

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

FINANCIAL STATEMENTS
for the year ended 31 December 2022

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Directors

Wayne Swan, Non-Executive Chairman
Gregory Starr, Non-Executive Director
Michael Chapman, Non-Executive Director
Cheng (William) Wang, Non-Executive Director

Securities Exchange

Australian Securities Exchange
ASX Code: DRX

Chief Executive Officer

Neil McIntyre

Auditors

William Buck (Qld)
Level 22, 307 Queen Street
Brisbane QLD 4000

CFO and Company Secretary

Tuan Do

Registered Office

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Share Registry

Automic Pty Ltd
Level 5, 126 Phillip Street
Sydney NSW 2000

The Directors present their report on Diatreme Resources Limited ("Diatreme" or "the Company") and its subsidiaries (the "Group") for the year ended 31 December 2022.

DIRECTORS

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

Wayne Swan
Gregory Starr
Cheng (William) Wang
Michael Chapman

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration and project development activities in its mineral/silica sands tenements 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 2022.

REVIEW OF OPERATIONS

Overview

During 2022 Diatreme continued to deliver significant milestones for its Galalar Silica Project and Northern Silica Project in Far North Queensland (FNQ), together with progressing the development of the 'shovel-ready' Cyclone Zircon Project in Western Australia, and the Clermont Copper-Gold Project.

A major milestone was achieved with the signing of a strategic partnership with global material solutions provider, SCR-Sibelco N.V. This agreement has the potential to rapidly progress the development of the Company's emerging FNQ silica sand projects.

Silica Sand Projects

Key operational highlights in chronological order, consistent with releases to market (ASX) during the year included:

Diatreme discovers 2nd major regional high-grade silica deposit

- Maiden Inferred Mineral Resource confirmed for northern tenement area (Si2 North Project), with major new high-grade silica sand deposit containing an estimated 53 million tonnes @ 99.32% silica (SiO₂).
- New discovery included high purity deep drilling results, with significant intersections including 42m @ 99.39% SiO₂ (PLT099) and 30m @ 99.62% SiO₂ (PLT090).
- Resource spanned approximately 305 hectares in proximity to existing export infrastructure at Cape Flattery Port, within a total tenement area of 480 sq km.
- New resource added to Diatreme's existing Galalar Silica Project estimated total JORC Mineral Resource of 75 Mt, highlighting the potential for multiple high quality silica projects amid strong demand for premium quality silica.

Diatreme expands Northern Resource Project exploration

- Drilling programs in Diatreme's Northern Resource Project (NRP) targeting specific dunes extending over 150 sq km, in proximity to Cape Flattery Port.
- Resource upgrade studies underway at Si2 North, targeting significant increases in both known resource and with potential for new discoveries.
- Hand auger reconnaissance drilling focused on areas located to the north of the Point Lookout Track; evaluating another extensive area of lower profile silica dunes, in proximity to the Cape Flattery Silica Mine leases.

Resource base grows to ~200 Mt across high-grade silica projects

- Significant expansion to Inferred Mineral Resource for Si2 Northern Resource Project, increasing by 134% from 53 Mt to 124 Mt @ 99.33% SiO₂.
- Drilling results indicate dunes up to 40m thick, averaging 14m, covering area of approximately 556 ha.
- Diatreme assessing optimal approaches for development over entire Northern Regional Project area, including mining lease pre-lodgement discussions with relevant stakeholders and government agencies.
- Material step change in resource inventory to total of 199.5 Mt silica now defined in resources, across suite of high-grade silica projects.

Transformational strategic partnership & placement with global material solutions leader Sibelco

- Diatreme raised circa \$52 million, via a Placement of new fully paid ordinary shares and a two-tranche asset joint venture, as follows:
 - Sibelco has become a significant shareholder in Diatreme via a \$13.97 million strategic placement, representing a 15% shareholding in Diatreme post-raising.
 - Diatreme's largest shareholder, Ilwella, strongly endorsed the new partnership with Sibelco and Diatreme's strategic development plans with a \$3.3 million placement commitment alongside of Sibelco. The placement to Ilwella is subject to approval by Diatreme shareholders and following approval will see Ilwella hold circa 19.99% of Diatreme shares.
 - Diatreme agrees long-term joint venture with Sibelco to develop Diatreme's Galalar Silica Project and Northern Resource Project, with a progressive two tranche investment of up to \$35 million, earning a 26.8% project interest post tranche two of the investment, subject to satisfaction of certain conditions including Foreign Investment Review Board (FIRB) approval.
- Co-Operation principles for the joint venture to include joint product marketing, pursuit of onshore silica processing downstream opportunities and assistance in accessing project finance.
- New Non-Executive Director to be nominated by Sibelco and to assist in progressing Diatreme's projects towards successful production.

New Mining, Infrastructure Lease applications lodged for Northern Silica Development

- Two Mining Lease Applications (MLA's) lodged for Diatreme's Northern Resource Project.
- Four Infrastructure MLA's also lodged, delivering access to Cape Flattery port and road connections to community of Hope Vale.
- MLA's add to Diatreme's flagship Galalar Silica Sand Project (GSSP).

MOU signed with Ports North on Northern Silica Project

- Memorandum of Understanding (MOU) signed with Far North Queensland Ports Corporation (Ports North), the relevant port authority for Port of Cape Flattery.
- Agreement positions Diatreme to advance export of high-grade silica product from emerging Northern Silica Project (NSP).
- Diatreme well placed to advance technical and commercial studies and regulatory approvals for NSP.

New drilling and exploration underway on silica projects

- Diatreme has ramped up drilling to expand its recently defined high-grade silica sand resource at the Galalar and Northern Silica projects.
- Diatreme is actively identifying synergies between the Galalar and Northern Silica projects for financial, operational and development approvals processes.
- Infill drilling is underway to increase the resource at Casuarina, which is strategically located near the Port of Cape Flattery and Cape Flattery Silica Mine.
- Hand augering assays from Point Lookout Track return high-grade silica results, complementing previous exploration success at Si2 North.

Further export optionality identified for Galalar Project

- Further development and permitting options identified to facilitate exports from Diatreme's Galalar Silica Sand Project (GSSP), through use of onshore infrastructure corridor predominantly within existing EPM 17795 to Port of Cape Flattery.
- Company working with port authority, Far North Queensland Ports Corporation (Ports North), on forward planning for silica exports.
- Move has potential to enhance regulatory certainty and economic outcomes, boosting project synergies and reducing marine environmental impacts.

Revised export pathway advances for Galalar Project

- Diatreme advances export pathway for Galalar Silica Sand Project (GSSP) via proposed onshore infrastructure corridor, located predominantly within existing EPM 17795 to Port of Cape Flattery.
- Company working with regulatory agencies to facilitate approval process for both principal mining area and associated infrastructure corridor to designated port of Cape Flattery.
- Move to strengthen regulatory certainty and economic outcomes, boosting project synergies between GSSP and Northern Silica Project (NSP) while reducing marine environmental and associated impacts.

Sibelco completes 1st tranche investment in Cape Silica JV

- Sibelco completes A\$11 million first tranche investment in joint venture company, Cape Silica Holdings Pty Ltd, for 9.99% stake.
- Second tranche investment of A\$24 million expected within 12 months, as part of strategic joint venture.

Cyclone Project

The Cyclone Zircon Project in Western Australia's Eucla Basin remains well positioned for development, given declining global supply, and growing demand for high-grade zircon. Diatreme continues to advance discussions with potential development partners for Cyclone, with the aim of maximising returns for shareholders.

Clermont Copper/Gold Project

The Clermont Copper/Gold Project continues to progress under a binding Memorandum of Understanding (MOU) with Metallica Minerals Limited (ASX: MLM). On 29 April 2022, Metallica announced it had met the MOU's expenditure commitments to earn 25% of the project and had made the decision to move to the second stage, increasing its interest to 51% through spending an additional \$700,000 on exploration prior to 27 April 2023.

Metallica has drilled two diamond holes at Clermont, RDD019 and RDD020, totalling 1,030.4m. The two holes were drilled to test a possible copper gold exploration target withing the Rosevale Porphyry Corridor. Porphyry style alteration was intersected in both drill holes, with potassic and phyllic alteration observed in both and with the intensity of alteration increasing with depth. Sulphide mineralisation in the form of iron pyrite, chalcopyrite and molybdenum was also observed in the core removed from both holes.

On 13 July 2022, Metallica reported assay results for the two diamond drill holes. Anomalous copper was recorded in both drill holes, with grades ranging from 5ppm Cu to 1,840ppm Cu in hole RDD019 and 2ppm to 3,460ppm Cu in RDD020. Molybdenum grades ranged from <1ppm Mo to 312 ppm Mo in RDD019 and from <1ppm Mo to 87ppm Mo in RDD020. Gold grades ranged from <0.01 to 0.11 Au in RDD019 and from <0.01 ppm Au to 1.75 g/t Au in RDD020.

The assay data showed a distinct increase in copper mineralisation with hole depth, with the highest copper assays recorded at the base of each hole. The same trend was also evident with silver assays in RDD020. The highest recorded gold assays occurred in the bottom 30m of RDD020, with the highest gold intercept of 2m @ 1.69 g/t Au recorded in hole RDD020 from 475m.

Geochemical modelling, especially of the tin and tungsten assays, indicated that both drill holes possibly intersected the porphyry immediately above or adjacent to the expected location of the more mineralised core.

On 18 October, Metallica announced plans for further drilling on one of the existing holes. The hole will be extended by an additional 500m to 1,000m to determine if the copper grades continue to increase with depth.

Corporate

Following shareholder approval at the Extraordinary General Meeting (EGM) held on 25 August 2022, the \$3.3 million Placement was completed with Diatreme's largest shareholder, Ilwella.

Enhancing the Company's financing strategy, on 14 October, the Company announced a further extension of an existing debt facility for 18 months from the current maturity date of 30 November 2022 to 30 May 2024, with the interest rate to remain at the current fixed rate of 7.5%, payable quarterly in arrears.

On 2 December Sibelco completed its \$11 million first tranche investment in joint venture company, Cape Silica Holdings Pty Ltd (CSHPL), for a 9.99% stake. A second tranche investment of \$24 million is expected within 12 months, as part of the strategic joint venture with Diatreme. On completion of the second tranche investment, Sibelco will hold a 26.8% fully diluted interest in CSHPL.

OPERATING RESULTS

The net profit of the Group for the financial year ended 31 December 2022 was \$4,978,378 (2021: loss of \$2,149,567). During the year, \$8,212,269 was recognised as a gain on formation of a joint venture.

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio, with 97% expenditure on its Silica Projects and 3% 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.

MATERIAL BUSINESS RISKS

The Group's activities are subject to numerous risks. The material business risks affecting the Group and its future performance are as follows:

- **Exploration Risk** – Exploration risks include the likelihood of not finding the desired resources, encountering unexpected geological formations or natural hazards, operational challenges or delays and dealing with regulatory or environmental hurdles as part of the exploration activities. This risk is managed through an established exploration prospect evaluation methodology and engagement of relevant experts in the field.
- **Future Funding Risk** – The Group ongoing activities are expected to require further equity funding. The Group may face difficulty or uncertainty in securing the necessary funding to support its future operations, growth plans or capital investments. To mitigate this risk, the Group has diversified its funding sources, built strong relationship with investors and improved on financial management.

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

Diatreme continues to be in discussion with interested parties for the potential sale and/or development of the Cyclone Project, the outcome of which remains unclear as they are by nature incomplete proposals and negotiations that may not result in a sale or disposal. No estimate of financial affects can be made.

No other matter or circumstance has arisen since the end of the reporting date that has significantly affect, or may affect, the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

FUTURE DEVELOPMENTS

The Group intends to continue its exploration activities on its existing projects, and progress development of the Silica projects within its North Qld tenements portfolio and further advance or dispose of the Cyclone Heavy Minerals project.

INFORMATION ON DIRECTORS

Name:	Wayne Swan
Title:	Non-Executive Chairman
Qualification:	Bachelor of Arts
Experience:	Mr Swan was appointed a Non-Executive Director and Chairman in November 2021. Mr Swan enjoyed a lengthy career in Australian federal politics, serving as Treasurer of Australia from 2007 to 2013 and Deputy Prime Minister of Australia from 2010 to 2013. During his parliamentary career, Mr Swan worked to improve legal recognition and protection for traditional owners, as well as supporting workers' rights and Australia's clean energy future. Since retiring from Parliament in 2019, he has served as national president of the Australian Labor Party, Director of Stanwell Corporation, and Chairman of CBUS (Australia's leading superannuation fund for the building, construction, and allied industries).
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of audit committee
Interests in shares:	None
Interests in options:	10,000,000 options

Name:	Gregory Starr
Title:	Non-Executive Director (Resigned as Chairman on 2 November 2021)
Qualifications:	B Bus, CPA
Experience:	Mr Starr is a highly experienced corporate leader in the resources sector, with over 25 years of executive management experience across several Australian and international companies. This includes roles as Chief Executive Officer of Pulse Markets Pty Ltd, Executive Director of BIR Financial Limited, Managing Director of Crater Gold Mining Company Limited (ASX), President and Director of Kenai Resources Limited (TSX), Chief Executive Officer of Golden China Resources (TSX) and Managing Director of Emperor Mines Limited.
Other current directorships:	AHP Group Limited, Admiralty Resources NL
Former directorships (last 3 years):	BIR Financial Limited Azure Health Technology Limited
Special responsibilities:	Chair of audit committee
Interests in shares:	None
Interests in options:	10,000,000 options

Name:	Cheng (William) Wang
Title:	Non-Executive Director
Qualifications:	MBA
Experience:	Mr Wang has held senior management positions in several major Chinese state-owned companies, with his most recent role being in charge of an international commodities trading arm with group assets exceeding \$1.5 billion. Having worked across most provinces in China and understanding Chinese politics and government systems, he has developed wide business connections within China. Now domiciled in Australia, he has over recent years been active with Australian companies including directorships with China Century Capital Limited, Jupiter Mines Limited, and Gulf Alumina Limited.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of remuneration committee
Interests in shares:	6,267,255 ordinary shares (held indirectly)
Interests in options:	10,000,000 options

Name:	Michael Chapman
Title:	Non-Executive Director
Qualifications:	NSW Open Cut Coal Mine Managers Certificate QLD Metaliferous Mine Managers Certificate
Experience:	Mr Chapman was appointed a Non-Executive Director in August 2020. He is an experienced mining engineer with more than 40 years' experience in the development, engineering, construction and management of open-cut and underground mining projects in Australia and internationally. Mr Chapman recently served as the Chief Operating Officer of White Energy Company (ASX: WEC), following a similar role at Felix Resources, with previous employment at a range of operations across Australia and Indonesia and in commodities spanning coal, iron ore, copper and nickel.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of remuneration committee
Interests in shares:	None
Interests in options:	10,000,000 options

COMPANY SECRETARY

Tuan Do – B Comm., CA

Mr Do is a Chartered Accountant with extensive corporate experience in a diverse range of industries, including coal and gold mining companies. This experience has involved all areas of financial reporting, treasury management, capital raisings, mergers and acquisitions, and establishment of systems and procedures. He has a degree in Commerce & Business Administration and is a member of Chartered Accountants Australia and New Zealand.

MEETINGS OF DIRECTORS

The number of meetings of Directors held during the year ended 31 December 2022, and the number of meetings attended by each Director was as follows:

Name	Board of Directors		Audit Committee		Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Wayne Swan	7	7	2	2	-	-
Gregory Starr	7	7	2	2	-	-
Cheng (William) Wang	7	7	-	-	1	1
Michael Chapman	7	7	-	-	1	1

REMUNERATION REPORT - AUDITED

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

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

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

(a) Key management personnel (KMP)

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

- Wayne Swan - Non-Executive Chairman
- Gregory Starr- Non-Executive Director
- Cheng (William) Wang - Non-Executive Director
- Michael Chapman - Non-Executive Director
- Neil McIntyre - Chief Executive Officer
- Peter Brown - Chief Operating Officer (resigned 16 December 2022)
- Tuan Do - CFO & Company Secretary

(b) Principles used to determine the nature and amount of remuneration

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

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Director. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration Committee.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 per annum plus statutory superannuation.

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

(c) Relationship of remuneration with Group performance

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

	Unit	2018	2019	2020	2021	2022
Share price at year end	\$/share	0.016	0.012	0.018	0.021	0.027
Market capitalisation	\$	21,284,871	21,965,416	46,313,220	63,288,069	100,703,496
Revenue	\$	15,053	19,393	21,279	23,938	8,392,012
Total assets	\$	17,214,636	19,881,539	25,622,323	33,135,877	55,333,890
Net profit/(loss) after tax	\$	(2,749,202)	(1,373,529)	(1,041,547)	(2,149,567)	4,978,378

(d) Details of remuneration

2022	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments		
	Cash salary & fees	Cash Bonus	Superannuation	Long service leave	Options	Performance Rights	Total
Name	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors							
W Swan	80,000	-	8,200	-	67,621	-	155,821
G Starr	47,000	-	4,818	-	60,182	-	112,000
W Wang	47,000	-	4,818	-	60,182	-	112,000
M Chapman	47,000	-	4,818	-	60,182	-	112,000
Other KMP							
N McIntyre	300,000	-	30,750	4,923	91,605	(19,495) [#]	407,783
P Brown*	280,836	-	25,110	-	-	(16,262) [#]	289,684
T Do	190,000	-	19,475	15,676	61,070	-	286,221
Total	991,836	-	97,989	20,599	400,842	(35,757)	1,475,509

* Up until date of resignation 16/12/22.

Reversal due to performance rights lapsed.

The group also paid \$48,735 in 2021 for specialist market and consultancy services from Fortune Corporation Australia Pty Limited, a director-related entity of W Wang. There were no payments made in 2022.

2021	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments		
Name	Cash salary & fees \$	Cash Bonus \$	Superannuation \$	Long service leave \$	Options \$	Performance Rights \$	Total \$
Non-Executive Directors							
W Swan *	13,151	-	1,315	-	-	-	14,466
G Starr	62,175	-	6,055	-	52,749	-	120,979
W Wang	47,000	-	4,583	-	52,749	-	104,332
D Zhuang **	87,500	-	8,531	-	43,958	-	139,989
M Chapman	47,000	-	4,583	-	52,749	-	104,332
Other KMP							
N McIntyre	260,000	30,000	25,360	587	-	27,280	343,227
P Brown ***	186,950	-	18,310	-	-	22,733	227,993
T Do	161,250	-	15,722	1,157	-	-	178,129
Total	865,026	30,000	84,459	1,744	202,205	50,013	1,233,447

* Appointed 2 November 2021.

** Up until date of resignation as Director 31/10/21. Daniel Zhuang ceased to be a KMP upon his resignation as a director but continued his employment with the company as a special consultant.

*** From 22 February 2021 (date of appointment) to 31 December 2021.

(e) Employment contracts

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

(f) Share-based compensation

Shares

There were no shares issued to key management personnel as part of compensation during the year ended 31 December 2022.

Options

Following approval by shareholders at the May 2021 AGM, the Company issued 10,000,000 Director Options, in 3 tranches, to each of the 4 Directors in office at that time. The Director Options were issued for nil cash consideration and as part remuneration for Director services provided by the Directors to the Company.

The fair value of the options granted in 2021 is estimated as at the date of grant using the Binomial valuation model taking into account the following inputs:

	Tranche 1	Tranche 2	Tranche 3
Grant date	27 May 2021	27 May 2021	27 May 2021
Exercise price	\$0.025	\$0.030	\$0.035
Maximum option life in years	5 years	5 years	5 years
Volatility	109.1%	109.1%	109.1%
Risk-free rate	0.67%	0.67%	0.67%
Dividend yield	0.0%	0.0%	0.0%
Trinomial steps	200	200	200
Exercise multiple	4	4	4
Employee exit rate	0.00%	0.00%	0.00%
Expiry date	27 May 2026	27 May 2026	27 May 2026
Vesting date	27 May 2022	27 May 2023	27 May 2024
Option Value	0.0144	0.0146	0.0147
Number of options	13,333,336	13,333,332	13,333,332

Further options were subsequently issued, as follows:

Following shareholder approval in May 2022, the Company issued 10,000,000 Director Options, in 3 tranches, to Mr Wayne Swan, Non-executive Chairman. The Director Options were issued for nil cash consideration and as part remuneration for Director services provided by the Directors to the Company.

The fair value of these options is estimated as at the date of grant using the Binomial valuation model taking into account the following inputs:

	Tranche 1	Tranche 2	Tranche 3
Grant date	26 May 2022	26 May 2022	26 May 2022
Exercise price	\$0.025	\$0.030	\$0.035
Maximum option life in years	5 years	5 years	5 years
Volatility	100.4%	100.4%	100.4%
Risk-free rate	2.95%	2.95%	2.95%
Dividend yield	0.0%	0.0%	0.0%
Trinomial steps	200	200	200
Exercise multiple	4	4	4
Employee exit rate	0.00%	0.00%	0.00%
Expiry date	26 May 2027	26 May 2027	26 May 2027
Vesting date	26 May 2023	26 May 2024	26 May 2025
Option Value	0.0189	0.0183	0.0178
Number of options	3,333,334	3,333,333	3,333,333

Following Board approval in July 2022, the Company issued 30,000,000 Employee Options, in 3 tranches, to the 3 KMP – Neil McIntyre, Peter Brown and Tuan Do. The Employee Options were issued for nil cash consideration and as part of their remuneration. At 31 December 2022, the 10,000,000 Employee Options issued to Peter Brown lapsed due to his resignation.

	Tranche 1	Tranche 2	Tranche 3
Grant date	25 July 2022	25 July 2022	25 July 2022
Exercise price	\$0.035	\$0.040	\$0.045
Maximum option life in years	5 years	5 years	5 years
Volatility	99.76%	99.76%	99.76%
Risk-free rate	3.04%	3.04%	3.04%
Dividend yield	0.0%	0.0%	0.0%
Trinomial steps	200	200	200
Exercise multiple	4	4	4
Employee exit rate	0.00%	0.00%	0.00%
Expiry date	25 July 2027	25 July 2027	25 July 2027
Vesting date	25 July 2023	25 July 2024	25 July 2025
Option Value	0.0291	0.0284	0.0279
Number of options	10,000,000	10,000,000	10,000,000

Performance Rights

Under an established Performance Rights Plan approved by shareholders at the 2018 AGM, the Chief Executive Officer (CEO), Mr McIntyre was issued 1,036,720 Performance Rights (of which 103,672 have vested and balance of 933,048 have now lapsed) and Chief Operating Officer (COO) was issued 863,935 Performance Rights (of which 86,394 have vested and balance of 777,541 have now lapsed). The Performance Rights were issued on 22 March 2021 subject to various vesting conditions.

The fair value of the performance rights granted in 2021 is estimated as at the date of grant using the Monte Carlo Simulation valuation model taking into account the following inputs:

	CEO		COO	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2
Underlying price per share	\$0.029 per share	\$0.029 per share	\$0.029 per share	\$0.029 per share
Exercise price	zero	zero	zero	zero
Vesting date	30 June 2022	31 December 2021	30 June 2022	31 December 2021
Expiry date	30 June 2022	31 December 2021	30 June 2022	31 December 2021
Vesting period	1.4 years	0.9 years	1.4 years	0.9 years
Grant date	16 February 2021	16 February 2021	16 February 2021	16 February 2021
Risk-free rate	0.01%	0.04%	0.01%	0.04%
Volatility	101.1%	103.5%	101.1%	103.5%
Dividend Yield	0.00%	0.00%	0.00%	0.00%
Performance Right Value	\$0.0288	\$0.0290	\$0.0288	\$0.0290
No. of Performance Rights	260,455	776,265	217,045	646,890

(g) Equity instruments held by KMP

Fully paid ordinary shares

Key Management Personnel	Balance at start of year	Issued as part of remuneration	Acquired/ (disposed)	Change due to resignation	Balance at end of the year
W Swan	-	-	-	-	-
G Starr	-	-	-	-	-
W Wang	6,267,255	-	-	-	6,267,255
M Chapman	-	-	-	-	-
N McIntyre	10,002,998	-	378,672	-	10,381,670
P Brown	-	-	1,000,000	(1,000,000)	-
T Do	-	-	142,000	-	142,000
Total	16,270,253	-	1,520,672	(1,000,000)	16,790,925

Share options

Key Management Personnel	Balance at the start of the year	Granted as remuneration	Exercised	Expired/forfeit	Change due to resignation	Balance at the end of the year
W Swan	-	10,000,000	-	-	-	10,000,000
G Starr	10,000,000	-	-	-	-	10,000,000
W Wang	10,000,000	-	-	-	-	10,000,000
M Chapman	10,000,000	-	-	-	-	10,000,000
N McIntyre	-	12,000,000	-	-	-	12,000,000
P Brown	-	10,000,000	-	-	(10,000,000)	-
T Do	-	8,000,000	-	-	-	8,000,000
Total	30,000,000	40,000,000	-	-	(10,000,000)	60,000,000

Performance Rights

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

Key Management Personnel	Balance at the start of the year	Granted as remuneration	Vested and converted to shares	Lapsed/expired as hurdle not achieved	Balance at the end of the year
W Swan	-	-	-	-	-
G Starr	-	-	-	-	-
W Wang	-	-	-	-	-
D Zhuang	-	-	-	-	-
M Chapman	-	-	-	-	-
N McIntyre	364,127	-	(103,672)	(260,455)	-
P Brown	303,439	-	(86,394)	(217,045)	-
T Do	-	-	-	-	-
Total	667,566	-	(190,066)	(477,500)	-

END OF AUDITED REMUNERATION REPORT

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option as at 31 December 2022 are as follows:

Issue date	Expiry date	Exercise price	Number under option	Type
25 June 2021	27 May 2026	2.5 cents	10,000,002	Unlisted
25 June 2021	27 May 2026	3.0 cents	9,999,999	Unlisted
25 June 2021	27 May 2026	3.5 cents	9,999,999	Unlisted
26 May 2022	26 May 2027	2.5 cents	3,333,334	Unlisted
26 May 2022	26 May 2027	3.0 cents	3,333,333	Unlisted
26 May 2022	26 May 2027	3.5 cents	3,333,333	Unlisted
25 July 2022	25 July 2027	3.5 cents	6,666,666	Unlisted
25 July 2022	25 July 2027	4.0 cents	6,666,667	Unlisted
25 July 2022	25 July 2027	4.5 cents	6,666,667	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 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 19.

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



Wayne Swan
Non-Executive Chairman

Brisbane, 24 March 2023

Auditor's Independence Declaration

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2022, 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

M. Monaghan

Matthew Monaghan
Director

Brisbane, 24 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for year ended 31 December 2022

	Note	2022 \$	2021 \$
Revenue	2	110,137	23,938
Gain on formation of joint venture	7	8,212,269	-
Other income	2	69,606	-
Total revenue and income		8,392,012	23,938
Employee benefit expenses		(1,204,037)	(858,249)
Depreciation expenses	2	(171,278)	(100,955)
Exploration expenditure written off	10	-	(17,420)
Share based payment expense	18	(339,331)	(198,908)
Other expenses	2	(1,578,016)	(887,127)
Finance costs		(120,972)	(110,846)
Total expenses		(3,413,634)	(2,173,505)
Profit/(loss) before income tax		4,978,378	(2,149,567)
Income tax benefit	3	-	-
Net profit/(loss) for the year		4,978,378	(2,149,567)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		4,978,378	(2,149,567)
		Cents	Cents
Earnings (loss) per share			
Basic earnings (loss) per share	4	0.1	(0.1)
Diluted earnings (loss) per share	4	0.1	(0.1)

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

Consolidated Statement of Financial Position

as at 31 December 2022

	Note	2022 \$	2021 \$
Current Assets			
Cash and cash equivalents	5	13,640,939	6,500,017
Trade and other receivables	6	562,984	161,491
Total Current Assets		14,203,923	6,661,508
Non-current Assets			
Investment in joint venture	7	25,117,484	-
Property, plant and equipment	8	581,361	253,586
Right-of-use assets	9	29,174	87,520
Exploration and evaluation assets	10	15,363,583	26,094,898
Other assets	11	38,365	38,365
Total Non-current Assets		41,129,967	26,474,369
Total Assets		55,333,890	33,135,877
Current Liabilities			
Trade and other payables	12	967,303	712,703
Borrowings	13	-	1,518,125
Lease liabilities	14	31,819	57,877
Provisions	15	8,950	7,919
Total Current Liabilities		1,008,072	2,296,624
Non-current Liabilities			
Borrowings	13	1,509,375	-
Lease liabilities	14	-	31,820
Provisions	15	70,136	46,086
Total Non-current Liabilities		1,579,511	77,906
Total Liabilities		2,587,583	2,374,530
Net Assets		52,746,307	30,761,347
Equity			
Issued capital	16	93,637,615	76,964,871
Reserves	17	559,089	225,251
Accumulated losses		(41,450,397)	(46,428,775)
Total Equity		52,746,307	30,761,347

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 2022

	Note	Issued capital	Share- based payment reserve	Accumulated losses	Total
		\$	\$	\$	\$
At 1 January 2021		67,473,677	326,283	(44,579,144)	23,220,816
Total comprehensive income: Loss for the year		-	-	(2,149,567)	(2,149,567)
Transactions with owners in their capacity as owners:					
Shares issued		10,130,001	-	-	10,130,001
Share issue costs		(638,807)	-	-	(638,807)
Options and performance rights issued	18 (a)	-	267,437	-	267,437
Reverse portion relating to lapsed options and performance rights		-	(368,469)	299,936	(68,533)
Balance at 31 December 2021		76,964,871	225,251	(46,428,775)	30,761,347
At 1 January 2022		76,964,871	225,251	(46,428,775)	30,761,347
Total comprehensive income for the year		-	-	4,978,378	4,978,378
Transactions with owners in their capacity as owners:					
Shares issued		17,756,384	-	-	17,756,384
Share issue costs		(1,089,133)	-	-	(1,089,133)
Options and performance rights issued	18 (a)	-	466,012	-	466,012
Exercise of vested performance rights		5,493	(5,493)	-	-
Reverse portion relating to lapsed options and performance rights		-	(126,681)	-	(126,681)
Balance at 31 December 2022		93,637,615	559,089	(41,450,397)	52,746,307

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

	Note	2022 \$	2021 \$
Cash flows from operating activities			
Receipts in the course of operations		17,018	15,427
Payments to suppliers and employees		(2,426,947)	(1,978,451)
Interest received		26,008	8,511
Finance costs		(124,243)	(192,743)
Net cash used in operating activities	5(a)	(2,508,164)	(2,147,256)
Cash flows from investing activities			
Payments for property, plant and equipment		(479,751)	(202,613)
Payments for exploration and evaluation assets		(6,583,010)	(6,349,234)
Proceeds from sale of property, plant and equipment		107,954	-
Payments for security deposits		-	(17,500)
Net cash used in investing activities		(6,954,807)	(6,569,347)
Cash flows from financing activities			
Proceeds from issue of shares		17,756,384	10,130,001
Payments for share issue costs		(1,089,134)	(638,807)
Repayment of lease liabilities		(63,357)	(62,115)
Net cash from financing activities		16,603,893	9,429,079
Net increase in cash and cash equivalents		7,140,922	712,476
Cash and cash equivalents at the beginning of the financial year		6,500,017	5,787,541
Cash and cash equivalents at the end of the financial year	5	13,640,939	6,500,017

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

1. Statement of significant accounting policies

(a) Basis of preparation

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

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

The financial statements were approved by the Board of Directors on 24 March 2023.

(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 Group's presentation and functional currency.

(d) Accounting policies

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

Good and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(e) Adoption of new and revised accounting standards

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

The consolidated entity has early adopted AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* which are required to be applied for annual reporting periods beginning on or after 1 January 2025. With the adoption of this accounting standard, the consolidated entity has recognised the gain resulting from the transaction involving the formation of the joint venture in the profit or loss only to the extent of the unrelated investors' interests in the joint venture.

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

(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 profit after tax for the year ended 31 December 2022 of \$4,978,378 and a net cash outflow from operations of \$2,508,164. At 31 December 2022, the Group had \$13,640,939 in cash and cash equivalents (2021: \$6,500,017). In addition, the joint venture had \$10,857,445 in cash at 31 December 2022.

During the year, Diatreme and Sibelco Silica Pty Ltd (Sibelco) entered into a binding agreement for the formation of a Joint Venture (J/V), Cape Silica Holdings Pty Ltd (CSHPL) to develop Diatreme's silica sand projects. Sibelco's investment in the Joint Venture will occur in two tranches, for a total subscription amount of \$35,000,000.

The first tranche of \$11,000,000 by Sibelco to obtain 9.99% ownership in the J/V was completed on 1 December 2022. It is expected that the second tranche of \$14,000,000, together with the first tranche to obtain 26.8%, will be completed by December 2023.

Considering the above factors, 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. They believe the Group has the ability to continue as a going concern and pay its debts as and when they fall due, undertake exploration and subsequent exploitation of the Group's tenements, securing product offtake agreements for the Projects, and/or sale of non-core assets.

(g) Critical accounting estimates and judgements

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

Share-based payment transactions:

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

Exploration and evaluation assets:

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

Determination of fair value of investment upon formation of joint venture

The Group applied judgement in determining the fair value of the investment in the joint venture. The value was derived based on the \$11,000,000 amount that Sibelco paid to obtain its 9.99% stake in the joint venture. Sibelco is a third-party market participant, therefore it was assumed the amount paid by the entity to acquire its interest represents fair value. On this basis, the Group determined the total fair value of CSHPL was \$110,110,110 and its 90.01% shareholding had a fair value of \$99,110,110 at the joint venture formation date.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

2. Revenue, other income and expenses

	2022 \$	2021 \$
a) Revenue		
Interest	93,816	8,511
Rent	16,321	15,427
	<u>110,137</u>	<u>23,938</u>

Accounting policy: revenue recognition

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

b) Other income

Profit on sale of property, plant & equipment	68,909	-
Other	697	-
	<u>69,606</u>	<u>-</u>

Accounting policy: Government grants & incentives

Government grants & incentives relating to costs are deferred and recognised as other income in the consolidated statement of profit or loss and other comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants & incentives are recognised when there is reasonable assurance that the conditions of the grant will be complied with and the grant will be received.

c) Depreciation

Plant and equipment	112,932	49,691
Right-of-use assets – buildings	58,346	51,264
	<u>171,278</u>	<u>100,955</u>

d) Other expenses

Professional fees	75,473	73,037
Short term lease payments	27,260	17,690
Listing and share registry expenses	115,642	111,778
Administration costs	1,359,641	684,622
	<u>1,578,016</u>	<u>887,127</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

3. Income Tax

	2022 \$	2021 \$
The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:		
Profit (loss) before income tax	4,978,378	(2,149,567)
Prima facie income tax benefit at 25% (2021: 30%)	1,244,595	(644,870)
Tax effect of amounts which are not deductible in calculating taxable income:		
Other	91,940	62,285
	1,336,535	(582,585)
Deferred tax assets not recognised	(1,336,535)	582,585
Total income tax benefit	-	-

(a) Tax losses

Unused tax losses	90,656,382	81,393,972
Potential tax effect at 25% (2021: 30%)	22,664,096	24,418,192

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

Accounting policy: income tax

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

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

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

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

Tax consolidation legislation

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

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

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

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

4. Income/(loss) per share

	2022 \$	2021 \$
Income/(loss) after income tax attributable to the owners of Diatreme Resources Limited	4,978,378	(2,149,567)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	3,367,748,394	2,704,811,930
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,427,748,394	2,704,811,930
	Cents	Cents
Basic earnings (loss) per share	0.1	(0.1)*
Diluted earnings (loss) per share	0.1	(0.1)*

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

Accounting policy: earnings/loss per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

5. Cash and cash equivalents

	2022 \$	2021 \$
Cash on hand	345	2,615
Cash at bank	3,640,594	6,497,402
Cash on deposit	10,000,000	-
	13,640,939	6,500,017

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

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

	2022 \$	2021 \$
Income/ (loss) for the year	4,978,378	(2,149,567)
Non-cash items		
Gain on formation of joint venture	(8,212,269)	-
Profit on sale of property, plant & equipment	(68,909)	-
Depreciation	171,278	100,955
Exploration expenditure written off	-	17,420
Share based payment expense	339,331	198,908
Interest expense for leases	5,479	3,636
Movements in operating assets and liabilities		
Decrease / (increase) in receivables	17,824	(64,855)
Decrease / (increase) in other assets	(18,584)	-
Increase / (decrease) in payables	254,227	(259,298)
Increase / (decrease) in provisions	25,081	5,545
Net cash used in operating activities	(2,508,164)	(2,147,256)

Accounting policy: cash and cash equivalents

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

6. Trade and other receivables

	2022 \$	2021 \$
Trade receivable (Cape Silica Holdings Pty Ltd)	440,911	-
Other receivables	122,073	161,491
	562,984	161,491

Trade and other receivables do not contain impaired assets and are not past due.

Accounting policy: trade and other receivables

Trade and other receivables are recognised at nominal amount less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of receivables is assessed on an ongoing basis. An 'expected credit loss' (ECL) model is used to recognise an allowance. Impairment is measured using the lifetime ECL method.

7. Investment in Joint Venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

The carrying amount of equity-accounted investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Cape Silica Holdings Pty Ltd (CSHPL)

On 1 December 2022, Diatreme Resources Limited and Sibelco Silica Pty Ltd entered a Shareholder's Deed outlining the intent of the parties to conduct a joint venture for the purposes of exploring and developing silica sand assets in the Cape Flattery and Cape Bedford regions. Sibelco subscribed for a 9.99% interest in CSHPL for AU\$11 million. At this date the Group's control of CSHPL ceased; the remaining interest in the entity is accounted for using the equity method in the consolidated financial statements.

Set out below is the joint venture of the group as at 31 December 2022 which, in the opinion of the directors, is material to the group. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of Entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying Amount	
		2022	2021			2022	2021
		%	%			\$	\$
Cape Silica Holdings Pty Ltd	Australia	90.01	-	Joint Venture ⁽¹⁾	Equity Method	25,117,484	-

(1) A joint venture between Diatreme Resources Ltd and Sibelco Silica Pty Ltd (Sibelco)

On 3 June 2022 Diatreme Resources Limited incorporated Cape Silica Holdings Pty Ltd, which became a wholly-owned subsidiary of the Group.

On 3 June 2022, Cape Silica Holdings Pty Ltd Incorporated Northern Silica Pty Ltd as a wholly owned subsidiary.

On 17 June 2022, Diatreme Resources Limited sold Galalar Silica (Qld) Pty Ltd, a dormant company, to Cape Silica Holdings Pty Ltd for a nominal amount.

On 25 November 2022 Diatreme Resources Limited completed an internal restructuring to transfer existing tenement assets in the Cape Flattery and Cape Bedford region silica sands project to the newly created entity Cape Silica Holdings Pty Ltd and its two wholly-owned subsidiaries.

Significant judgement: existence of joint control

The Shareholder Agreement requires the approval of both Diatreme and Sibelco in relation to significant financial and operating decisions of the joint venture (known as reserve matters). This requirement demonstrates Diatreme, despite its 90.01% voting rights, is unable to unilaterally direct the relevant activities of Cape Silica Holdings Pty Ltd. The Group has therefore determined that it has joint control over CSHPL.

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

The Group controlled CSHPL prior to the formation of the joint venture. The Group lost control of CSHPL when the joint venture was formed as the Group is unable to unilaterally direct the relevant activities of CSHPL. The table below provides a reconciliation of the gain on formation of joint venture, CSHPL at 31 December 2022:

	2022 \$	2021 \$
Cape Silica Holdings Pty Ltd Group – deconsolidation		
Recognition of investment in CSHPL	99,110,110*	-
Carrying value of tenement assets transferred (see note 10)	(16,905,215)	-
Unrealised gain on investment in CSHPL (based on Diatreme's 90.01% interest)	(73,992,626)	-
Gain on loss of control of subsidiary in Statement of Profit or Loss	8,212,269	-

*This represents the fair value of the Group's investment in CSHPL at the date the joint venture was formed. See note 1 (g) for details of the significant judgements and estimates applied in determining the fair value. Upon loss of control of CSHPL, the Group's retained interest in CSHPL is remeasured to the fair value associated with the portion sold to Sibelco, with the excess amount over the previous carrying value recognised as a gain in profit or loss.

Commitments and contingent liabilities in respect of joint ventures

Commitments

Under the Joint Venture Constitution, the Group has a commitment to provide funding for tenement expenditure if called upon by the joint venture. As of 31 December 2022, CSHPL has not called upon the Group to fund tenement expenditure.

Contingent liabilities

As of 31 December 2022, the Group had no contingent liabilities in respect of CSHPL.

Summarised financial information for associates and joint ventures

The tables below provide summarised financial information for the joint venture that is material to the group. The information disclosed reflects the amounts presented in the financial statements of the joint ventures and not Diatreme Resources Limited's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	Cape Silica Holdings Pty Ltd	
	2022 \$	2021 \$
<i>Summarised statement of comprehensive income</i>		
Interest income	-	-
Expenses	-	-
Income tax expense	-	-
Profit for the period	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

	Cape Silica Holdings Pty Ltd	
	31 Dec 2022	31 Dec 2021
	\$	\$
Summarised balance sheet		
Current assets		
Cash and cash equivalents	10,857,544	-
Other current assets	185,674	-
Total current assets	11,043,218	-
Non-current assets		
Exploration and evaluation assets	17,637,315	-
Total non-current assets	17,637,315	-
Total assets	28,680,533	-
Current liabilities – trade and other payables	761,455	-
Non-current liabilities	-	-
Total liabilities	761,455	-
Net assets	27,919,078	-
Reconciliation of carrying amounts:		
Opening net assets 1 January	-	-
Capital contribution	27,919,078	-
Profit for the period	-	-
Closing net assets	27,919,078	-
	2022	2021
	\$	\$
Reconciliation of carrying amount in joint venture		
Opening balance 1 January	-	-
Balance upon formation of joint venture	25,117,484	-
Share of profit in joint venture	-	-
Closing balance 31 December	25,117,484	-

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

8. Property, plant & equipment

	Furniture and fittings	Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$
Year ended 31 December 2021				
Opening net book amount	1,968	31,195	67,501	100,664
Additions	-	169,305	33,308	202,613
Depreciation charge	(394)	(28,748)	(20,549)	(49,691)
Closing net book amount	1,574	171,752	80,260	253,586

At 31 December 2021				
Cost	134,723	313,455	1,112,655	1,560,833
Accumulated depreciation	(133,149)	(141,703)	(1,032,395)	(1,307,247)
Net book amount	1,574	171,752	80,260	253,586

	Furniture and fittings	Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$
Year ended 31 December 2022				
Opening net book amount	1,574	171,752	80,260	253,586
Additions	420	115,133	364,198	479,751
Disposals	-	-	(39,072)	(39,072)
Depreciation charge	(388)	(48,241)	(64,275)	(112,904)
Closing net book amount	1,606	238,644	341,111	581,361

At 31 December 2021				
Cost	135,143	428,588	756,762	1,320,493
Accumulated depreciation	(133,537)	(189,944)	(415,651)	(739,132)
Net book amount	1,606	238,644	341,111	581,361

Accounting policy: property, plant and equipment

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments. Depreciation is calculated on a diminishing value basis. Estimates of remaining useful lives are made on a regular basis for all assets.

The depreciation rates used for each class of assets are as follows:

Furniture and fittings	20%
Motor vehicles	20%
Plant and equipment	20-40%

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

9. Right-of-use assets

	2022 \$	2021 \$
Opening balance	87,520	22,091
Additions	-	116,693
Depreciation charge	(58,346)	(51,264)
Closing balance	29,174	87,520

The Company right-of-use assets consist of leases for its office expiring on 30 June 2023.

Accounting policy: Right-of-use assets

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

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

10. Exploration and evaluation assets

	2022 \$	2021 \$
Exploration and evaluation assets – at cost less impairment	15,363,583	26,094,898
Opening balance	26,094,898	19,594,526
Costs capitalised during the year	6,173,900	6,517,792
Derecognition of assets - deconsolidation *	(16,905,215)	-
Costs written off	-	(17,420)
Closing balance	15,363,583	26,094,898

*The Group deconsolidated its subsidiary Cape Silica Holdings Ltd Pty during the year. Also refer to Note 7.

Accounting policy: Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in profit or loss.

Exploration and evaluation assets are only recognised if the rights to the tenure of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
- activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation costs have been capitalised on the basis that the Group will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

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 \$15,363,583 – significant proportion of \$14,553,329 was attributable to the Group's Cyclone Zircon Project.

Farm-out Arrangement

Diatreme announced on 5 August 2021 a binding Memorandum of Understanding (MOU) with Metallica Minerals Limited (ASX: MLM) for the Company's Clermont Copper-Gold Project (EPM 17968).

Under the agreement, Metallica was to spend a minimum of \$300,000 before 29 April 2022 to earn a 25% interest in the project. Metallica may spend an additional \$700,000 no later than 12 months after 29 April 2022 to earn an additional 26% interest. After spending this amount, Metallica has the right to sole fund the first \$1 million of JV expenditure to earn an additional 24% interest.

On 29 April 2022, Metallica announced it had met the MOU's expenditure commitments to earn 25% of the project and had made the decision to move to the second stage, increasing its interest to 51% through spending an additional \$700,000 on exploration prior to 27 April 2023. Diatreme and Metallica have subsequently agreed to an extension from 27 April 2023 to 1 July 2023.

Should Diatreme and Metallica make the decision to mine, Diatreme will be granted a 1% NSR royalty.

Accounting policy: impairment of non-financial 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.

11. Other non-current assets

	2022	2021
	\$	\$
Rent guarantee deposit	13,365	13,365
Security deposits	25,000	25,000
	<u>38,365</u>	<u>38,365</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

12. Trade, other payables and employee benefits

	2022 \$	2021 \$
Unsecured		
Trade payables	582,089	553,852
Other payables and accruals	148,249	49,604
Employee benefits	236,965	109,247
	<u>967,303</u>	<u>712,703</u>

Accounting policy: trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period and which remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Accounting policy: employee benefits - Wages and Salaries and Annual Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

13. Borrowings

	2022 \$	2021 \$
Unsecured loan	1,509,375	1,518,125
Total borrowings	<u>1,509,375</u>	<u>1,518,125</u>
Current liability	-	1,518,125
Non-current liability	<u>1,509,375</u>	-

The original loan of \$1.5 million had a revised maturity date of 31 July 2020 and an interest rate of 5.2%.

The Company subsequently executed the following agreements to extend the maturity date:

- from 31 July 2020 to 30 November 2021 with an interest rate of 7.0% p.a. (Refer to ASX announcement 27 March 2020)
- from 30 November 2021 to 30 November 2022, with an interest rate of 7.5% p.a. (Refer to ASX announcement 19 August 2021),
- from 30 November 2022 to 30 May 2024, with the same interest rate of 7.5% p.a. (Refer to ASX announcement 14 October 2022)

Accounting Policy: borrowings

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

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

14. Lease liabilities

	2022	2021
	\$	\$
Current liability	31,819	57,877
Non-current liability	-	31,820
	<u>31,819</u>	<u>89,697</u>
The lease liabilities are presented as below:		
Opening balance	89,697	31,483
Additions	-	116,693
Payments recognised as financial cash outflow	(63,357)	(62,115)
Interest charges during the year	5,479	3,636
	<u>31,819</u>	<u>89,697</u>

Accounting policy: lease liability

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

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

15. Provisions

	2022	2021
	\$	\$
Current liabilities		
Long service leave	<u>8,950</u>	<u>7,919</u>
Non-current liabilities		
Long service leave	<u>70,136</u>	<u>46,086</u>

Accounting policy: employee benefits - Long Service Leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using corporate bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

16. Issued Capital

	2022 \$	2021 \$
3,729,759,126 (Dec 2021: 3,013,717,560) ordinary shares	93,637,615	76,964,871

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	
			\$	\$
31 Dec 2020	Balance	2,572,956,646		67,473,677
16 Feb 2021 ⁽¹⁾	Shares issued	2,500,000	0.020	50,000
14 Sep ⁽²⁾	Shares issued	438,260,914	0.023	10,080,001
	Shares issue costs	-		(638,807)
31 Dec 2021	Balance	3,013,717,560		76,964,871
10 Jan 2022 ⁽³⁾	Shares issued	190,066	0.029	5,493
Jan-Feb 2022 ⁽¹⁾	Shares issued	24,275,000	0.020	485,500
27 Jun 2022 ⁽²⁾	Shares issued	559,465,000	0.025	13,968,096
29 Aug 2022 ⁽²⁾	Shares issued	132,111,500	0.025	3,302,788
	Shares issue costs	-		(1,089,133)
		3,729,759,126		93,637,615

⁽¹⁾ Shares issued to various shareholders on exercise of options.

⁽²⁾ During both the 2021 and 2022 financial years the Company completed several placements to sophisticated and professional investors, including a placement to Sibelco completed on 27 June 2022

⁽³⁾ Shares issued to Neil McIntyre and Peter Brown on vesting of performance rights.

Ordinary shares

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

Accounting policy: issued capital

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

b) Share options

Expiry date	Status at 31 December 2022	Exercise Price	Number at end of year	
			2022	2021
4 February 2022 (unlisted) ⁽¹⁾	Expired	\$0.020	-	179,214,365
27 May 2026 (unlisted – Tranche 1) ⁽²⁾	Vested	\$0.025	10,000,002	13,333,336
27 May 2026 (unlisted – Tranche 2) ⁽²⁾	Unvested	\$0.030	9,999,999	13,333,332
27 May 2026 (unlisted – Tranche 3) ⁽²⁾	Unvested	\$0.035	9,999,999	13,333,332
26 May 2027 (unlisted – Tranche 1) ⁽³⁾	Unvested	\$0.025	3,333,334	-
26 May 2027 (unlisted – Tranche 2) ⁽³⁾	Unvested	\$0.030	3,333,333	-
26 May 2027 (unlisted – Tranche 3) ⁽³⁾	Unvested	\$0.035	3,333,333	-
25 July 2027 (unlisted – Tranche 1) ⁽⁴⁾	Unvested	\$0.035	6,666,666	-
25 July 2027 (unlisted – Tranche 2) ⁽⁴⁾	Unvested	\$0.040	6,666,667	-
25 July 2027 (unlisted – Tranche 3) ⁽⁴⁾	Unvested	\$0.045	6,666,667	-
Total			60,000,000	219,214,365

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

⁽¹⁾ Unlisted options from the November 2019 Placement. Issued in February 2020 subsequent to shareholder approval at the February 2020 General Meeting

⁽²⁾ 40,000,000 unlisted Director Options issued for nil cash consideration and as part remuneration for Director services and approved at the May 2021 AGM

⁽³⁾ 10,000,000 unlisted Director Options issued for nil cash consideration and as part remuneration for Director services and approved at the May 2022 AGM

⁽⁴⁾ 20,000,000 unlisted Employee Options issued for nil cash consideration and as part KMP remuneration approved by the Board in July 2022

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	
	2022	2021
Opening balance	219,214,365	231,714,365
Issued 25 June 2021 (subsequent to approval at 27 May 2021 AGM)	-	40,000,000
Issued 14 June 2022 (subsequent to approval at 26 May 2022 AGM)	10,000,000	-
Issued 27 July 2022 (subsequent to Board approval 25 July 2022)	30,000,000	-
Exercised	(24,275,000)	(2,500,000)
Lapsed	(174,939,365)	(50,000,000)
Closing balance	60,000,000	219,214,365

17. Share-based payment reserve

	2022	2021
	\$	\$
Opening balance	225,251	326,283
Options expense	461,025	210,996
Performance rights expense	4,987	56,441
Transfer to share capital on vesting of performance rights	(5,493)	-
Reverse amounts relating to expired options and performance rights	(126,681)	(368,469)
Closing balance	559,089	225,251

Nature and purpose of share-based payment reserve

The share-based payment reserve is used to recognise the fair value of options issued under the employee share option plan, options issued to the directors, CEO, COO and CFO and performance rights issued to CEO, COO (in 2021)

18. Share-based payments

	2022	2021
	\$	\$
(a) Value of share-based payments in the financial statements		
<i>Expensed:</i>		
Incentive based payment to CEO & COO – performance rights	4,987	56,441
Payment to Directors for services – options	308,350	210,996
Payment to CEO, COO and CFO as part of their remuneration – options	152,675	-
Options and performance rights issued	466,012	267,437
Reverse portions of performance rights and options that have lapsed	(126,681)	(68,529)
Recognised in statement of comprehensive income	339,331	198,908

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

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

Type	Holder(s)	Services provided
Performance rights	Chief Executive Officer (CEO), and Chief Operating Officer (COO)	Employment – incentive for various key performance indicators
Options	Directors	Employment – corporate governance
Options	CEO, COO, and CFO & Company Secretary (CFO)	Employment – incentive with vesting conditions

Grant Date	Holder(s)	Type	Number of instruments at 1 Jan 2022	Granted in current period	Vested and shares issued	Lapsed in current period	Closing balance as at 31 Dec 2022	Weighted average exercise price
16 Feb 2021	CEO and COO	Performance rights	667,566	-	(190,066)	(477,500)	-	-
27 May 2021	Directors	Options	40,000,000	-	-	(10,000,000)	30,000,000	0.031
26 May 2022	Directors	Options	-	10,000,000	-	-	10,000,000	0.031
25 July 2022	CEO, COO and CFO	Options	-	30,000,000	-	(10,000,000)	20,000,000	0.040

(b) Accounting Policy: share-based payment transactions

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

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

(c) Summary of share-based payments

Options to Director (2022)

Following approval by shareholders at the May 2022 AGM, the Company issued 10,000,000 Director Options, in 3 tranches, to Non-executive Chairman, Mr Wayne Swan. The Director Options were issued for nil cash consideration and as part remuneration for Director services provided by the Directors to the Company.

Options to CEO, COO & CFO (2022)

Following Board approval in July 2022, the Company issued 30,000,000 Employee Options, in 3 tranches, to the CEO, COO and CFO. The Employee Options were issued for nil cash consideration and formed part of their remuneration.

Options to Directors (2021)

Following approval by shareholders at the May 2021 AGM, the Company issued 10,000,000 Director Options, in 3 tranches, to each of the 4 Directors in office at that time. The Director Options were issued for nil cash consideration and as part remuneration for Director services provided by the Directors to the Company.

Incentive based payment to CEO and COO – performance rights (2021)

Under an established Performance Rights Plan approved by shareholders at the 2018 AGM, the Chief Executive Officer (CEO), Mr McIntyre was issued 1,036,720 Performance Rights (of which 103,672 have vested and balance of 933,048 have lapsed) and Chief Operating Officer (COO) was issued 863,935 Performance Rights (of which 86,394 have vested and balance of 777,541 have lapsed) on 22 March 2021 subject to various vesting conditions.

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

(d) Fair value of options

The fair value of the options granted to non-executive chairman, Mr Wayne Swan, in 2022 is estimated as at the date of grant using the Binomial valuation model taking into account the following inputs:

	Tranche 1	Tranche 2	Tranche 3
Grant date	26 May 2022	26 May 2022	26 May 2022
Exercise price	\$0.025	\$0.030	\$0.035
Maximum option life in years	5 years	5 years	5 years
Volatility	100.4%	100.4%	100.4%
Risk-free rate	2.95%	2.95%	2.95%
Dividend yield	0.0%	0.0%	0.0%
Trinomial steps	200	200	200
Exercise multiple	4	4	4
Employee exit rate	0.00%	0.00%	0.00%
Expiry date	26 May 2027	26 May 2027	26 May 2027
Vesting date	26 May 2023	26 May 2024	26 May 2025
Option Value	0.0189	0.0183	0.0178
Number of options	3,333,334	3,333,333	3,333,333

The fair value of the options granted to the CEO, COO and CFO in 2022 is estimated as at the date of grant using the Binomial valuation model taking into account the following inputs:

	Tranche 1	Tranche 2	Tranche 3
Grant date	25 July 2022	25 July 2022	25 July 2022
Exercise price	\$0.035	\$0.040	\$0.045
Maximum option life in years	5 years	5 years	5 years
Volatility	99.76%	99.76%	99.76%
Risk-free rate	3.04%	3.04%	3.04%
Dividend yield	0.0%	0.0%	0.0%
Trinomial steps	200	200	200
Exercise multiple	4	4	4
Employee exit rate	0.00%	0.00%	0.00%
Expiry date	25 July 2027	25 July 2027	25 July 2027
Vesting date	25 July 2023	25 July 2024	25 July 2025
Option Value	0.0291	0.0284	0.0279
Number of options	10,000,000	10,000,000	10,000,000

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

(a) Categories of financial instruments

	2022 \$	2021 \$
Financial assets		
Cash and cash equivalents	13,640,939	6,500,017
Trade and other receivables	562,984	161,491
Security and other deposits	38,365	38,365
Total financial assets	14,242,288	6,699,873
	2022 \$	2021 \$
Financial liabilities		
Trade and other payables	967,303	712,703
Borrowings	1,509,375	1,518,125
Lease liabilities	31,819	89,697
Total financial liabilities	2,508,497	2,320,525

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

(b) Capital risk management

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

(c) Market risk

Interest rate risk

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

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

	2022 \$	2021 \$
Cash at bank	3,640,939	6,497,402
Cash on deposit	10,000,000	-
	13,640,939	6,497,402

(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.

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(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 2021						
Trade and other payables	712,703	712,703	712,703	-	-	-
Borrowings	1,518,125	1,630,625	74,375	1,556,250	-	-
Lease liabilities	89,697	95,350	31,366	31,992	31,992	-
	2,320,525	2,438,678	818,444	1,588,242	31,992	-
31 Dec 2022						
Trade and other payables	967,303	967,303	967,303	-	-	-
Borrowings	1,509,375	1,668,750	65,625	56,250	1,546,875	-
Lease liabilities	31,819	31,819	31,819	-	-	-
	2,508,497	2,667,872	1,064,747	56,250	1,546,875	-

(f) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their respective fair values.

20. Interests in subsidiaries

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 December 2022. 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

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

Name of subsidiary	Country of Incorporation	Principal activity	Ownership Interest	
			2022	2021
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%
Galalar Silica (Qld) Pty Ltd **	Australia	Dormant	0%	100%

* This entity is 100% owned by Regional Exploration Management Pty Ltd.

** This entity was incorporated by Diatreme Resources Limited on 13 May 2021. On 17 June 2022 Diatreme transferred this entity to Cape Silica Holdings Pty Ltd to enter into a joint venture with Sibelco. Also refer to Note 7.

21. Parent Entity Information

	2022 \$	2021 \$
Financial position		
Current assets	14,146,937	6,652,118
Non-current assets	43,723,904	29,067,703
Total assets	57,870,841	35,719,821
Current liabilities	1,000,698	2,278,398
Non-current liabilities	1,570,136	77,906
Total liabilities	2,570,834	2,356,304
Net assets	55,300,007	33,363,517
Shareholders' equity		
Contributed equity	93,637,615	76,964,871
Reserves	559,089	225,251
Accumulated losses	(38,896,697)	(43,826,605)
Total equity	55,300,007	33,363,517
Profit/(loss) for the year	4,929,908	(2,110,785)
Total comprehensive loss for the year	4,929,908	(2,110,785)

Non-Current Assets

Non-current assets include \$15,285,842 (2021: \$15,183,261) of intercompany receivables balances with recoverability of the debt based on successful exploitation of various tenement sites, and \$25,117,484 of investment in joint venture.

Contingent Liabilities

The parent entity had no contingent liabilities at 31 December 2022 (2021: nil).

Contractual commitments

The parent entity had no contractual commitments for property, plant and equipment at 31 December 2022 (2021: nil).

Guarantees

The parent entity had no guarantees as 31 December 2022 (2021: nil).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

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:

	2022	2021
	\$	\$
Payable within 1 year	62,860	379,572
Payable between one and five years	853,277	1,782,708
	<u>916,137</u>	<u>2,162,280</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 2022 cash security bonds totalling \$25,000 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (2021: \$25,000).

23. Contingent Liability

The Group does not have any contingent liability at 31 December 2022 (2021: Nil).

24. Financial reporting by segments

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

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

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) Joint Ventures

Interest in joint ventures is set out in Note 7.

(d) Key management personnel

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 December 2021.

	2022	2021
	\$	\$
Short-term employee benefits	991,836	895,026
Post-employment benefits	97,989	84,459
Long-term benefits	20,599	1,744
Share-based payments	365,085	252,218
	<u>1,475,509</u>	<u>1,233,447</u>

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

(e) Transactions with related parties

The following transactions occurred with related parties:

Payment for specialist market and consultancy services from Fortune Corporation Australia Pty Limited (director-related entity of William Wang).	-	48,735
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(f) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

Current receivables	2022	2021
	\$	\$
Cape Silica Holdings Pty Ltd	440,911	-

26. Remuneration of auditors

William Buck (Qld)

Audit and review of the financial statements	25,400	24,200
The auditors did not provide any other services.		

27. Events subsequent to balance date

Diatreme continues to be in discussion with interested parties for the potential sale and/or development of the Cyclone Project, the outcome of which remains unclear as they are by nature incomplete proposals and negotiations that may not result in a sale or disposal. No estimate of financial affects can be made.

No other matter or circumstance has arisen since the end of the reporting date that has significantly affect, or may affect, the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

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 have not been adopted in the preparation of the financial report for the year ended 31 December 2022, except as disclosed in note 1(e). 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.

29. Corporate information

Diatreme Resources Limited is a public company listed on the Australian Securities Exchange (trading under the code DRX) and is incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business is Unit 8, 61 Holdsworth Street, Coorparoo QLD 4151.

Directors' Declaration

for the year ended 31 December 2022

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1(a) to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2022 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



Wayne Swan
Non-Executive Chairman

Brisbane, 24 March 2023

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 2022, 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 2022 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 (including Independence Standards)* (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. We have determined the matters described below to be the key audit matter to be communicated in our report.

CARRYING VALUE OF EXPLORATION AND EVALUATION ASSETS	
Area of focus Refer also to note 10	How our audit addressed it
Capitalised exploration and evaluation assets represent 28% 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 capitalised on 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 and evaluation assets.

VALUATION OF INVESTMENT IN JOINT VENTURE	
Area of focus Refer also to note 7	How our audit addressed it
The Group lost control of a subsidiary as a result of a transaction involving a joint venture that is accounted for using the equity method. This investment in joint venture represents 45% of the Group's total assets. Upon the formation of the joint venture, the Group recognise any investment retained in the former subsidiary at its fair value at the date when control is lost. The gain resulting from the transaction is recognised in the profit or loss only to the extent of the unrelated investors' interest in that joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment in the joint venture. Due to the significance of this asset and the subjectivity involved in determining its fair value and the accounting for the initial investment, this is a key audit matter.	Our audit procedures included: — A review of contractual arrangements to determine the existence of joint control over the joint venture; — Considering the significant judgements involved in the determination of fair value of the investment upon the formation of the joint venture; — Reviewed management's assessment of the accounting considerations upon establishment of the joint venture, including review by our in-house technical specialists; and — We assessed the adequacy of the Group's disclosures in respect of the loss of control of a subsidiary and the formation of the joint venture.

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 2022, 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 the directors' report for the year ended 31 December 2022.

In our opinion, the Remuneration Report of Diatreme Resources Limited, for the year ended 31 December 2022, 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 (Qld)
ABN 21 559 713 106



Matthew Monaghan
Director

Brisbane, 24 March 2023