

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

FINANCIAL STATEMENTS

for the year ended 31 December 2019

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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 2019.

Current Directors

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

G B Starr
C Wang
Y Zhuang

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration for mineral/silica sands 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 2019.

REVIEW OF OPERATIONS

Overview

During the course of the year, the Company made further substantial progress towards the advancement of its Galalar Silica project, and maintaining focus on its flagship Cyclone zircon project.

A significant key milestone was achieved with the release in September 2019 of the Scoping Study results for the Galalar Silica project. The results confirmed Galalar’s potential to produce high purity, low iron silica product suitable for use as a direct feed material in the manufacture of solar panels. It also highlighted the project’s potential to become a significant near-term, low-cost and premium-quality silica producer. In addition, the Company announced in December 2019 that the Mining Lease application had been submitted to the Qld regulator for the Galalar Silica project.

Concurrently, heavy emphasis was also placed on the Cyclone project as the Company continued to engage in detailed discussions with a range of potential project participants, seeking potentially a sale, joint venture or earn-in partner. This activity was supported and assisted by independent specialist corporate advisers Blackbird Partners. Based on a visit in November 2019 to market participants in China, further progress on these talks is expected during the first and second quarters 2020.

Ultimately, Diatreme aims to assemble an optimum mix of commercial parties into binding agreements that will facilitate the project’s development and get a suitable commercial outcome for Diatreme.

The above significant achievements were underpinned by continuing support from both existing and new shareholders. The Company undertook two capital raisings during the year and in particular the November placement program, which raised \$3.6 million (before costs) demonstrating clear support for the Company and its current programs.

Major Activities

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

Galalar

- On 24 January 2019 the Company announced bulk sample tests results for the Galalar project. The tests analysed 350 kilograms of untreated raw samples extracted from 19 drill holes and confirmed Galalar could produce a high-purity silica sand with grain sizes within 125-600 microns and an iron content of less than 100 parts per million, making it suitable for the exacting specifications of high-end processing (photovoltaic grade).
- On 14 May 2019 the Company announced a Maiden Indicated Resource. 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 an total of 30.2Mt > 99% SiO₂ (Indicated and Inferred) resource.
- 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.
- The Company signed a memorandum of understanding in July 2019 to supply Anhui Fengsha Mining Group Co. Ltd. with up to 500,000 tonnes of photovoltaic-grade silica sand to be produced from Galalar.
- On 9 September 2019, results of the Scoping Study were announced. The results showed a pre-tax net present value of \$231 million, a 150% internal rate of return and an eight-month payback period, along with:
 - Development capital expenditure estimated at \$24.4 million
 - Annual operating costs estimated at A\$42.0 million and
 - Expected production volume of 750,000 tonnes per year for 15 years.
- On 19 September 2019 a further Memorandum of Understanding (MOU) was signed with China's privately owned Wan Zhong Investment Group on potential supply of up to 500,000 tonnes per annum of photovoltaic grade (sub 100ppm Fe₂O₃) silica sand from Diatreme's Galalar Silica Project.
- On 29 November 2019 the Company announced results of a bench-scale metallurgical testwork. Results of up to 99.89 per cent silicon dioxide, 0.04 per cent iron (III) oxide, 0.07 per cent titanium dioxide, and 0.16 per cent aluminium oxide were uncovered. The results showed potential for the production of a higher grade, higher-value product through the use of a proprietary environmentally friendly, organic hot acid leach process.
- On 23 December 2019 the Company announced the lodgement of a Mining Lease Application (MLA) with the Queensland Department of Natural Resources, Mines and Energy (DNRME) for the Galalar Silica project. The MLA encompasses the previously announced Indicated Mineral Resource, comprising 30.2 Mt > 99% SiO₂

Cyclone

On 5 August 2019, the Company announced a Memorandum of Understanding (MOU) had been signed with Hunan Rare Earth Industry Group for potential life of mine (LOM) offtake of heavy mineral concentrate (HMC) product and potential investment into the Cyclone Zircon Project.

In addition, an Expression of Interest (EOI) was received from MCC International part of the China Minmetals Group for potential provision of engineering, procurement and construction services (EPC) to Cyclone and assistance in sourcing project finance from Chinese State bank lenders.

Tick Hill Gold Project

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.

Corporate

During the first half of the 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.

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

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

On 21 November 2019 the company announced the completion of another placement receiving total funds (before costs) of \$3,634,287 through the issue of 363,428,729 fully paid ordinary shares at \$0.010 per share. The shares have a free attaching option issued on a 1 option for every two shares basis, equating to 181,714,365 free-attaching options ("Placement Options") to be issued. The Placement Options have an exercise price of \$0.020 (2.0 cents) per option and expire 24 months from date of issue.

The Company had also agreed to issue 25,000,000 shares for no consideration ("Rebate Shares") to a shareholder. Both the Placement Options and Rebate Shares were subsequently approved by shareholders at a General Meeting held in February 2020.

This November placement had been supported by a new cornerstone investor, Ilwella Limited, representing the private interests of the Flannery Family Office. Support was also received from sophisticated, professional and existing shareholders with Hartleys Limited again acting as Lead Manager.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2019 was \$1,373,529 (2018: loss of \$2,749,202). In 2018 the main contributor to the decrease in the net loss was the impairment charge of \$1,242,071 to the Tick Hill project.

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio, with 64% expenditure on Galalar and 34% on Cyclone. 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

There were no significant changes in the state of affairs of the Group during the financial year not otherwise dealt with in this report.

EVENTS SUBSEQUENT TO REPORTING DATE

In February 2020, 181,714,365 Placement Options and 25,000,000 Rebate Shares were issued for no consideration to shareholders who participated in the November 2019 placement.

On 27 March 2020, the Company announced an agreement had been executed to extend the maturity date of the \$1,500,000 debt facility from 31 July 2020 to 31 November 2021 (Refer to ASX announcement 27 March 2020).

FUTURE DEVELOPMENTS

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

The company is actively monitoring government directions for the potential impact of COVID-19 on its operations and the jurisdictions in which it operates. The pandemic has created heightened business risk and capital markets are particularly affected in the short term. The Company and management have instigated active risk management protocols to deal with these issues as they arise.

INFORMATION ON DIRECTORS

Name: Gregory Barry Starr
 Title: Non-executive Chairman
 Qualifications: B Bus, CPA
 Experience: Mr Starr was appointed Director in October 2017. He is a highly experienced corporate leader in the resources sector, with over 25 years of executive management experience across a number of Australian and International companies. This includes roles as Chief Executive Officer of Pulse Markets Pty Ltd, Executive Director BIR Financial Limited, Managing Director of Crater Gold Mining Company Limited (ASX), President and Director of Kenai Resources Limited (TSX), Chief Executive Officer of Golden China Resources (TSX) and Managing Director of Emperor Mines Limited.

Other current directorships: BIR Financial Limited
 Azure Health Technology Limited

Former directorships (last 3 years): None
 Special responsibilities: Chair of audit committee and remuneration committee
 Interests in shares: None
 Interests in options: None

Name: Cheng (William) Wang
 Title: Non-executive Director
 Qualifications: MBA
 Experience: Mr Wang was appointed Director in May 2011. For 15 years he held senior management positions in several major Chinese state owned companies, with most recent role being in charge of an international commodities trading arm with group assets exceeding \$1.5 billion. Having worked across most provinces in China and understanding Chinese politics and government systems, he has developed wide business connections within China. Now domiciled in Australia, he has over recent years been active with Australian companies including directorships with China Century Capital Limited, Jupiter Mines Limited, and Gulf Alumina Limited.

Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Member of audit and remuneration committee
 Interests in shares: 5,767,255 ordinary shares (held indirectly)
 Interests in options: None

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 towards 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: 151,841,819 ordinary shares (held directly)
 Interests in options: None

COMPANY SECRETARY

Tuan Do – B Comm., CA

Mr Do is a Chartered Accountant with extensive corporate experience in a diverse range of industries, including coal and gold mining companies. This experience has involved all areas of financial reporting, treasury management, capital raisings, mergers and acquisitions, and establishment of systems and procedures.

MEETINGS OF DIRECTORS

The number of meetings of the board of Directors held during the year ended 31 December 2019, and the number of meetings attended by each Director was:

Name	Board of Directors		Audit Committee		Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
G B Starr	6	6	2	2	2	2
C Wang	6	6	2	2	2	2
Y Zhuang	6	1	2	-	-	-

REMUNERATION REPORT - AUDITED

This remuneration report outlines the key management personnel remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the specified executives. For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives and secretaries of the Company and the Group.

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

- (a) Key management personnel
- (b) Principles used to determine the nature and amount of remuneration
- (c) Relationship of remuneration with Group performance
- (d) Details of remuneration
- (e) Employment contracts
- (f) Share-based compensation
- (g) Equity instruments held by key management personnel

(a) Key management personnel (KMP)

The Directors and other key management personnel of the Company during or since the end of the financial year were:

- Gregory Barry Starr (Non-Executive Chairman)
- Chen (William) Wang (Non-Executive Director)
- Yufeng (Daniel) Zhuang (Non-Executive Director)
- Neil John McIntyre (Chief Executive Officer)
- Tuan Do (CFO & Company Secretary)

(b) 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.

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.

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.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration. Fixed remuneration, consisting of base salary, superannuation, are reviewed annually by the Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

(c) 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.

	Unit	2015 (restated)	2016 (restated)	2017	2018	2019
Share price at year end	\$/share	0.01	0.01	0.02	0.02	0.012
Market capitalisation	\$	8,097,490	8,767,327	15,916,953	21,284,871	21,965,416
Revenue	\$	153,374	62,944	13,814	15,053	19,393
Total assets	\$	13,545,426	14,060,241	14,441,405	17,214,636	19,881,539
Net loss after tax	\$	3,793,703	1,850,962	1,418,526	2,749,202	1,373,529

(d) Details of remuneration

2019	Short-term benefits	Post-employment benefits	Long-term benefits	Share-based payments		Total \$
	Cash salary & fees \$	Superannuation \$	Long service leave \$	Shares as incentive \$	Performance Rights \$	
Non-executive Directors						
G B Starr	60,000	5,700	-	-	-	65,700
C Wang	43,250	4,109	-	-	-	47,359
Y Zhuang	98,750	9,381	-	-	-	108,131
Executive						
N J McIntyre	240,000	22,800	1,710*	25,000	36,602	326,112
T Do	155,875	14,808	27,286*	-	-	197,969
Total	597,875	56,798	28,996	25,000	36,602	745,271

* 2019 is the first year long service leave being recognised for these KMPs.

2018	Short-term benefits	Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary & fees \$	Superannuation \$	Long service leave \$	Performance Rights \$	Total \$
Non-executive Directors					
A Tsang (i)	32,000	3,040	-	-	35,040
C Wang	32,000	3,040	-	-	35,040
Y Zhuang	90,000	8,550	-	-	98,550
G B Starr	47,937	4,554	-	-	52,491
Executive					
N J McIntyre	220,000	20,900	-	-	240,900
T Do	129,000	12,255	-	-	141,255
Total	550,937	52,339	-	-	603,276

(i) Represents remuneration from 1 January 2018 to 12 December 2018 (date of resignation).

The group also paid \$92,750 (2018: \$131,374) for specialist market and consultancy services from Fortune Corporation Australia Pty Limited, a director-related entity of William Wang.

(e) Employment contracts

Remuneration and other terms of employment for executives are formalised in employment contracts. Employment contracts are not of a fixed term. Employment contracts specify a range of notice periods.

(f) Share-based compensation

Shares

Details of shares issued to key management personnel as part of compensation during the year ended 31 December 2019 are set out below:

Name	Date	Shares	Issue price	\$
Neil McIntyre	7 May 2019	2,083,334	\$0.012	25,000

Performance Rights

Under an established Performance Rights Plan approved by shareholders at the 2018 AGM, the Chief Executive Officer Mr McIntyre was issued 5,833,333 Performance Rights on 24 May 2019 subject to various vesting conditions.

Based upon a valuation of the performance rights at the grant date an amount of \$36,602 has been included in remuneration of the recipient based on the value attributable to the milestones over the determined vesting period during the 2019 financial year.

The fair value of the performance rights granted during the financial year is estimated as at the date of grant using the Monte Carlo Simulation valuation model taking into account the following inputs:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Underlying price per share	\$0.011 per share	\$0.011 per share	\$0.011 per share	\$0.011 per share	\$0.011 per share
Exercise price	zero	zero	zero	zero	zero
Expiry date	Two years after grant date	Two years after grant date	Two years after grant date	Six months after grant date	Seven months after grant date
Vesting period	2 years	2 years	2 years	0.5 years	0.58 years
Risk-free rate	1.23%	1.23%	1.23%	1.23%	1.23%
Volatility	117.53%	117.53%	117.53%	103.38%	102.97%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
Performance Right Value	\$0.009832	\$0.009832	\$0.009832	\$0.010716	\$0.010669
No. of Performance Rights	833,333	1,666,667	833,333	833,333	1,666,667

(g) Equity instruments held by KMP

Shareholding

The following table details the number of fully paid ordinary shares in the Company that were held during the financial year by key management personnel of the Group, including their close family members and entities related to them.

Key Management Personnel	Balance at start of year	Issued as Remuneration	Options exercised/ conversion of Perf. Rights	Acquired/ (disposed)	Net other change #	Balance at the end of the year
G B Starr	-	-	-	-	-	-
C Wang	4,267,255	-	-	-	1,500,000	5,767,255
Y Zhuang	160,983,890	-	-	(9,142,071)	-	151,841,819
N J McIntyre	671,482	2,083,334	2,500,000	1,868,182	-	7,122,998
T Do	-	-	-	-	-	-
Total	165,922,627	2,083,334	2,500,000	(7,273,889)	1,500,000	164,732,072

Part of April 2019 Share Placement. Approved at May 2019 AGM.

Option holding

The following table details the number unlisted options over ordinary shares in the Company that were held during the financial year by key management personnel of the Group, including their close family members and entities related to them.

Key Management Personnel	Balance at the start of the year	Granted as remuneration	Options exercised	Options expired	Net other change	Balance at the end of the year
G B Starr	-	-	-	-	-	-
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)	-	-
Total	3,000,000	-	-	(3,000,000)	-	-

Performance Rights

The following table details the number Performance Rights that were held during the financial year by key management personnel of the Group, including their close family members and entities related to them.

Key Management Personnel	Balance at the start of the year	Granted as remuneration	Vested and converted to shares	Lapsed as hurdle not achieved/cancelled	Balance at the end of the year
G B Starr	-	-	-	-	-
C Wang	-	-	-	-	-
Y Zhuang	-	-	-	-	-
N J McIntyre	-	5,833,333	(2,500,000)	-	3,333,333
T Do	-	-	-	-	-
Total	-	5,833,333	(2,500,000)	-	3,333,333

END OF AUDITED REMUNERATION REPORT**SHARES UNDER OPTION**

Unissued ordinary shares of the Company under option as at 31 December 2019 are as follows:

Issue date	Expiry date	Exercise price	Number under option	Type
3 June 2019	2 June 2021	2.4 cents	50,000,000	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.

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

William Buck (Qld), 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 page 12.

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

A handwritten signature in black ink, appearing to be "G. Starr".

Gregory B. Starr
Non-executive Chairman

Brisbane, 27 March 2020

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF DIATREME RESOURCES
LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 31
December 2019, there have been:

- no contraventions of the auditor independence requirements as set out in the
Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to
the audit.

William Buck

William Buck (Qld)
ABN 21 559 713 106

J A Latif

J A Latif
Director

Brisbane, 27 March 2020

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**
for the year ended 31 December 2019

	Note	2019 \$	2018 \$
Revenue	2	19,393	15,053
Other income	2	109,557	40,830
Reversal of provision for rehabilitation	8	272,000	-
Total revenue and income		400,950	55,883
Employee benefit expenses		(621,728)	(554,759)
Depreciation expenses	2	(75,273)	(31,370)
Impairment of exploration asset (Tick Hill)	7	-	(1,242,071)
Share based payment expense	19	(117,852)	(36,370)
Fair value movement in financial assets	8	(36,058)	-
Other expenses	2	(722,104)	(711,619)
Finance costs		(201,464)	(228,896)
Total expenses		(1,774,479)	(2,805,085)
Loss before income tax		(1,373,529)	(2,749,202)
Income tax benefit	3	-	-
Net loss for the year		(1,373,529)	(2,749,202)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,373,529)	(2,749,202)
		Cents	Cents
Loss per share			
Basic earnings per share	4	(0.1)	(0.2)
Diluted earnings per share	4	(0.1)	(0.2)

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

	Note	2019 \$	2018 \$
Current Assets			
Cash and cash equivalents	5	2,487,120	858,299
Trade and other receivables	6	61,677	76,448
Financial asset	8	526,442	-
		<u>3,075,239</u>	<u>934,747</u>
Non-current assets classified as held for sale	7	-	562,500
Total Current Assets		<u>3,075,239</u>	<u>1,497,247</u>
Non-current Assets			
Property, plant and equipment	9	114,893	145,640
Right-of-use assets	10	66,273	-
Exploration and evaluation assets	11	16,610,502	15,154,429
Other assets	12	14,632	417,320
Total Non-current Assets		<u>16,806,300</u>	<u>15,717,389</u>
Total Assets		<u>19,881,539</u>	<u>17,214,636</u>
Current Liabilities			
Trade and other payables	13	753,891	1,498,507
Borrowings	14	1,590,929	32,429
Lease liabilities	15	56,146	-
Provisions	16	4,422	9,238
Total Current Liabilities		<u>2,405,388</u>	<u>1,540,174</u>
Non-current Liabilities			
Borrowings	14	-	1,500,000
Lease liabilities	15	31,484	-
Provisions	16	32,250	272,000
Total Non-current Liabilities		<u>63,734</u>	<u>1,772,000</u>
Total Liabilities		<u>2,469,122</u>	<u>3,312,174</u>
Net Assets		<u>17,412,417</u>	<u>13,902,462</u>
Equity			
Issued capital	17	60,640,184	55,979,231
Reserves	18	309,830	255,496
Accumulated losses	20	(43,537,597)	(42,332,265)
Total Equity		<u>17,412,417</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 year ended 31 December 2019

	Note	Issued capital	Share-based payment reserve	Convertible note reserve	Accumulated losses	Total
		\$	\$	\$	\$	\$
At 1 January 2018		49,979,066	191,938	1,465,699	(39,583,063)	12,053,640
Total comprehensive income: Loss for the year		-	-	-	(2,749,202)	(2,749,202)
Transactions with owners in their capacity as owners:						
Shares issued		4,815,147	-	-	-	4,815,147
Share issue costs	17	(314,982)	63,558	-	-	(251,424)
Convertible note conversion to shares	17	1,500,000	-	(1,465,699)	-	34,301
Balance at 31 December 2018		55,979,231	255,496	-	(42,332,265)	13,902,462
At 1 January 2019		55,979,231	255,496	-	(42,332,265)	13,902,462
Adjustment for change in accounting policy	1 (e)	-	-	-	(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 year		-	-	-	(1,373,529)	(1,373,529)
Transactions with owners in their capacity as owners:						
Shares issued		5,112,770	-	-	-	5,112,770
Share issue costs		(242,147)	-	-	-	(242,147)
Options issued as success fee for share placement	19 (a)	(236,382)	236,382	-	-	-
Performance rights issued	19 (a)	-	36,602	-	-	36,602
Exercise of vested performance rights	18	26,712	(26,712)	-	-	-
Reclassification of expired options		-	(191,938)	-	191,938	-
Balance at 31 December 2019		60,640,184	309,830	-	(43,537,597)	17,412,417

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

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Receipts in the course of operations		17,549	12,923
Payments to suppliers and employees		(1,358,822)	(1,291,730)
Interest received		4,793	980
Finance costs		(26,893)	(1,996)
Net cash used in operating activities	5	<u>(1,363,373)</u>	<u>(1,279,823)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(344)	(46,641)
Payments for exploration and evaluation assets		(2,128,494)	(1,860,958)
Payments for security deposits		(1,500)	(375,688)
Refund of security deposits		404,188	2,500
Net cash used in investing activities		<u>(1,726,150)</u>	<u>(2,280,787)</u>
Cash flows from financing activities			
Proceeds from issue of shares		5,016,520	4,512,322
Payments for share issue costs		(242,147)	(251,424)
Repayment of lease liabilities		(56,029)	-
Net cash from financing activities		<u>4,718,344</u>	<u>4,260,898</u>
Net increase in cash and cash equivalents		1,628,821	700,288
Cash and cash equivalents at the beginning of the financial year		<u>858,299</u>	<u>158,011</u>
Cash and cash equivalents at the end of the financial year	5	<u>2,487,120</u>	<u>858,299</u>

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

1. Statement of significant accounting policies

(a) Basis of preparation

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 27 March 2020.

(b) Basis of measurement

The Group financial statements have been prepared on the historical cost basis, except for financial assets which are measured at fair value through profit or loss.

(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) Accounting policies

Accounting policies have been applied consistently by all of the Group's entities and to all periods presented in the consolidated financial statements. Specific significant accounting policies are described in the note to which they relate. The following accounting policy applies to the consolidated financial statements as a whole:

Good 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.

(e) Adoption of new and revised accounting standards

The consolidated entity 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 (refer note 10)
- Lease liabilities – increase by \$134,196 (refer note 15)
- Accumulated loss – increase by \$23,741

(f) 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 2019 of \$1,373,529 and a net cash outflow from operations of \$1,363,373. At 31 December 2019, the Group's current assets exceeded its current liabilities by \$669,851.

During the year ended 31 December 2019 the Group raised \$5,016,520 from private placements (before costs).

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 Cyclone and Galalar Projects, 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. On 27 March 2020, the Company announced an agreement had been executed to extend the maturity date of the \$1,500,000 debt facility from 31 July 2020 to 31 November 2021 (Refer to ASX announcement 27 March 2020).

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 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.

(g) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Share-based payment transactions:

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options and performance rights is determined using either the Black Scholes or Monte Carlo Simulation taking into account the terms and conditions upon which the instruments were granted.

Exploration and evaluation assets:

The application of the Group's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Revenue, other income and expenses

	2019 \$	2018 \$
a) Revenue		
Interest	4,793	980
Other	14,600	14,073
	19,393	15,053
b) Other income		
Gain on fair value adjustment to borrowings	106,608	40,830
Other	2,949	-
	109,557	40,830
c) Depreciation		
Plant and equipment	31,091	31,370
Right-of-use assets - buildings	44,182	-
	75,273	31,370
d) Other expenses		
Professional fees	96,768	121,540
Rental expenses on operating leases	16,863	65,960
Listing and share registry expenses	86,337	74,622
Administration costs	522,136	449,497
	722,104	711,619

Accounting policy: revenue recognition

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised. Interest revenue is recognised on a time proportion basis using the effective interest method.

3. Income Tax

	2019 \$	2018 \$
The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:		
Loss before income tax	(1,373,529)	(2,749,202)
Prima facie income tax benefit at 27.5% (2018: 30%)	(377,720)	(824,761)
Tax effect of amounts which are not deductible in calculating taxable income:		
Other	35,074	755
	(342,647)	(824,006)
Deferred tax assets not recognised	342,647	824,006
Total income tax benefit	-	-

(a) Tax losses

Unused tax losses	67,781,117	65,287,850
Potential tax effect at 27.5% (2018: 30%)	18,639,807	19,586,355

The Group has not recognised the deferred tax assets arising from unused tax losses in the financial statements as it is not considered probable that sufficient taxable amounts will be available in future periods with which to be offset.

Accounting policy: income tax

The income tax expense or benefit for the year is the tax payable on the taxable income based upon the national income tax rate 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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.

4. Loss per share

	2019	2018
	\$	\$
Loss after income tax attributable to the owners of Diatreme Resources Limited	(1,373,529)	(2,749,202)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,428,681,311	1,123,597,912
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,428,681,311	1,123,597,912
	Cents	Cents
Basic earnings per share	(0.1)	(0.2)
Diluted earnings per share	(0.1)	(0.2)

Options are considered to be potential ordinary shares but were anti-dilutive in nature and therefore the diluted loss per share is the same as the basic loss per share.

Accounting policy: earnings/loss per share

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.

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.

5. Cash and cash equivalents

	2019	2018
	\$	\$
Cash on hand	1,422	-
Cash at bank	985,698	858,299
Cash on deposit	1,500,000	-
	<u>2,487,120</u>	<u>858,299</u>

5. Cash and cash equivalents (continued)

a) Reconciliation on net profit/(loss) to net cash flows used in operating activities

	2019 \$	2018 \$
Loss for the year	(1,373,529)	(2,749,202)
Non-cash items		
Depreciation	75,273	31,370
Impairment of financial asset	-	1,242,071
Share based payment expense	117,852	36,370
Fair value movement in financial asset	36,058	-
Interest expense for leases	9,463	-
Gain on fair value adjustment to borrowings	58,500	(40,830)
Movements in operating assets and liabilities		
Decrease / (increase) in receivables	29,771	(75,174)
Increase / (decrease) in payables	(72,195)	275,572
Increase / (decrease) in provisions	(244,566)	-
Net cash used in operating activities	<u>(1,363,373)</u>	<u>(1,279,823)</u>

Accounting policy: cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on-demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant changes in value.

6. Trade and other receivables

	2019 \$	2018 \$
Other receivables #	61,677	76,448
	<u>61,677</u>	<u>76,448</u>

Receivables do not contain impaired assets and are not past due.

Accounting policy: 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. An 'expected credit loss' (ECL) model is used to recognise an allowance. Impairment is measured using the lifetime ECL method.

7. 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. The IPO however did not proceed and the term sheet was superseded by the following event as detailed in Note 8 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.

8. 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).

	2019 \$	2018 \$
Opening balance	-	-
Shares received as consideration for the interest in the Tick Hill Gold Project	562,500	-
Revaluation	(36,058)	-
Closing balance	<u>526,442</u>	<u>-</u>

Accounting policy: Financial asset

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.

9. Property, plant & equipment

	Furniture and fittings	Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$
Year ended 31 December 2018				
Opening net book amount	3,848	10,829	115,692	130,369
Additions	-	44,978	1,663	46,641
Depreciation charge	(770)	(4,219)	(26,381)	(31,370)
Closing net book amount	<u>3,078</u>	<u>51,588</u>	<u>90,974</u>	<u>145,640</u>
At 31 December 2018				
Cost	134,723	144,150	1,065,914	1,344,787
Accumulated depreciation	(131,645)	(92,562)	(974,940)	(1,199,147)
Net book amount	<u>3,078</u>	<u>51,588</u>	<u>90,974</u>	<u>145,640</u>

	Furniture and fittings	Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$
Year ended 31 December 2019				
Opening net book amount	3,078	51,588	90,974	145,640
Additions	-	-	344	344
Depreciation charge	(616)	(11,388)	(19,087)	(31,091)
Closing net book amount	<u>2,462</u>	<u>40,200</u>	<u>72,231</u>	<u>114,893</u>
At 31 December 2019				
Cost	134,723	144,150	1,066,259	1,345,132
Accumulated depreciation	(132,261)	(103,950)	(994,028)	(1,230,239)
Net book amount	<u>2,462</u>	<u>40,200</u>	<u>72,231</u>	<u>114,893</u>

Accounting policy: 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%

10. Right-of-use assets

	Buildings
	\$
Balance at 1 January 2019 (adoption of AASB 16)	110,455
Depreciation charge	(44,182)
Balance at 31 December 2019	<u>66,273</u>

The Company right-of-use assets consist of leases for its office expiring on 30 June 2021.

Accounting policy: Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

11. Exploration and evaluation assets

	2019 \$	2018 \$
Exploration and evaluation assets – at cost less impairment	16,610,502	15,154,429
Opening balance	15,154,429	13,988,080
Costs capitalised during the year	1,456,073	2,970,920
Impairment of Tick Hill Project	-	(1,242,071)
Transfer Tick Hill Project to non-current assets classified as held for sale	-	(562,500)
Closing balance	16,610,502	15,154,429

Accounting policy: Exploration and evaluation assets

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 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.

Exploration and evaluation costs have been capitalised on the basis that the Group will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

At balance date the carrying amount of exploration and evaluation assets was \$16,610,502 of which \$13,988,616 is attributable to the significant exploration of the Group's Cyclone Zircon Project.

Accounting policy: 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.

12. Other non-current assets

	2019	2018
	\$	\$
Rent guarantee deposit	13,365	13,365
Security deposits	1,267	403,955
	<u>14,632</u>	<u>417,320</u>

13. Trade, other payables and employee benefits

	2019	2018
	\$	\$
Unsecured		
Trade payables	429,883	1,103,133
Other payables and accruals	230,038	341,746
Employee benefits	93,970	53,628
	<u>753,891</u>	<u>1,498,507</u>

Accounting policy: 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.

Accounting policy: employee benefits - 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.

14. Borrowings

	2019	2018
	\$	\$
Unsecured loan	1,590,929	1,532,429
Total borrowings	<u>1,590,929</u>	<u>1,532,429</u>
Current liability	1,590,929	32,429
Non-current liability	-	1,500,000
	<u>1,590,929</u>	<u>1,532,429</u>

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 the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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). Subsequent to this share conversion, the Note only has a debt component and is recognised as borrowings.

On 27 March 2020, the Company announced an agreement had been executed to extend the maturity date of the \$1,500,000 debt facility from 31 July 2020 to 31 November 2021 (Refer to ASX announcement 27 March 2020).

Accounting Policy: 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.

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.

15. Lease liabilities

	2019	2018
	\$	\$
Current liability	56,146	-
Non-current liability	31,484	-
	<u>87,630</u>	<u>-</u>

The lease liabilities are presented as below:

	Total
	\$
Operating lease commitments disclosed as at 31 December 2018	24,582
Extension of lease term to 30 June 2021 and increment of monthly rental	<u>109,614</u>
Balance at 1 January 2019 (adoption of AASB 16)	134,196
Payments recognised as financial cash outflow	(56,029)
Interest charges during the year	<u>9,463</u>
Balance at 31 December 2019	<u>87,630</u>

Accounting policy: lease liability

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

16. Provisions

	2019 \$	2018 \$
Current liabilities		
Long service leave	4,422	9,238
Non-current liabilities		
Long service leave	32,250	-
Rehabilitation	-	272,000

Accounting policy: employee benefits - 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 corporate 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.

Accounting policy: 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.

The Group's exploration activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

17. Issued Capital

	2019	2018
	\$	\$
1,830,451,346 (Dec 2018: 1,330,304,442) ordinary shares	<u>60,640,184</u>	<u>55,979,231</u>

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price \$	\$
1 Jan 2018	Opening balance	994,809,591		49,979,066
Jan ⁽¹⁾	Exercise of unlisted options	10,000,000	0.012	120,000
Jan ⁽²⁾	Shares issued	24,500,000	0.020	490,000
Feb ⁽¹⁾	Exercise of unlisted options	20,000,000	0.012	240,000
Mar ⁽¹⁾	Exercise of unlisted options	5,000,000	0.012	60,000
Apr ⁽¹⁾	Exercise of unlisted options	20,000,000	0.012	240,000
May ⁽²⁾	Shares issued	13,888,889	0.018	250,000
Aug ⁽²⁾	Shares issued	11,375,000	0.020	227,500
Oct ⁽²⁾	Shares issued	141,741,154	0.020	2,834,823
Oct ⁽³⁾	Shares issued	1,818,500	0.020	36,370
Oct ⁽⁴⁾	Shares issued	75,000,000	0.020	1,500,000
Oct ⁽⁵⁾	Shares issued	12,171,308	0.026	316,454
	Shares issue costs	-		(314,982)
31 Dec 2018	Balance	<u>1,330,304,442</u>		<u>55,979,231</u>
Apr ⁽²⁾	Shares issued	125,521,205	0.011	1,380,733
May ⁽⁶⁾	Shares issued	2,083,334	0.012	25,000
Jun ⁽⁷⁾	Shares issued	1,500,000	0.011	16,500
Jun ⁽⁸⁾	Shares issued	5,113,636	0.011	56,250
Nov ⁽²⁾	Shares issued	363,428,729	0.010	3,634,287
Nov ⁽⁹⁾	Shares issued	2,500,000	0.010	26,712
	Shares issue costs	-		(478,529)
31 Dec 2019	Balance	<u>1,830,451,346</u>		<u>60,640,184</u>

⁽¹⁾ Options attached to the share placement completed in September 2017.

⁽²⁾ During both the 2018 and 2019 financial years the Company completed several placements to sophisticated and professional investors.

⁽³⁾ 1,818,500 shares (and 909,250 free attaching listed options) issued as full consideration in lieu of the payment of fees of \$36,370 by the Company to a supplier in connection with public relations assistance provided to the Company in carrying out its October 2018 Placement.

⁽⁴⁾ Shares issued from conversion of \$1.5 million equity component of the \$3 million Note (Refer to Note 14 above).

⁽⁵⁾ Shares issued from conversion of all outstanding interest up to maturity date of 31 July 2018, on both the equity and cash component of the \$3 million Note (Refer to Note 14 above).

⁽⁶⁾ Shares issued as compensation to CEO for achieving various KPIs.

⁽⁷⁾ Part of April 2019 Placement – shares subscribed by director (C Wang). Approved at May 2019 AGM.

⁽⁸⁾ Shares issued as consideration for portion of advisory fees provided by Hartleys in carrying out its October 2018 Placement.

⁽⁹⁾ Shares issued to CEO from exercise of vested Performance Rights.

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.

Accounting policy: issued capital

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

(b) Share Options

Expiry date	Exercise Price	Number at end of year	
		2019	2018
2 June 2021 (unlisted) ⁽¹⁾	\$0.024	50,000,000	-
16 December 2019 (listed) ⁽²⁾	\$0.030	-	60,847,327
30 April 2019 (unlisted)	\$0.100	-	7,000,000

⁽¹⁾ Unlisted options issued as consideration for portion of advisory fees provided by Hartleys in carrying out its April 2019 Placement.

⁽²⁾ Issued from the October 2018 Placement. None of these listed options were exercised and all of them lapsed on 16 December 2019

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.

Movement in unlisted share options	Number at end of year	
	2019	2018
Opening balance	7,000,000	68,000,000
Issued 3 June 2019 (subsequent to approval at 30 May 2019 AGM)	50,000,000	-
Exercised	-	(55,000,000)
Lapsed	(7,000,000)	(6,000,000)
Closing balance	50,000,000	7,000,000

Movement in listed share options	Number at end of year	
	2019	2018
Opening balance	60,847,327	-
Issued 16 October 2018	-	60,847,327
Lapsed	(60,847,327)	-
Closing balance	-	60,847,327

18. Reserves

	Share based payment reserve	Convertible note reserve	Total
	\$	\$	\$
Balance 31 December 2017	191,938	1,465,699	1,657,637
Options issued to broker as success fee for share placement	63,558	-	63,558
Transfer to share capital on conversion of convertible note	-	(1,465,699)	(1,465,699)
Balance 31 December 2018	255,496	-	255,496
Reverse options relating to expired options	(191,938)	-	(191,938)
Options issued to broker as success fee for share placement	236,382	-	236,382
Performance rights expense (net of vested performance rights)	9,890	-	9,890
Balance 31 December 2019	309,830	-	309,830

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 and options issued to broker as success fee for share placement.

19. Share-based payments

	2019 \$	2018 \$
(a) Value of share based payments in the financial statements		
<i>Expensed:</i>		
Incentive based payment to CEO - shares	25,000	-
Payment for portion of broker's advisory fees - shares	56,250	-
Incentive based payment to CEO – performance rights	36,602	-
Payment to supplier in connection with public relations assistance in relation to 2018 Placement - options and shares	-	36,370
Recognised in statement of comprehensive income	117,852	36,370
Share based payments in capital raising costs:		
Unlisted options	236,382	63,558
Recognised on statement of changes in equity	236,382	63,558

The Group provides benefits in the form of share-based payment transactions as follows:

Type	Holder(s)	Services provided
Shares	Chief Executive Officer (CEO)	Employment - incentive in lieu of cash
Shares to a broker	Broker	Advisory fees
Performance rights	Chief Executive Officer (CEO)	Employment
Options and shares to a supplier	Supplier	Public relations assistance
Options to a broker	Broker	Success fee for share placement

(b) Accounting Policy: share-based payment transactions

Services are rendered in exchange for options and/or shares in the company (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled.

(c) Summary of share-based payments

Incentive based payment to CEO

On 7 May 2019, the Company issued 2,083,334 shares to the CEO, fair valued at \$0.012 each, as compensation for achieving various KPIs.

Payment for portion of broker's advisory fees

Following approval by shareholders at the May 2019 AGM, 5,113,636 fully paid ordinary shares were issued to a broker as payment for a portion of the advisory fees in relation to the April 2019 Placement.

Incentive based payment to CEO – performance rights

Under an established Performance Rights Plan approved by shareholders at the 2018 AGM, on 24 May 2019 the CEO was issued 5,833,333 Performance Rights subject to various vesting conditions.

Options and Shares to a Supplier (2018)

1,818,500 shares and 902,250 free attaching listed options were issued as full consideration in lieu of the payment of fees of \$36,370 by the Company to a supplier in connection with public relations assistance provided to the Company in carrying out its October 2018 placement.

Information of options issued to the supplier is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
2019	16/10/2018	16/12/2019	\$0.03	902,250	-	-	(902,250)	-
2018	16/10/2018	16/12/2019	\$0.03	-	902,250	-	-	902,250

Options to a Broker (2019)

Following approval by shareholders at the May 2019 AGM, 50,000,000 unlisted options were issued to a broker on 3 June 2019 as success fee for share placement:

Information of options issued to the broker is as follows:

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
2019	3/6/2019	2/6/2021	\$0.024	-	50,000,000	-	-	50,000,000

These options were valued using the Black-Scholes Model with key inputs including volatility rate of 128% and risk-free rate of interest at 1.19%.

Options to a Broker (2018)

6,500,000 listed options were issued to a broker as success fee in 2018 for share placement. All of the options had lapsed as at 31 December 2019

Information of options issued to the supplier is as follows:

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
2019	16/10/2018	16/12/2019	\$0.03	6,500,000	-	-	(6,500,000)	-
2018	16/10/2018	16/12/2019	\$0.03	-	6,500,000	-	-	6,500,000

These options were valued using the Black-Scholes Model with key inputs including volatility rate of 114% and risk-free rate of interest at 2.31%.

Employee Share Option Plan

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. All of the options had lapsed as at 31 December 2019.

Information of options issued to the Company's employees and consultants is as follows:

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
2019	15/03/2013	30/04/2019	\$0.10	4,000,000	-	-	(4,000,000)	-
2018	15/03/2013	30/04/2019	\$0.10	5,000,000	-	-	(1,000,000)	4,000,000

Information of options issued to the Company's directors and CEO is as follows:

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
2019	31/05/2013	30/04/2019	\$0.10	3,000,000	-	-	(3,000,000)	-
2018	31/05/2013	30/04/2019	\$0.10	3,000,000	-	-	-	3,000,000

20. Accumulated losses

	2019 \$	2018 \$
Accumulated losses at the beginning of the year	(42,332,265)	(39,583,063)
Adjustment for change in accounting policy (refer Note 1 (e))	(23,741)	-
Net loss for the year	(1,373,529)	(2,749,202)
Reverse options relating to expired options	191,938	-
Accumulated losses at the end of the year	<u>(43,537,597)</u>	<u>(42,332,265)</u>

21. 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

	2019 \$	2018 \$
Financial assets		
Cash and cash equivalents	2,487,120	858,299
Trade and other receivables	61,677	76,448
Financial asset	526,442	-
Security and other deposits	14,632	417,320
Total financial assets	<u>3,089,871</u>	<u>1,352,067</u>

	2019 \$	2018 \$
Financial liabilities		
Trade and other payables	753,891	1,498,507
Borrowings	1,590,929	1,532,429
Lease liabilities	87,630	-
Total financial liabilities	<u>2,432,450</u>	<u>3,030,936</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 a 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:

	2019	2018
	\$	\$
Cash at bank	985,698	858,299
Cash on deposit	1,500,000	-
	<u>2,485,698</u>	<u>858,299</u>

(d) Credit risk

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

The Group manages any credit risk associated with its funds on deposit by ensuring that it only invests its funds with reputable financial institutions.

The Group manages any credit risk associated with its trade and other receivables by regular monitoring of exposures against the credit limits and monitoring of the financial stability of significant customers and counterparties.

(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:

Consolidated	Carrying amount	Contractual cash flow	< 6 months	6-12 months	1-3 years	> 3 years
	\$	\$	\$	\$	\$	\$
31 Dec 2018						
Trade and other payables	1,498,507	1,498,507	1,498,507	-	-	-
Borrowings	1,532,429	1,656,000	58,500	39,000	1,558,500	-
	<u>3,030,936</u>	<u>3,154,507</u>	<u>1,557,007</u>	<u>39,000</u>	<u>1,558,500</u>	<u>-</u>

Consolidated	Carrying amount \$	Contractual cash flow \$	< 6 months \$	6-12 months \$	1-3 years \$	> 3 years \$
31 Dec 2019						
Trade and other payables	753,891	753,891	753,891	-	-	-
Borrowings	1,590,929	1,636,500	117,000	1,519,500	-	-
Lease liabilities	87,630	92,250	30,750	30,750	30,750	-
	<u>2,432,450</u>	<u>2,482,641</u>	<u>901,641</u>	<u>1,550,250</u>	<u>30,750</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.

Non-current assets classified as held for sale have been valued at cost less allowance for impairment.

22. Interests in subsidiaries

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 December 2019. 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.

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

Name of subsidiary	Country of Incorporation	Principal activity	Ownership Interest	
			2019	2018
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.

23. Parent Entity Information

	2019 \$	2018 \$
Financial position		
Current assets	3,065,549	1,491,806
Non-current assets	18,971,853	17,976,566
Total assets	<u>22,037,402</u>	<u>19,468,372</u>
Current liabilities	2,013,812	1,310,475
Non-current liabilities	63,734	1,772,000
Total liabilities	<u>2,077,546</u>	<u>3,082,475</u>
Net assets	<u>19,959,856</u>	<u>16,385,897</u>
Shareholders' equity		
Contributed equity	60,640,184	55,979,231
Reserves	309,830	255,496
Accumulated losses	(40,990,158)	(39,848,830)
Total equity	<u>19,959,856</u>	<u>16,385,897</u>
Loss for the year	(1,353,569)	(2,718,248)
Total comprehensive loss for the year	<u>(1,353,569)</u>	<u>(2,718,248)</u>

Non-Current Assets

Non-current assets include \$14,340,661 (2018: \$14,003,773) 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 2019.

Guarantees

The parent entity does not have any guarantees at 31 December 2019.

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:

	2019 \$	2018 \$
Payable within 1 year	96,671	731,783
Payable between one and five years	893,582	1,420,951
	<u>990,253</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. In 2019 cash security bonds totalling \$1,267 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (2018: \$403,955).

(b) Operating lease commitments

	2019	2018
	\$	\$
Payable within 1 year	-	24,582
Payable between one and five years	-	-
	<u>-</u>	<u>24,582</u>

25. Contingent Liability

The Group does not have any contingent liability at 31 December 2019.

26. Financial reporting by segments

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The function of the chief operating decision maker is performed by the Board collectively.

The Group currently operates in one business segment and one geographical segment, namely explorer 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.

27. Related parties

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 22.

(c) Key management personnel

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 December 2019.

	2019	2018
	\$	\$
Short-term employee benefits	597,875	550,937
Post-employment benefits	56,798	52,339
Long-term benefits	28,996	-
Share-based payments	61,602	-
	<u>745,271</u>	<u>603,276</u>

(d) Transactions with related parties

	2019	2018
	\$	\$
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).	<u>92,750</u>	<u>131,374</u>

28. Remuneration of auditors

	2019 \$	2018 \$
William Buck (Qld)		
Audit and review of the financial statements	20,000	20,000

The auditors did not provide any other services.

29. Events subsequent to balance date

In February 2020, 181,714,365 Placement Options and 25,000,000 Rebate Shares were issued for no consideration to shareholders who participated in the November 2019 placement.

On 27 March 2020, the Company announced an agreement had been executed to extend the maturity date of the \$1,500,000 debt facility from 31 July 2020 to 31 November 2021 (Refer to ASX announcement 27 March 2020).

30. 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 have not been adopted in the preparation of the financial report for the year ended 31 December 2019. None of these Standards and Interpretations are expected to have significant effect on the consolidated financial statements of the Group.

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.

31. Corporate information

Diatreme Resources Limited 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 Unit 8, 61 Holdsworth Street, Coorparoo QLD 4151.

The company's most recent Corporate Governance Statement is available at:
www.diatreme.com.au/company/corporate-governance

DIRECTORS' DECLARATION
for the year ended 31 December 2019

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 1(a) 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 2019 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



Gregory B. Starr
Non-executive Chairman

Brisbane, 27 March 2020

Diatreme Resources Limited

Independent auditor's report to the members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Diatreme Resources Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2019, 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, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1(f) in the financial report, which indicates that the Group incurred a net loss after tax of \$1,373,529 during the year ended 31 December 2019 and had net cash outflows from operations of \$1,363,373. As stated in Note 1(f), these events or conditions, along with other matters as set forth in Note 1(f), 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.

ACCOUNTANTS & ADVISORS

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CARRYING VALUE OF EXPLORATION COSTS	
Area of focus Refer also to note 11	How our audit addressed it
<p>Capitalised exploration and evaluation assets represent 84% of the Group's total assets. The carrying value of exploration and evaluation assets is impacted by the Group's ability, and intention, to continue to explore and evaluate these assets. The results of these activities then determine the extent to which it may or may not be commercially viable to develop and extract identified reserves.</p> <p>Due to the significance of this asset and the subjectivity involved in determining its carrying value and recoverable amount, this is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — A review of the directors' assessment of the criteria for the capitalisation of exploration and evaluation expenditure and their assessment of whether there are any indicators of impairment to capitalised costs; — Considering the Group's intention and ability to continue activities necessary to support a decision to develop the exploration and evaluation assets, which included an assessment of the Group's ability to fund such activities and a review of their future budgets; — Performing an assessment of whether any indicators of impairment existed in line with requirements of Australian Accounting Standards, including a review of the integrity of tenement title status and total commitments value; and — We assessed the adequacy of the Group's disclosures in respect of the carrying value of exploration costs.

Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Diatreme Resources Limited, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif

Junaide Latif
Director

Brisbane, 27 March 2020