 6 to 16, which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Diatreme Resources Limited on pages 6 to 16 is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half year ended on that date; and
- b) complying with *Australian Accounting Standard 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss of \$187,574 during the half year ended 30 June 2019 and had net cash outflows from operations of \$713,042. These events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

CHARTERED ACCOUNTANTS
& ADVISORS

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

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

- giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

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

Independence

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif

Junaide Latif
Director

Brisbane, 11 September 2019

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