

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

FINANCIAL STATEMENTS

for the year ended 31 December 2018

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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 2018.

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 (Appointed Non-executive Chairman on 31 May 2018)
C Wang
Y Zhuang

Past director that resigned during the year:

A Tsang
Non-executive Director
Appointed 23 January 2009
Mr Tsang resigned as Non-executive Director on 12 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration for heavy mineral sands and copper 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 2018.

REVIEW OF OPERATIONS

During the past 12 months, the Company has made substantial progress towards the advancement of its major projects comprising the Cyclone Zircon Project (Cyclone), Cape Bedford Silica & HM Sands Project (Cape Bedford Project) and the Tick Hill Gold Project.

Significant milestones have been achieved, the most notable being the completion of a positive Definitive Feasibility Study (DFS) for Cyclone. The DFS was undertaken by China ENFI Engineering, a subsidiary company of the China Minmetals Group. The DFS confirmed the Cyclone Project's robust economics with an estimated post-tax net present value of AUD\$113 million, an internal rate of return of 27% , estimated project development costs (capex) of AUD\$135 million and with an estimated mine life of 13.4 years. Previous studies, undertaken by engineering firm Sedgman in 2016, outlined estimated capex at AUD\$161 million.

In addition to the favourable DFS results, the Company has concurrently advanced further defining the prospectivity of its Cape Bedford Project in Northern Queensland, by completing a maiden inferred mineral resource for the Nob Point prospect contained within the tenement area. The resource spans an area of around 1 square kilometre within a tenement area of over 500 square kilometres and confirms the presence of a world-class, high-grade silica sand deposit.

The above significant achievements were underpinned by continuing support from both existing and new shareholders. The Company undertook various capital raisings during the year and in particular the October placement program, which raised \$2,137,523 (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:

Cyclone

- Replacing the previous non-binding Memorandum of Understanding announced on 11 September 2017, Diatreme and China ENFI Engineering (ENFI) signed in January 2018 two contracts comprising:
 - A **Cooperation Agreement**, under which ENFI will use its network within China's state-owned enterprise (SOE) and banking sectors to assist the company in sourcing project investors, offtakers and project debt funding;
 - A **Consulting Services Agreement**, detailing the remaining definitive feasibility study (DFS) aspects to be completed by ENFI, including project costings and economics, engineering studies and implementation planning.

Cyclone DFS

The DFS undertaken by ENFI confirmed that the Cyclone Zircon Project is economically viable.

The DFS identified significant cost savings compared to previous project studies. Project development costs (capex) are now estimated at \$136 million, including significant contingencies, and with a rapid capital payback period post-production commencement of 2.7 years (life of mine estimate of 13.2 years). This compares to the \$161 million capex estimate provided in the 2016 study by independent engineering firm Sedgman (refer ASX announcement 15 June 2016).

The DFS also generated positive after-tax financial results, including estimated net present value (NPV) of \$113 million, internal rate of return (IRR) of 27%.

The key outcomes of the DFS are summarised in Tables 1 and 2 below:

Base DFS Assumptions (Table 1)

USD:AUD Exchange Rate	0.735
CNY:USD Exchange Rate	6.8
Financial Model Discount Rate	10%
HMC Product Price	85% of final product value
Study accuracy	15%
Contingency	10%
Mining Rate	10 million tonnes per annum (Mtpa)
HMC Annual Production Rate	147,700 tonnes (average)
Mine life	13.2 years
Construction period	2 years

The project evaluation was completed using US dollars and the exchange rate used in the study for Australian cost inputs to the study was AUD\$1 = US\$0.735. The US\$ results of the DFS have been converted to AUD using this exchange rate. All financial results are presented as after-tax values.

Financial Results & Data (AUD\$) (Table 2)

Net Present Value	\$113.3m
Internal Rate of Return	27.2%
Payback period (production years)	2.7 years
Construction Capital (capex)	\$135.7m
Average Annual Revenue	\$130.1m
Average Annual operating expenditure (opex)	\$75.5m
Working Capital *	\$11.7m in Year 1
Sustaining Capital *	\$18.7m (\$10.2m in Year 1)
Average Annual Company Tax (30%)	\$11.6m
Average Annual After-Tax Profit	\$26.6m
Average Annual Depreciation	\$9.9m
Average Annual State Royalty	\$6.5m

**Note: Working capital and sustaining capital contingencies at \$11.7m and \$10.2m (\$21.9m total for first year) respectively for first year of operations are relatively high by Australian standards but compliant with Chinese bankable study standards. Removal or reduction of these contingencies could potentially enhance project returns and economics.*

Cape Bedford

On 2 March 2018 the company released results from initial metallurgical testwork. The testwork achieved 80% recovery of a primary silica sand product ranging from 99.6% to 99.9% silicon dioxide with less than 0.02% iron, easily meeting the specifications for glass-grade silica sand.

Other operational highlights include:

- In a major company milestone, the Company announced on 13 August 2018 a Maiden Inferred Mineral Resource for the Cape Bedford Project, confirming the presence of a world-class, high-grade silica sand deposit. The maiden inferred resource is an estimated 21.6 million tonnes grading at more than 99% silica. The resource spans an area of around 1 square kilometre. The resource estimate also found open dune extensions to the immediate north and west, highlighting the potential for additional exploration to expand the silica sand deposit.
- On 16 August 2018 the Company announced that bulk sample process test-work confirms Nob Point Prospect capable of producing high-quality silica sand product (99.9% SiO₂) suitable for premium, high end glass manufacturing
- In early December 2018 the Company announced the launch of the Galalar Silica Project (Galalar) following consultations with the traditional owners, Hopevale Congress. The name change from the previous Nob Point Prospect reflects the backing of Hopevale Congress and the Company's desire for maximum local economic benefit from the establishment of a new high-grade silica sand mine.

Tick Hill Gold Project

- In June, the Company entered into a term sheet to sell its Tick Hill Gold Project (Tick Hill) into an Initial Public Offering (IPO) by Carnaby Resources Limited (Carnaby). Under the term sheet, the Company was scheduled to receive shares to be allocated in a successful public float by Carnaby. However, the IPO did not proceed and the term sheet has now been superseded by the following event:
- On 11 March 2019, the Company executed a binding, conditional Heads of Agreement to sell its interest in Tick Hill, to Berkut Minerals Limited (Berkut) (ASX: BMT). As consideration for the sale, the Company will be issued with shares in the capital of BMT to the value of \$562,500 and will be reimbursed for the associated tenement bonds totalling \$ 336,844.

Fundraising

During the year \$660,000 was received from the exercise of unlisted options and completion of various private placements to sophisticated investors raised \$3,852,322.

Rollover of Convertible Note

The Company reached an arrangement with the holder of the \$3 million convertible note facility (Note) that was due for repayment on the 31st of July 2018. Subsequently at an extraordinary general meeting 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 were converted into ordinary shares of the Company, at the prevailing share price as at the date of conversion.

Corporate

On 31 May 2018 the Company announced the appointment of experienced mining industry executive and current Non-Executive Director, Mr Gregory Starr, as the Company's independent Chairman. Former Chairman, Mr William Wang will remain on the Board as a Non-Executive Director.

Outlook

Cyclone

The mineral sands industry generally is showing a sustained recovery and increasing sustainable pricing following a period of low commodity product prices evidenced between 2013 and 2016. These increasing product prices particularly with reference to zircon appear underpinned by a genuine return to sustainable longer term pricing trends. Further underpinning this are supply constraints as a lack of new investment in heavy minerals mining projects constrains production levels and current producers of major mines start to enter development periods where typically ore body grades decline and extraction becomes more expensive.

This lack of new supply entering the Heavy Minerals (HM) market and a sustained period of favourable commodity pricing creates a window of opportunity for the Company's Cyclone Project to be developed.

In order to advance the Project toward mining activity and following completion in December 2018 of the Cyclone Project DFS studies the Company has now retained the services of a specialist advisory firm Blackbird Partners to advise and assist the company through the process of attracting suitable development partners to advance the Project to development of mining activity.

The range of these discussions includes potential product offtake, formation of a joint venture or suitable investor entry structure, and complete divestment of the project. The Company at all times whilst reviewing the various potential options for the project is focussed on achieving the best outcome for the Company and its shareholders.

We remain cautiously optimistic that the current favourable trends within the heavy minerals sector driven by sustainable product pricing increases will enhance our Cyclone Project economics along with early signs of improved capital market sentiment will give us the impetus needed to secure the right development partners to deliver the project on favourable terms for the Company

Cape Bedford

We are further encouraged by the rapid progress on our Cape Bedford tenement following confirmation of the maiden inferred mineral resource of high quality silica sand, and confirm its potential end use products are suitable for high tech applications particularly in the manufacturing of photovoltaic (solar) panels which is a market showing the highest growth in terms of physical product demand.

Corporate

Capital markets continue to remain subdued and the Company is actively and continuously reviewing its corporate and project profiles to ensure good levels of support as it undertakes various capital raising programs to advance its high value projects.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2018 was \$2,749,202 (2017: loss of \$1,418,526). The main contributor to the increase in the net loss was the impairment charge of \$1,242,071 to the Tick Hill Project in 2018.

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio, with 18% expenditure on Cape Bedford and 78% 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

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 has entered into a series of interdependent agreements whereby it will first acquire Carnaby Resources Limited (Carnaby), and then through Carnaby (as its nominee) will further acquire 100% of the legal and beneficial interest in the Project. As consideration for the sale, the Company will be issued with shares in the capital of BMT to the value of \$562,500 and will be reimbursed the associated tenement bonds totalling \$336,844.

On 25 March 2019 the ASX granted the Company a trading halt in its securities for two days pending an announcement relating to a capital raising.

FUTURE DEVELOPMENTS

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

INFORMATION ON DIRECTORS

Name:	Gregory Barry Starr
Title:	Non-executive Chairman
Qualifications:	BBus, 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 Managing Director of KBL Mining Limited (ASX), 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):	KBL Mining Limited
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. Mr Wang was appointed Non-executive Chairman on 1 July 2014.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of audit and remuneration committee
Interests in shares:	4,267,255 ordinary shares (held indirectly)
Interests in options:	1,000,000 unlisted options (held directly)

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:	160,983,890 ordinary shares (held directly)
Interests in options:	None

COMPANY SECRETARY

Mr Tuan Do was appointed Company Secretary in May 2011 and is also the CFO.

MEETINGS OF DIRECTORS

The number of meetings of the board of Directors held during the year ended 31 December 2018, and the number of meetings attended by each Director was:

Name	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
A Tsang	4	-	-	-	-	-
C Wang	4	4	2	2	-	-
Y Zhuang	4	2	2	-	-	-
G B Starr	4	4	2	2	-	-

REMUNERATION REPORT - AUDITED

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

- A Principles used to determine the nature and amount of remuneration
- B Relationship of remuneration with Group performance
- C Details of remuneration
- D Employment contracts
- E Share-based compensation
- F Equity instruments held by key management personnel

A Principles used to determine the nature and amount of remuneration

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

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.

B Relationship of remuneration with Group performance

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

	Unit	2014	2015 (restated)	2016 (restated)	2017	2018
Share price at year end	\$/share	0.01	0.01	0.01	0.02	0.02
Market capitalisation	\$	7,264,157	8,097,490	8,767,327	15,916,953	21,284,871
Revenue	\$	267,799	153,374	62,944	13,814	15,053
Total assets	\$	15,237,360	13,545,426	14,060,241	14,441,405	17,214,636
Net loss after tax	\$	7,252,709	3,793,703	1,850,962	1,418,526	2,749,202

C Details of remuneration

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

N J McIntyre – Chief Executive Officer

T Do – CFO & Company Secretary

Details of the remuneration of the key management personnel of the Group are set out in the following tables. No performance based remuneration was paid or payable during the period.

2018	Short-term benefits	Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary & fees	Superannuation	Long service leave	Options	Total
Name	\$	\$	\$	\$	\$
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
Other key management personnel					
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).

2017	Short-term benefits	Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary & fees	Superannuation	Long service leave	Options	Total
Name	\$	\$	\$	\$	\$
Non-executive Directors					
A Tsang	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 #	6,926	658	-	-	7,584
Other key management personnel					
N J McIntyre	179,256	8,550	-	-	187,806
T Do	129,000	12,255	-	-	141,255
Total	469,182	36,093	-	-	505,275

Appointed on 12 October 2017

The group also paid \$131,374 (2017: \$51,532) for specialist market and consultancy services from Fortune Corporation Australia Pty Limited, a director-related entity of William Wang.

D Employment contracts

The employment conditions of other key management personnel, including the Chief Executive Officer and CFO & Company Secretary are formalised in employment contracts. Employment contracts are not of a fixed term. Employment contracts specify a range of notice periods.

E Share-based compensation

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

No new options or performance rights were granted as compensation to Directors and other key management personnel during the 2017 and 2018 financial years. All options disclosed below have vested.

2018	Beginning balance	Granted as remuneration	Exercised during the year	Options lapsed	Balance at end of year
A Tsang	1,000,000	-	-	-	1,000,000
C Wang	1,000,000	-	-	-	1,000,000
Y Zhuang	-	-	-	-	-
N J McIntyre	1,000,000	-	-	-	1,000,000
T Do	1,000,000	-	-	-	1,000,000

F Equity instruments held by key management personnel

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.

Shareholding

	Balance at the start of the year	Received as part of compensation	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
A Tsang	116,536,110	-	-	(116,536,110)	-
C Wang	4,067,255	-	200,000	-	4,267,255
Y Zhuang	140,983,890	-	20,000,000	-	160,983,890
G B Starr	-	-	-	-	-
N J McIntyre	208,041	-	463,441	-	671,482
T Do	-	-	-	-	-
Total	261,795,296	-	20,663,441	(116,536,110)	165,922,627

* Disposals/other represents shares held at resignation date

Option holding

There were no listed options over ordinary shares in the company held during the financial year by any of the directors and other members of key management personnel of the Group, including their personally related parties.

Unlisted Option holding

	Balance at the start of the year	Received as part of compensation	Additions	Exercised	Lapsed	Balance at the end of the year
A Tsang	6,000,000	-	-	-	(5,000,000)	1,000,000 [#]
C Wang	1,000,000	-	-	-	-	1,000,000
Y Zhuang	20,000,000	-	-	(20,000,000)	-	-
G B Starr	-	-	-	-	-	-
N J McIntyre	1,000,000	-	-	-	-	1,000,000
T Do	1,000,000	-	-	-	-	1,000,000
Total	29,000,000	-	-	(20,000,000)	(5,000,000)	4,000,000

[#] All 1,000,000 options subsequently lapsed on 12 January 2019.
All unlisted options are vested and exercisable.

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

Unissued ordinary shares of the Company under option as at 31 December 2018 are as follows:

Issue/grant date	Expiry date	Exercise price	Number under option	Type
16 October 2018	16 December 2019	3.0 cents	60,847,327	Listed
31 May 2013	30 April 2019	10 cents	3,000,000	Unlisted
15 March 2013	30 April 2019	10 cents	4,000,000	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



Gregory B. Starr
Non-executive Chairman

Brisbane, 26 March 2019

**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 2018, 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

A handwritten signature in black ink, appearing to read 'J A Latif'.

J A Latif
A Member of the Firm

Brisbane, 26 March 2019

**CHARTERED ACCOUNTANTS
& ADVISORS**

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	2018 \$	2017 \$
Revenue	2	15,053	13,814
Other income	2	40,830	17,196
Employee benefit expenses		(554,759)	(752,974)
Depreciation expenses	11	(31,370)	(37,537)
Exploration assets written off	12	-	(11,321)
Impairment of exploration asset (Tick Hill)	8	(1,242,071)	-
Other expenses	3	(747,989)	(405,756)
Finance costs		(228,896)	(241,948)
Loss before income tax		(2,749,202)	(1,418,526)
Income tax benefit	5	-	-
Net Loss for the year		(2,749,202)	(1,418,526)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(2,749,202)	(1,418,526)
		Cents	Cents
Loss per share			
Basic earnings per share	4	(0.2)	(0.2)
Diluted earnings per share	4	(0.2)	(0.2)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Note	2018 \$	2017 \$
Current Assets			
Cash and cash equivalents	14	858,299	158,011
Trade and other receivables	7	76,448	120,813
		<u>934,747</u>	<u>278,824</u>
Non-current assets classified as held for sale	8	562,500	-
Total Current Assets		<u>1,497,247</u>	<u>278,824</u>
Non-current Assets			
Property, plant and equipment	11	145,640	130,369
Exploration and evaluation assets	12	15,154,429	13,988,080
Other assets	13	417,320	44,132
Total Non-current Assets		<u>15,717,389</u>	<u>14,162,581</u>
Total Assets		<u>17,214,636</u>	<u>14,441,405</u>
Current Liabilities			
Trade and other payables	9	1,498,507	353,568
Borrowings	15	32,429	1,752,959
Provisions	10	9,238	9,238
Total Current Liabilities		<u>1,540,174</u>	<u>2,115,765</u>
Non-current Liabilities			
Borrowings	15	1,500,000	-
Provisions	10	272,000	272,000
Total Non-current Liabilities		<u>1,772,000</u>	<u>272,000</u>
Total Liabilities		<u>3,312,174</u>	<u>2,387,765</u>
Net Assets		<u>13,902,462</u>	<u>12,053,640</u>
Equity			
Issued capital	16	55,979,231	49,979,066
Reserves	17	255,496	1,657,637
Accumulated losses	18	(42,332,265)	(39,583,063)
Total Equity		<u>13,902,462</u>	<u>12,053,640</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 2018

	Note	Issued capital \$	Share- based payment reserve \$	Convertible note reserve \$	Accumulated losses \$	Total \$
Balance at 31 December 2016		48,750,812	191,938	1,334,601	(38,164,537)	12,112,814
Total comprehensive income: Loss for the year		-	-	-	(1,418,526)	(1,418,526)
Transactions with owners in their capacity as owners:						
Shares issued		1,295,000	-	-	-	1,295,000
Share issue costs		(66,746)	-	-	-	(66,746)
Convertible note draw down		-	-	131,098	-	131,098
Balance at 31 December 2017		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		(314,982)	63,558	-	-	(251,424)
Convertible note conversion to shares		1,500,000	-	(1,465,699)	-	34,301
Balance at 31 December 2018	16 to 18	55,979,231	255,496	-	(42,332,265)	13,902,462

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

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CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts in the course of operations		12,923	13,464
Payments to suppliers and employees		(1,291,730)	(1,139,445)
Interest received		980	313
Finance costs		(1,996)	(1,715)
Net cash used in operating activities	6	<u>(1,279,823)</u>	<u>(1,127,383)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(46,641)	(1,121)
Payments for exploration and evaluation assets		(1,860,958)	(527,328)
Proceeds from sale of property, plant and equipment		-	22,727
Payments for security deposits		(375,688)	-
Refund of security deposits		2,500	2,500
Net cash used in investing activities		<u>(2,280,787)</u>	<u>(503,222)</u>
Cash flows from financing activities			
Proceeds from issue of shares		4,512,322	1,245,000
Payments for share issue costs		(251,424)	(66,746)
Proceeds from drawdowns of borrowings		-	300,000
Net cash from financing activities		<u>4,260,898</u>	<u>1,478,254</u>
Net increase/(decrease) in cash and cash equivalents		700,288	(152,351)
Cash and cash equivalents at the beginning of the financial year		<u>158,011</u>	<u>310,362</u>
Cash and cash equivalents at the end of the financial year	14	<u>858,299</u>	<u>158,011</u>

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

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A. CORPORATE INFORMATION

Diatreme Resources Limited (the "Company") is a public company listed on the Australian Securities Exchange (trading under the code DRX), and is incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business is Unit 8, 61 Holdsworth Street, Coorparoo, Queensland 4151. The Group financial statements as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

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

B. BASIS OF PREPARATION

(a) Statement of compliance

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

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

The financial statements were approved by the Board of Directors on 26 March 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) 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

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 January 2018.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 9 Financial Instruments

The Group has adopted AASB 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Adoption of these new and revised standards did not have a material impact on the financial report.

(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 2018 of \$2,749,202 and a net cash outflow from operations of \$1,279,823. At 31 December 2018, the Group's current liabilities exceeded its current assets by \$42,927.

During the year ended 31 December 2018 the Group raised \$4,512,322 from private placements and exercise of unlisted options.

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 Project, and/or sale of non-core assets.

The Directors have reviewed the business outlook and cash flow forecasts and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will achieve the matters set out above. As such, the Directors believe that they will continue to be successful in securing additional capital through debt or equity issues as and when the need to raise working capital arises.

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

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 preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates are reviewed on an ongoing basis and any revisions to estimates are recognised prospectively.

Key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described in the following notes:

- 10. Rehabilitation provision
- 12. Exploration and evaluation assets

C. RESULTS

This section sets out the results and performance of the Group.

1. Operating segments

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

2. Revenue and other income

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.

	2018 \$	2017 \$
a) Revenue		
Interest	980	313
Other	14,073	13,501
	<u>15,053</u>	<u>13,814</u>
b) Other income		
Gain on disposal of non-current assets	-	17,196
Gain on fair value adjustment to borrowings	40,830	-
	<u>40,830</u>	<u>17,196</u>

3. Other expenses

Professional fees	121,540	49,887
Rental expenses on operating leases	65,960	65,008
Listing and share registry expenses	74,622	49,237
Share-based payment expense (Note 24)	36,370	-
Administration costs	449,497	238,372
Impairment of financial asset	-	3,252
	<u>747,989</u>	<u>405,756</u>

4. Earnings 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.

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	2018 \$	2017 \$
Loss after income tax attributable to the owners of Diatreme Resources Limited	(2,749,202)	(1,418,526)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,123,597,912	903,627,303
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,123,597,912	903,627,303
	Cents	Cents
Basic earnings per share	(0.2)	(0.2)
Diluted earnings per share	(0.2)	(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.

5. Taxation

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

Tax consolidation legislation

The Company and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation.

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

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

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

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	2018 \$	2017 \$
(a) The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:		
Loss before income tax	(2,749,202)	(1,418,526)
Prima facie income tax benefit at 30% (2017: 27.5%)	(824,761)	(390,095)
Tax effect of amounts which are not deductible in calculating taxable income:		
Other	755	23,200
	(824,006)	(366,895)
Deferred tax assets not recognised	824,006	366,895
Total income tax benefit	-	-

(b) Tax losses

Unused tax losses	65,287,850	60,781,341
Potential tax effect at 30% (2017: 27.5%)	19,586,355	16,714,869

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.

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

	2018 \$	2017 \$
Loss for the year	(2,749,202)	(1,418,526)
Non-cash items		
Depreciation	31,370	37,537
Capitalised exploration expenditure written-off	-	11,321
Impairment of exploration asset	1,242,071	-
Impairment of financial asset	-	3,252
Share based payment expense	36,370	-
Gain on fair value adjustment to borrowings	(40,830)	-
(Profit)/loss on sale of fixed assets	-	(17,196)
Movements in operating assets and liabilities		
(Increase)/decrease in receivables	(75,174)	12,851
Increase / (decrease) in payables	275,572	239,686
Increase / (decrease) in provisions	-	3,692
Net cash used In operating activities	(1,279,823)	(1,127,383)

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D. WORKING CAPITAL AND OTHER ASSETS AND LIABILITIES

This section sets out information relating to the working capital and other assets and liabilities of the Group. Working capital includes the assets and liabilities that are used in the day-to-day trading operations of the Group.

7. 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.

	2018 \$	2017 \$
Trade receivables ⁽¹⁾	-	68,274
Other receivables ⁽¹⁾	76,448	52,539
	<u>76,448</u>	<u>120,813</u>

⁽¹⁾ Receivables do not contain impaired assets and are not past due.

8. Non-current assets classified as held for sale

On 5 June 2018, the Company signed a binding term sheet to sell its Tick Hill Gold Project (Project) into an Initial Public Offering (IPO) by Carnaby Resources Limited (Carnaby). Under the term sheet, the Company was scheduled to receive 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. However, the IPO did not proceed and the term sheet has now been superseded by the following event:

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 has entered into a series of interdependent agreements whereby it will first acquire Carnaby, and then through Carnaby (as its nominee) will further acquire 100% of the legal and beneficial interest in the Project. As consideration for the sale, the Company will be issued with shares in the capital of BMT to the value of \$562,500. Accordingly, as this value is less than the carrying amount, an impairment charge of \$1,242,071 has been recorded.

9. Trade, other payables and employee benefits

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

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.

	2018 \$	2017 \$
Unsecured		
Trade payables #	1,103,133	32,822
Other payables and accruals	341,746	254,004
Employee benefits	53,628	66,742
	<u>1,498,507</u>	<u>353,568</u>

Include \$923,000 of unpaid costs relating to the Cyclone DFS

10. Provisions

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.

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.

	2018 \$	2017 \$
Current liabilities		
Long service leave	9,238	9,238
Non-current liabilities		
Rehabilitation	272,000	272,000

E. TANGIBLE ASSETS

This section sets out the non-current tangible assets of the Group and the method used to assess the recoverable amount of these assets

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.

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11. 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%

	Furniture and fittings	Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$
Year ended 31 December 2017				
Opening net book amount	4,810	19,685	147,821	172,316
Additions	-	-	1,121	1,121
Disposals	-	(5,531)	-	(5,531)
Depreciation charge	(962)	(3,325)	(33,250)	(37,537)
Closing net book amount	3,848	10,829	115,692	130,369

At 31 December 2017				
Cost	134,723	99,172	1,064,251	1,298,146
Accumulated depreciation	(130,875)	(88,343)	(948,559)	(1,167,777)
Net book amount	3,848	10,829	115,692	130,369

	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	3,078	51,588	90,974	145,640

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	3,078	51,588	90,974	145,640

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12. 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.

	2018 \$	2017 \$
Exploration and evaluation assets – at cost less impairment	15,154,429	13,988,080
Opening balance	13,988,080	13,417,168
Costs capitalised during the year	2,970,920	582,233
Costs written off during the year	-	(11,321)
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	15,154,429	13,988,080

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 \$15,154,429 of which \$13,494,533 is attributable to the significant exploration of the Group's Cyclone Zircon Project.

Farm-out Arrangement

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

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

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

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

- spending a minimum of \$750,000 on exploration;
- making a payment to the Company of \$100,000; and
- lodging 50% of the Queensland Government security bond on the tenements.

All costs incurred by the Company for the Tick Hill Gold Project are recognised as exploration and evaluation assets. Reimbursement from SPQ is offset against the exploration and evaluation assets. At 31 December 2018, SPQ has earned 25% interest in the project.

13. Other non-current assets

	2018	2017
	\$	\$
Rent guarantee deposit	13,365	13,365
Security deposits	403,955	30,767
	<u>417,320</u>	<u>44,132</u>

F. CAPITAL STRUCTURE AND FINANCIAL RISKS

This section sets out the capital structure of the Group and its exposure to financial risks. The capital structure consists of debt and equity. This section also sets out the financial risks to which the Group is exposed as a result of its operating, investing and financing activities.

14. 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.

	2018	2017
	\$	\$
Cash at bank and in hand	<u>858,299</u>	<u>158,011</u>

15. Borrowings

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

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

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

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

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 (Note).

The facility terms are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

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

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

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

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

Total borrowings are as follows:

	2018 \$	2017 \$
Unsecured loan	1,532,429	1,752,959
Total borrowings	<u>1,532,429</u>	<u>1,752,959</u>
Current liability	32,429	1,752,959
Non-current liability	1,500,000	-
	<u>1,532,429</u>	<u>1,752,959</u>

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

	2018 \$	2017 \$
Borrowings*	1,532,429	1,752,959
Convertible note reserve	-	1,465,699
	<u>1,532,429</u>	<u>3,218,658</u>

* Subsequent to the share conversion on 24 October 2018, the Note only has a debt component and is recognised as borrowings.

16. Issued Capital

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

		2018 \$	2017 \$
1,330,304,442 (Dec 2017 994,809,591) ordinary shares		55,979,231	49,979,066
(a) Movements in ordinary share capital			
Date	Details	Number of shares	Issue price \$
1 Jan 2017	Opening balance	876,732,679	48,750,812
Sep ⁽¹⁾	Shares issued ⁽⁴⁾	75,000,000	0.010 750,000
Nov ⁽²⁾	Shares issued	28,076,912	0.013 365,000
Nov ⁽³⁾	Exercise of unlisted options	15,000,000	0.012 180,000
	Shares issue costs	-	(66,746)
31 Dec 2017	Balance	994,809,591	49,979,066
Jan ⁽³⁾	Exercise of unlisted options	10,000,000	0.012 120,000
Jan ⁽¹⁾	Shares issued	24,500,000	0.020 490,000
Feb ⁽³⁾	Exercise of unlisted options	20,000,000	0.012 240,000
Mar ⁽³⁾	Exercise of unlisted options	5,000,000	0.012 60,000
Apr ⁽³⁾	Exercise of unlisted options	20,000,000	0.012 240,000
May ⁽¹⁾	Shares issued	13,888,889	0.018 250,000
Aug ⁽¹⁾	Shares issued	11,375,000	0.020 227,500
Oct ⁽¹⁾	Shares issued	141,741,154	0.020 2,834,823
Oct ⁽⁵⁾	Shares issued	1,818,500	0.020 36,370
Oct ⁽⁶⁾	Shares issued	75,000,000	0.020 1,500,000
Oct ⁽⁷⁾	Shares issued	12,171,308	0.026 316,454
	Shares issue costs	-	(314,982)
31 Dec 2018	Balance	1,330,304,442	55,979,231

⁽¹⁾ During both the 2017 and 2018 financial years the Company completed several placements to sophisticated and professional investors.

⁽²⁾ The Company completed a Share Purchase Plan in November 2017.

⁽³⁾ Options attached to the share placement completed in September 2017.

⁽⁴⁾ The Company made an announcement to the ASX on the inadvertent breach of ASX Listing Rule 10.11 on 7 February 2018. The Company had issued 25,000,000 shares and 25,000,000 unlisted options to a director and an entity associated with a director in September 2017 without prior shareholders' approval, resulting in an inadvertent breach of ASX Listing Rule 10.11. The Company subsequently cancelled the options and shareholder approval was obtained at an extraordinary general meeting (EGM) held on 5 April 2018 for the buy-back and cancellation of the shares at their issue price. At the EGM, shareholders' approval was also obtained for the issue of the same number of shares and unlisted options to a director and the entity associated with a director.

⁽⁵⁾ 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.

⁽⁶⁾ Shares issued from conversion of \$1.5 million equity component of the \$3 million Note (Refer to Note 15 above).

⁽⁷⁾ 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 15 above).

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital. On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Share Options

Expiry date	Exercise Price	Number at end of year	
		2018	2017
16 December 2019 (listed) ⁽¹⁾	\$0.030	60,847,327	-
28 February 2018 (unlisted) ⁽²⁾	\$0.012	-	60,000,000
30 April 2019 (unlisted)	\$0.100	7,000,000	8,000,000

⁽¹⁾ Issued from the October 2018 Placement. As of 31 December 2018, none of these listed options have been exercised.

⁽²⁾ 75,000,000 options attached to the 75,000,000 shares from the September 2017 Placement, of which 15,000,000 options were exercised in November 2017 and 35,000,000 options were exercised between January 2018 and February 2018 (refer also to Note 16 (a) above). 25,000,000 options were issued to a director and an entity associated with a director in September 2017 without prior shareholders' approval. These unlisted options were subsequently cancelled on 7 February 2018 and reissued after shareholders' approval was obtained on 5 April 2018. Of the 25,000,000 options reissued, 20,000,000 options were exercised and 5,000,000 lapsed on 12 April 2018.

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	
	2018	2017
Opening balance	68,000,000	8,000,000
Issued 21 September 2017	-	75,000,000
Exercised	(55,000,000)	(15,000,000)
Lapsed	(6,000,000)	-
Balance	7,000,000	68,000,000

Movement in listed share options	Number at end of year	
	2018	2017
Opening balance	-	-
Issued 16 October 2018	60,847,327	-
Exercised	-	-
Lapsed	-	-
Balance	60,847,327	-

17. Reserves

	Share based payment reserve \$	Convertible note reserve \$	Total \$
Balance 31 December 2016	191,938	1,334,601	1,526,539
Equity component of convertible note drawdowns	-	131,098	131,098
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

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.

Nature and purpose of convertible note reserve

The convertible note reserve is used to recognise the fair value of the equity component of the convertible loan facility as described in Note 15 above.

18. Accumulated losses

	2018 \$	2017 \$
Accumulated losses at the beginning of the year	(39,583,063)	(38,164,537)
Net loss for the year	(2,749,202)	(1,418,526)
Accumulated losses at the end of the year	(42,332,265)	(39,583,063)

19. 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

	2018 \$	2017 \$
Financial assets		
Cash and cash equivalents	858,299	158,011
Trade and other receivables	76,448	120,813
Security and other deposits	417,320	44,132
Total financial assets	1,352,067	322,956
	2018 \$	2017 \$
Financial liabilities		
Trade and other payables	1,498,507	353,568
Borrowings	1,532,429	1,752,959
Total financial liabilities	3,030,936	2,106,527

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

(b) Capital risk management

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

(c) Market risk

Interest rate risk

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

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

	2018 \$	2017 \$
Cash and cash equivalents (variable interest rates)	858,299	158,011

(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 2017						
Trade and other payables	353,568	353,568	353,568	-	-	-
Borrowings	1,752,959	1,792,167	-	1,792,167	-	-
	<u>2,106,527</u>	<u>2,145,735</u>	<u>353,568</u>	<u>1,792,167</u>	<u>-</u>	<u>-</u>
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>

(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.

G. GROUP STRUCTURE

This section sets out the legal structure of the Group.

20. Interests in subsidiaries

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 December 2018. 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	
			2018	2017
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.

21. Parent Entity Information

	2018 \$	2017 \$
Financial position		
Current assets	1,491,806	273,555
Non-current assets	17,976,566	16,414,929
Total assets	19,468,372	16,688,484
Current liabilities	1,310,475	1,910,362
Non-current liabilities	1,772,000	272,000
Total liabilities	3,082,475	2,182,362
Net assets	16,385,897	14,506,122
Shareholders' equity		
Contributed equity	55,979,231	49,979,066
Reserves	255,496	1,657,637
Accumulated losses	(39,848,830)	(37,130,581)
Total equity	16,385,897	14,506,122
Loss for the year	(2,718,248)	(1,404,733)
Total comprehensive loss for the year	(2,718,248)	(1,404,733)

Non-Current Assets

Non-current assets include \$14,003,773 (2017: \$11,693,832) 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 2018.

Guarantees

The parent entity does not have any guarantees at 31 December 2018.

H. OTHER ITEMS

This section sets out other disclosures that may be relevant to understanding the financial position and performance of the Group.

22. 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:

	2018	2017
	\$	\$
Payable within 1 year	731,783	1,771,741
Payable between one and five years	1,420,951	1,420,951
	<u>2,152,734</u>	<u>3,192,692</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 2018 cash security bonds totalling \$403,955 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (2017: \$30,267).

(b) Operating lease commitments

	2018	2017
	\$	\$
Payable within 1 year	24,582	50,071
Payable between one and five years	-	25,073
	<u>24,582</u>	<u>75,144</u>

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

23. Contingent Liability

The Group does not have any contingent liability at 31 December 2018.

24. Share-based payments

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

Type	Holder(s)	Services provided
Employee share option plan	Employees, consultants, directors and Chief Executive Officer	Employment
Options and shares to a supplier	Supplier	Public relations assistance
Options to a broker	Broker	Success fee for share placement

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.

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.

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
2018	15/03/2013	30/04/2019	\$0.10	5,000,000	-	-	(1,000,000)	4,000,000
2017	15/03/2013	30/04/2019	\$0.10	5,000,000	-	-	-	5,000,000

The remaining contractual life of the above share options outstanding at the end of the period was 0.3 years.

Information of options issued to the Company's directors and Chief Executive Officer 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
2018	31/05/2013	30/04/2019	\$0.10	3,000,000	-	-	-	3,000,000
2017	31/05/2013	30/04/2019	\$0.10	3,000,000	-	-	-	3,000,000

The remaining contractual life of the above share options outstanding at the end of the period was 0.3 years.

Options and Shares to a Supplier

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:

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

Options to a Broker

6,500,000 listed options were issued to a broker as success fee for share placement.

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
2018	16/10/2018	16/12/2019	\$0.03	-	6,500,000	-	-	6,500,000

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

Grant date	Expiry date	2018 Number	2017 Number
16/10/2018	16/12/2019	60,847,327	-
21/09/2017	28/02/2018	-	60,000,000*
15/03/2013	30/04/2019	4,000,000	5,000,000
31/05/2013	30/04/2019	3,000,000	3,000,000

* 25,000,000 options were subsequently cancelled 7 February 2018 and reissued on 5 April 2018 (refer to Note 16).

25. 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 20.

(c) Key management personnel

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

Compensation

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

	2018 \$	2017 \$
Short-term employee benefits	550,937	469,182
Post-employment benefits	52,339	36,093
	<u>603,276</u>	<u>505,275</u>

(d) Transactions with related parties

The following transactions occurred with related parties:

	2018 \$	2017 \$
Payment for specialist market and consultancy services from Fortune Corporation Australia Pty Limited (director-related entity of William Wang).	<u>131,374</u>	<u>51,532</u>

26. Remuneration of auditors

	2018 \$	2017 \$
William Buck (Qld)		
Audit and review of the financial statements	20,000	20,000

The auditors did not provide any other services.

27. Events subsequent to balance date

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 has entered into a series of interdependent agreements whereby it will first acquire Carnaby Resources Limited (Carnaby), and then through Carnaby (as its nominee) will further acquire 100% of the legal and beneficial interest in the Project. As consideration for the sale, the Company will be issued with shares in the capital of BMT to the value of \$562,500 and will be reimbursed the associated tenement bonds totalling \$336,844.

On 25 March 2019 the ASX granted the Company a trading halt in its securities for two days pending an announcement relating to a capital raising.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial years subsequent to 31 December 2018.

28. New accounting standards and interpretations

At the date of authorisation of the financial report, certain Standards and Interpretations were on issue but not yet effective. These Standards and Interpretations, including AASB 16 Leases, have not been adopted in the preparation of the financial report for the year ended 31 December 2018. 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.

DIATREME RESOURCES LIMITED ANNUAL FINANCIAL STATEMENTS 2018

DIRECTORS' DECLARATION
for the year ended 31 December 2018

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 B 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 2018 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, 26 March 2019

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 2018, 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 2018 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 B(f) in the financial report, which indicates that the Group incurred a net loss after tax of \$2,749,202 during the year ended 31 December 2018 and had net cash outflows from operations of \$1,279,823, and, as of that date, the Group's current liabilities exceeded its current assets by \$42,927. As stated in Note B(f), these events or conditions, along with other matters as set forth in Note B(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.

CHARTERED ACCOUNTANTS & ADVISORS

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Williambuck.com

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 12	How our audit addressed it
Capitalised exploration and evaluation assets represent over 88% 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. 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.	Our audit procedures included: — 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 2018, 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 7 to 10 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Diatreme Resources Limited, for the year ended 31 December 2018, 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, 26 March 2019