ANNUAL REPORT **2016**

Diatreme Resources Limited

ABN: 33 061 267 061

2016 ANNUAL REPORT

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Corporate Directory

Company
Diatreme Resources Limited
ABN 33 061 267 061

and subsidiaries
Lost Sands Pty Ltd
Regional Exploration Management Pty Ltd
Chalcophile Resources Pty Ltd

Board of Directors - Non-executive
Cheng (William) Wang - Chairman
Andrew Tsang
Yufeng (Daniel) Zhuang

Executive
Neil McIntyre - Chief Executive
Ian Reudavey - Chief Geologist
Tuan Do - Company Secretary

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Brisbane Queensland 4000

Stock Exchange
ASX Limited
Code: DRX – shares

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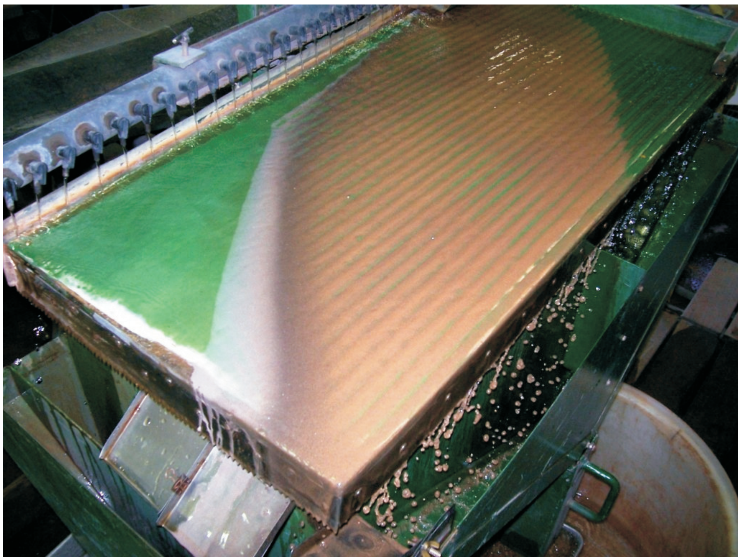


Chairman's Review 2016

The past year has seen some significant achievements by your Company as we further advanced our key projects, despite industry and market conditions remaining challenging for exploration companies.

For our loyal shareholders, the significance of these achievements should gain greater appreciation in the coming years as we unlock value from our flagship Cyclone Zircon Project in Western Australia's Eucla Basin and our other attractive Australian mining projects.

Notably, Cyclone is now 'de-risked' and ready to attract further investment to finalise a Definitive Feasibility Study (DFS) ahead of mining. Our project pipeline has also been further refined to now include the exciting Cape Bedford Silica/Heavy Minerals Project and the prospective Grays Hill Heavy Minerals Project, along with the Tick Hill Gold Project, all in Queensland.

Advancing these projects in a capital-constrained environment has been a tremendous effort by Diatreme's board, management, staff and contractors and I commend all involved for these successes.

By keeping the focus on those projects deemed having the most potential to deliver value while minimising costs, Diatreme has been able to preserve valuable shareholder capital, backed by our experienced Board and management team.

Cyclone de-risked

The following milestones marked the completion of Cyclone's de-risking process:

- ✓ Project enhancement and update study completed by independent consultants demonstrated Cyclone's financial viability, with potential for further cost savings on key capital and operating expenditure

- ✓ Study revealed estimated net present value of $121 million, internal rate of return of 23% and potential payback in under three years

- ✓ Western Australia's Environmental Protection Authority (EPA) released final advice and positive recommendations for ministerial approval of Cyclone's Public Environmental Report (PER) regarding the development and operation of Cyclone.

Post-balance date, final ministerial approval for Cyclone was received on 9 January 2017, allowing Diatreme to "develop and operate the Cyclone Mineral Sands Mine, including open cut pits, mining and processing infrastructure, airstrip, accommodation camp, bore fields and haul road construction from the mine site to the Forrest rail siding."

This added to the earlier achievements of the securing of a Mining Lease, an agreement with the traditional owners, the securing of the necessary water supplies and the expansion of its projected mining life through the acquisition of the adjacent Cyclone Extended.

Project partners and investors have stressed the importance of this de-risking process in facilitating further investment in Cyclone, which has the potential to become a long-life mine in one of the world's most valuable zircon provinces.

Diatreme is working hard to advance discussions with potential project partners, potential funders and product offtakers to allow the final aspects of the DFS to be funded and completed as rapidly as possible, to deliver this potentially valuable project for shareholders' benefit.

Cape Bedford's golden sands

Located near the world's largest silica mine at Cape Flattery, Cape Bedford is a project seen having tremendous potential as part of Diatreme's mineral sands portfolio.

Recognising this potential, in June 2016, Diatreme secured a five-year exploration permit for the project, Cape Bedford EPM 17795, which covers the majority of the Cape Bedford-Cape Flattery dunefield surrounding the Cape Flattery silica mine.

Previous exploration has confirmed the presence of both silica and heavy mineral sands, while recent 'grab' samples taken by Diatreme from surface silica sand deposits have shown elevated mineral sands content. Whilst only indicative, these have highlighted the project's potential for heavy mineral deposits that could be mined in conjunction with the associated high purity silica sand.

In January 2017, Diatreme signed a conduct and compensation agreement with the traditional owners, the Hopevale Congress Aboriginal Corporation, with the aim of sharing the potential economic benefits of this new project.

Diatreme has been actively engaged in discussions with potential project participants for product offtake and direct project participation. Such discussions have highlighted the potential value of this project and we intend to pursue these further in 2017.

Tick Hill maiden resource

Rising gold prices, particularly in Australian dollar terms, have highlighted the potential value of our Tick Hill Gold Project near the famous mining district of Mount Isa.

In January 2016, Diatreme demonstrated Tick Hill's potential by announcing a maiden mineral resource for the project's tailings material, estimated at 630 kilotonnes (kt) at 1.08 grams per tonne (g/t) gold, containing 680 kilograms (22,000 troy ounces) gold.

Further studies conducted with our joint venture partner, Superior Resources Limited, were undertaken to determine the viability of a standalone operation processing the tailings resource. In March, a scoping study completed by an independent consultant showed the potential for a 20-month-long operation processing the tailings.

Subsequent studies showed additional metallurgical testwork is required to develop a process flowsheet and determine the economic potential for mining and processing.

However, given its past history as one of Australia's highest-grade gold deposits, Tick Hill remains a project with considerable potential for delivering short-term cash flow.

Elsewhere, the Grays Hill project is also seen having potential, pending an agreement with the primary landholder for exploration activity.

Generating value

Diatreme's ability to maximise value from our mining projects also depends on support from our loyal shareholders. Once again, we are indebted to our shareholders and investors for supporting our capital raising initiatives in 2016, including a well-received Share Purchase Plan which raised $519,000, along with a private placement of $235,000.

With the mining cycle seen on the upturn again, we are extremely thankful for this crucial support and are determined to reward shareholders.

According to industry researcher TZMI, stronger mineral sands prices and rising demand are expected in 2017, buoyed by an improved titanium dioxide pigment sector. Predictions of a zircon supply shortfall before the end of the decade have also helped boost support for new projects offering higher-grade supply such as Cyclone.

Gold prices have also performed strongly, with the potential for further gains in 2017 due to rising inflation, consumer demand in China and India and the yellow metal's "safe haven" status amid geopolitical worries.

With China, the world's biggest resource consumer, recently exceeding its growth targets, and the rest of the global economy improving in 2017, conditions are ripe for a prosperous "Year of the Rooster" for miners. Longer term, A.T. Kearney's forecast of a 3.2 billion strong global middle class by 2020 – up from 1.8 billion in 2009 – bodes well for resource demand, particularly from Asia.

These positive signals have enthused the mining sector and Diatreme is poised to capitalise in 2017 as we extract value from our key projects. Once again, I would like to thank shareholders, employees, contractors and all others who have helped deliver the past year's achievements. With your continued support, I am very confident that more success lies in store for Diatreme for the benefit of all.

William Wang
Non-executive Chairman

Operations Report

INTRODUCTION

During 2016, Diatreme Resources Limited ("Diatreme") continued its focus on development activities and mineral exploration within Australia, with particular effort targeting the Company's West Australian Cyclone Zircon Project.

The process of commercially and technically de-risking Diatreme's major asset, the Cyclone Project, continued with advancement of final project permitting and a positive project review by leading independent consulting group Sedgman.

In Queensland, the Cape Bedford EPM covering the extent of a large Quaternary sand dune field, part of which is currently being mined by Cape Flattery Silica Mines Pty Ltd, was granted for a five-year term commencing June 2016.

The Tick Hill project was subject to a scoping study to assess the potential to re-process tailings from the previous mine workings, with positive results returned. Metallurgical assessment of the tailings material continued throughout the year.

Diatreme continued with its focus of tenement consolidation and prioritising of expenditure towards projects that have highest potential for adding material value to the company through major discovery or transition to mining operations.

MINERAL SANDS

CYCLONE ZIRCON PROJECT

Discovered in 2007, the Cyclone Zircon deposit is located along the Barton shoreline within the Wanna Lakes area of the northern Eucla Basin, 25 kilometres from Western Australia's state border with South Australia and 220 kilometres north of the transcontinental railway.

Following the acquisition of the Cyclone Extended Heavy Mineral Resource, the Cyclone Project's JORC Mineral Resource (Measured and Indicated) has been estimated at comprising 211 million tonnes at 2.3% heavy minerals (1% cut-off grade) containing 4.8 million tonnes HM (refer ASX announcement 9 April 2015). This includes a Measured Resource of 156Mt at 2.4% HM and an Indicated Resource of 55Mt at 1.8% HM (both at 1% HM cut-off grade).

In November 2014, Western Australia's Department of Mines and Petroleum granted a Mining Lease (ML69/141) for the project, which followed the signing of a Project Agreement with the traditional owners, the Spinifex People.

A Definitive Feasibility Study is underway along with further project specific commercial and operational enhancement studies, with Cyclone representing potentially the largest undeveloped zircon project in the Eucla Basin.

Following exhaustive technical studies by Diatreme and its external environmental consultants, the Cyclone Project Public Environmental Review document received a positive recommendation from the WA Environmental Protection Authority (EPA) in August 2016 and ministerial consent in early January 2017.

A Project Enhancement and Update Study was completed by independent consultants Sedgman Limited in June 2016 which reaffirmed the project's financial viability. An updated estimate of processing plant capital and operating costs, shipping and diesel costs, together with revenue stream adjustment for current product pricing returned a projected net present value of $121 million, an internal rate of return of 23% and payback in 2.8 years.

Environmental Assessment

A Public Environmental Review (PER) process for the project is required for approval of the haul road from Cyclone to the Forrest rail siding. The PER also incorporates the mine site and mine infrastructure, including the accommodation camp, water supply and airstrip.

The PER Report for the Cyclone Project was released for public review in late June 2015 for a period of five weeks as required by the WA Environmental Protection Authority (EPA). The Office of the Environmental Protection Authority (OEPA) received submissions from eight respondents during the public review period and provided copies of the submissions to DRX in late August 2015. DRX submitted its report responding to the public submissions in October 2015 to the OEPA, and more detailed information following further requests from the OEPA in November 2015. The OEPA assessed the additional PER response submitted in January 2016, and released draft endorsed conditions to Diatreme in May 2016. for review and comment. The EPA publicly issued a recommendation in early August 2016 advising that the Cyclone (Eucla Basin) project meets its requirements for consent subject to its recommended terms and monitoring conditions, with positive recommendations for approval made to the WA Minister of Environment. During an additional public review period of the recommendations in August, two appeals were received, and these were managed and assessed by an extensive referral process.

Final ministerial consent (approval) was received on 9 January 2017 (Ministerial statement No:1052), allowing the Cyclone project to: ***"Develop and operate the Cyclone Mineral Sands Mine, including open cut pits, mining and processing infrastructure, airstrip, accommodation camp, bore fields and haul road construction from the mine site to the Forrest rail siding."***

As part of the approvals process DRX negotiated an offsets package for the proposed disturbance to the Great Victoria Desert Nature Reserve which will result from construction of the haul road from the Cyclone mine to the Forrest rail siding.

Diatreme had previously referred the project to the Commonwealth Department of the Environment (DoE) for consideration under the EPBC Act. Information on the project was made available for public review and comment as part of the assessment process by the DoE. The DoE subsequently provided written notice to Diatreme that the proposed action for the Cyclone Project is not a controlled action and it does not require any further assessment or approval under the EPBC Act before it can proceed. This assessment confirmed that the WA process through the EPA is the sole environmental approval process for the project.

Water Supply Assessment

The availability of a suitable water supply for the Cyclone project was confirmed in late 2013 with the discovery of a massive high yielding groundwater aquifer in the Officer Basin sediments beneath the planned mine area. A bore was constructed to a depth of 812 metres to test the sediments and discovered high yielding sandstone formations which commenced at a depth of 530 metres and continued for the full depth of the bore.

An estimated flow rate up to 40 litres per second was obtained from the bore using the drill rig to air lift the water. The water quality at 25,000 ppm total dissolved solids is better than expected and is a good quality supply for the mine and processing plant. The potable water supply for the accommodation camp will require a desalination plant which will use the bore water.

The test bore is planned to be used as a production bore to form part of the Cyclone project borefield. The current estimate is for a network of at least ten bores to a depth of approximately 650 metres to supply the 7.8 gigalitres of water required for the mine, wet concentrator plant, and all other site uses each year. The test bore results confirmed that the capital cost estimate for water supply used in the financial evaluation of the project was appropriate. A pump test will be completed as part of the DFS to confirm the borefield design and obtain information to confirm the operating costs for the water supply system.

Process and Plant Design

DRX engaged Sedgman Limited, a leading provider of mineral processing and associated infrastructure solutions to the mineral sands industry, to undertake a "Project Enhancement and Update Study". The study identified opportunities for cost reductions and evaluated the project economics for a possible construction schedule which would commence on completion of the DFS.

Sedgman reviewed work undertaken for the PFS and subsequent studies and provided an updated assessment of process plant, some infrastructure and shipping costs and assumptions at a technical and commercial level. This has provided Diatreme with a greater understanding of the project's potential commercial returns while current industry and market conditions provide an opportunity for cost savings on key capital and operating expenditures.

Using the previous PFS financial model the study outcomes demonstrated the following financial results for the project:

- NPV of $121M
- IRR of 23%
- Payback in 2.8 years

The project analysis was based on sale of heavy mineral concentrate (HMC) to processors in China and the HMC price was determined by calculating a reasonable proportion of the value of the contained final products based on the financial model previously developed by Diatreme for the PFS in 2012.

Current industry and market conditions have presented considerable opportunities for cost savings on key capital and operating expenditures, compared to the Prefeasibility Study. Sedgman's study revealed reduced transport and operating costs resulting from the changed global economic circumstances during the four years since the Cyclone PFS was completed. A reduction in the price for diesel fuel will provide lower energy costs for diesel powered generators, earthmoving equipment and land transport systems.

Sedgman reviewed the capital cost of the WCP which was based on the PFS testwork and the WCP flowsheet completed by Mineral Technologies in 2011. The $60M estimate for the capital cost of the plant using similar technology separating equipment was verified by Sedgman as a valid current estimate. Sedgman recommended additional bulk sample testwork using reflux classifiers as a potential new technology capable of improving metallurgical performance and reducing capital and operating costs. Sedgman indicated from previous experience a potential capital cost saving of up to 20-25% if bulk sample testwork produced positive metallurgical results.

Based on this updated work, the revised cost estimates for the project are:

- $161M project capital expenditure
- $72M average annual operating cost.

As part of the overall study Diatreme reviewed the mining schedule and a revised schedule was produced to increase the average grade mined during the first three years of the operation.

The joint study has confirmed the viability of the Cyclone Project and provides DRX with an independent consultant's financial analysis which shows improvements to the project economics.

Cyclone Mineral Resource

DRX expanded the resource base of the Cyclone Zircon Project with the acquisition of the Cyclone Extended resource (tenement R69/1) from Image Resources Ltd in 2015. The addition of Cyclone Extended increased the size of Diatreme's mineral sands project in Western Australia's Eucla Basin to a mineral resource of 211 Mt with an average grade of 2.3% HM (ASX announcement 9 April 2015). This was an effective 60% increase in contained heavy minerals over the original DRX Cyclone resource.

As part of the Annual Review of Diatreme's Mineral Resources and Ore Reserves, the Cyclone Mineral Resource estimate was updated. A revised resource estimate for the Cyclone Mineral Resource is reported as 203 Mt at 2.3% HM (at 1.0% HM cut-off grade), containing 4.70Mt of HM.

The change in the Mineral Resource primarily reflects the exclusion of Nearshore mineralisation within E69/2425 (which was surrendered during 2016), with minor changes to the global mineralisation wireframes also being made as part of the update. Approximately 8 Mt of low grade Nearshore mineralisation containing 90 kt of HM on the SW margin of the Cyclone Mineral Resource has been excised.

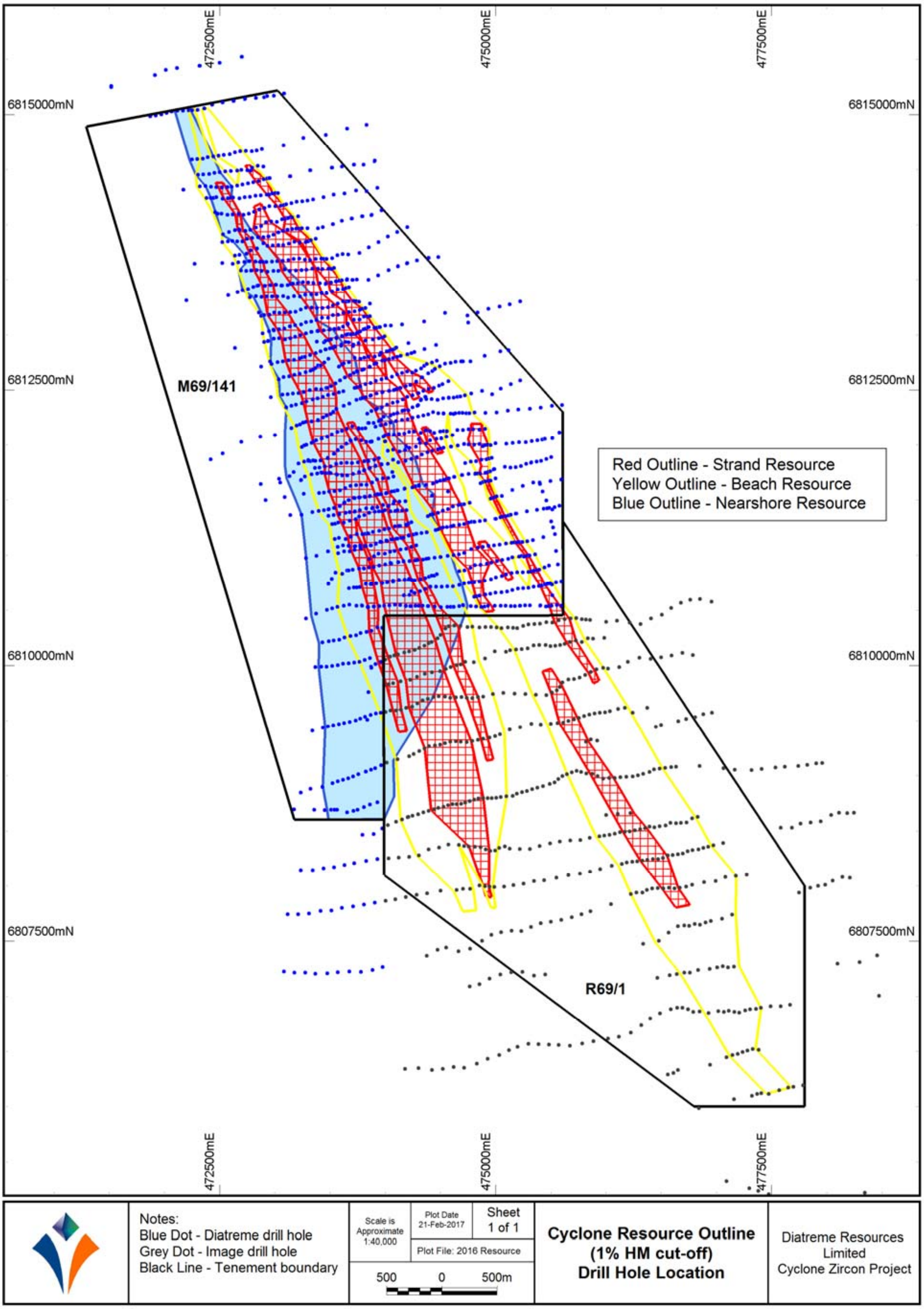
The Zircon content of the HM is estimated at 27% (comprising 1.26 Mt of zircon in the mineral resource), – confirming Cyclone's status as one of the highest zircon grade projects awaiting development. The estimate again highlights the low levels of slimes (-53um) at 4.2% and oversize (>2mm) at 5.0% within the Cyclone mineralisation. These characteristics are conducive to simple, low cost, mining, processing and tailing operations.

Cyclone is interpreted as a Tertiary beach strandline HM system with analogies to Iluka's Jacinth/Ambrosia HM deposit in the eastern Eucla Basin. Mining and processing of beach strandline deposits is well understood and has formed the basis of global mineral sands production to date.

The geological interpretation of the Cyclone mineralisation includes 3 distinct geological domains;

- a "Beach" domain of well sorted marine and reworked dunal sands occurring as 2 broadly tapered elongate mineralised sand units originating from a common point and extending for over 7km
- a "Strand" domain of higher grade (>4%) HM mineralisation occurring as a series of continuous elongate strandline features within the broader "Beach" domain.
- A "Nearshore" domain of bimodal marine sands with fine grained HM mineralisation underlying the western beach unit and extending for over 7km as an arcuate feature.

Although these domains display some distinctive geological characteristics, they are expected to be extracted as a combined body of mineralisation.



Cyclone Mineral Resource and Drilling

Cyclone Ore Reserve

A Probable Ore Reserve of 140 Mt at an average grade of 2.5% HM was announced in December 2015. However, the integration of Cyclone Extended into the Cyclone Project allows for a wider range of options in mine planning and design including targeting higher grade ore at the commencement of mining and could also include higher production levels while maintaining a long-life operation.

An update to the Probable Ore Reserve was completed as part of the Project Enhancement and Update Study, with a Probable Ore Reserve estimate for the Cyclone Project now reported as 138 Mt at 2.6% HM, including 0.72% Zircon, containing 3.5 Mt of HM, including 1 Mt of Zircon. The revised estimate primarily relates to the adoption of a revised mining schedule which reduces the amount of lower grade "Nearshore" mineralisation (and associated interburden) mined from the deeper parts of the mine path and omits some lower grade "Beach" mineralisation on the western batter of the mine path in the first three years of operation.

The Ore Reserve is based upon mine planning parameters developed for the Cyclone Prefeasibility Study, with appropriate recognition of subsequent metallurgical testwork and mine planning optimisation.

The design parameters for the open pit were developed based on simultaneous assessment of a number of economic and mining factors:

- A nominal 0.4% Zircon cut-off grade was applied. Lower grade material was included in areas with less overburden and where required to create a practical pit geometry for dozer trap mining.
- Areas with higher stripping ratios required a higher-grade ore to be economic.
- The base of induration (within the Quaternary weathering profile) was used as the top of the ore zone to exclude indurated material (with poor quality HM) from mining.
- Low grade interburden material, which was not part of the Mineral Resource, was included in the pit design to allow mining of the Beach and Nearshore mineralisation in a single pass.
- Pit wall design used batter angles of 35° for ore and interburden (both unconsolidated sand) and 45° for overburden (variably indurated sandy loam).

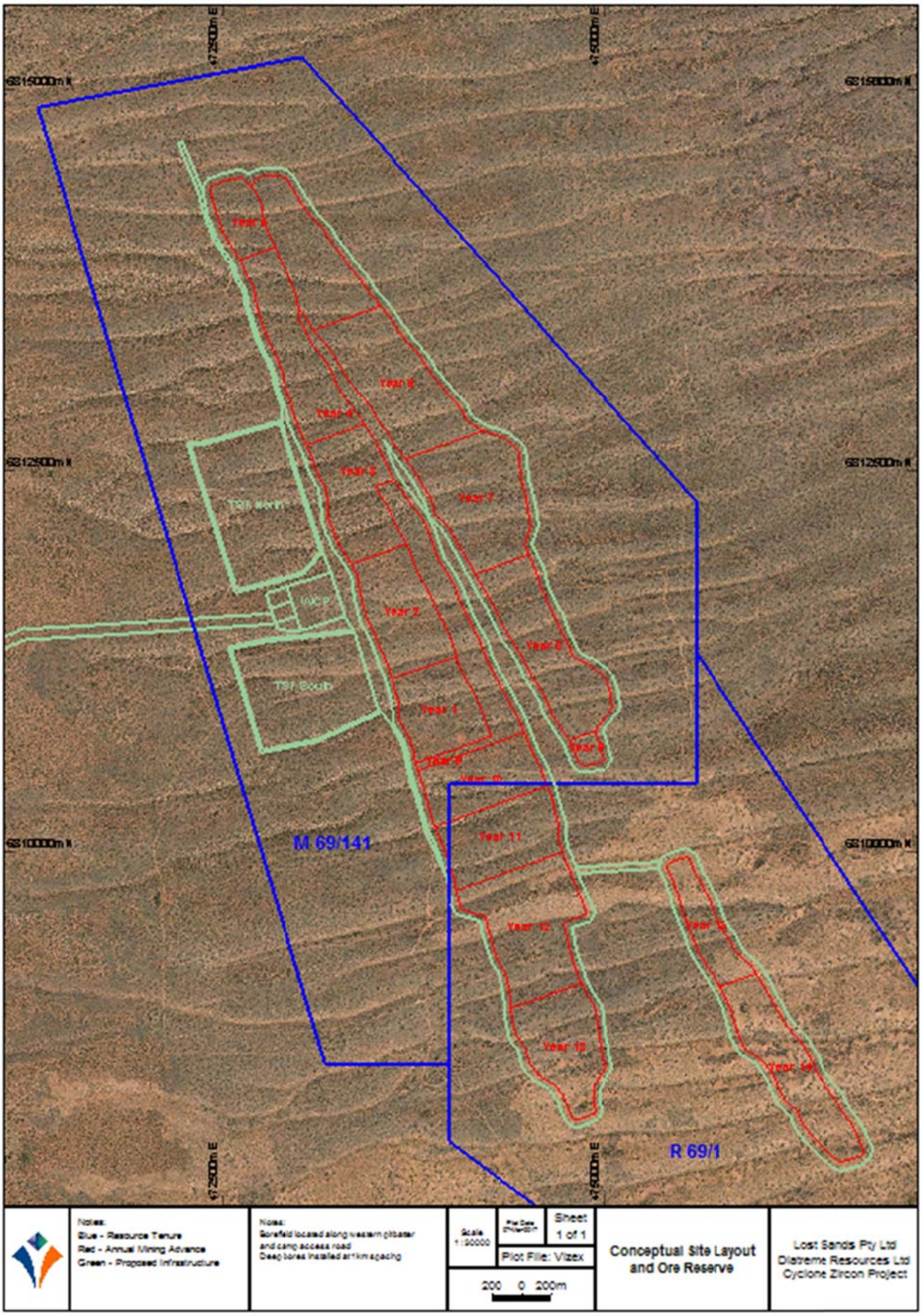
The Ore Reserve has been classified as Probable based on the accuracy of the project cost estimates (PFS quality) and additional work required for the marketing of Cyclone HMC in China to more accurately define revenue. However, 90% of the Ore Reserve is derived from Measured Resource, and there is a high level of confidence in the other modifying factors applied. The Ore Reserve represents a 75% conversion rate from Mineral Resource for contained HM tonnes.

The Cyclone Mineral Resource comprises 203 Mt at an average grade of 2.3% HM containing 4.70Mt of HM. The Probable Ore Reserve has been estimated at 138 Mt at an average grade of 2.6% HM containing 3.52Mt of HM, representing a 75% conversion rate for contained HM tonnes. The pit design includes 83 Mbcm of overburden with a strip ratio of 1:1. The strip ratio is considerably lower in the early years of the mine operation.

EUCLA BASIN EXPLORATION

No exploration was undertaken within the Eucla Basin during 2016, with company activity focussed on progression of environmental approvals for the Cyclone Project, and the independent Update and Enhancement Study.

All exploration tenure within the Eucla Basin has now been surrendered, with a review of the Zephyr resource in E69/2408 concluding that mineralisation was unlikely to represent a viable proposition for development in the short to medium term given its low HM grade and significant overburden depth.



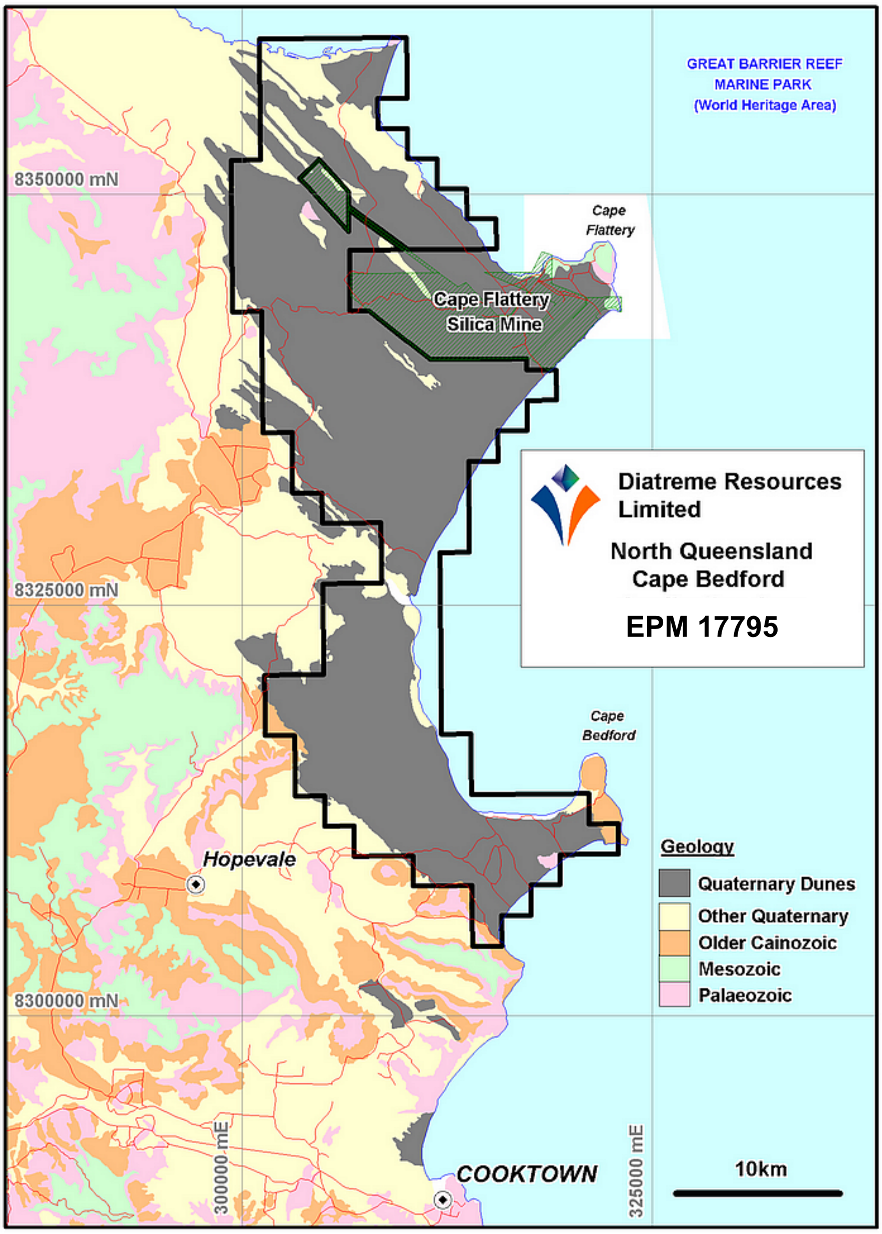
Cyclone Ore Reserve and Site Layout

CAPE BEDFORD PROJECT – NORTH QUEENSLAND

The Cape Bedford EPM17795 lies some 40km north of Cooktown and covers most the Cape Bedford – Cape Flattery dunefield, surrounding the Cape Flattery silica sand mining operations of Mitsubishi Corporation. The EPM area is dominated by an extensive Quaternary sand mass and dune field that stretches inland from the present coast for approximately 10km and extends 50km from north to south (see figure below), with large quantities of silica sand present and with the potential for heavy mineral sands underlying the silica sands.

EPM17795 was granted in June 2016 for a five-year term, and a Conduct and Compensation Agreement (CCA) with Hopevale Congress was negotiated throughout 2016 and executed in January 2017. Previous exploration has centred on the Cape Flattery area, within the Mining Leases of CFSM, but reconnaissance exploration has been carried out over the entire dunefield in the late 1960's and again in the early 1980's. This exploration confirmed the presence of both silica sand and heavy mineral sands, and Diatreme intends to build on the existing data and initially target those areas (e.g. Nob Point) where prospective silica sand dunes have been identified and access is readily available.

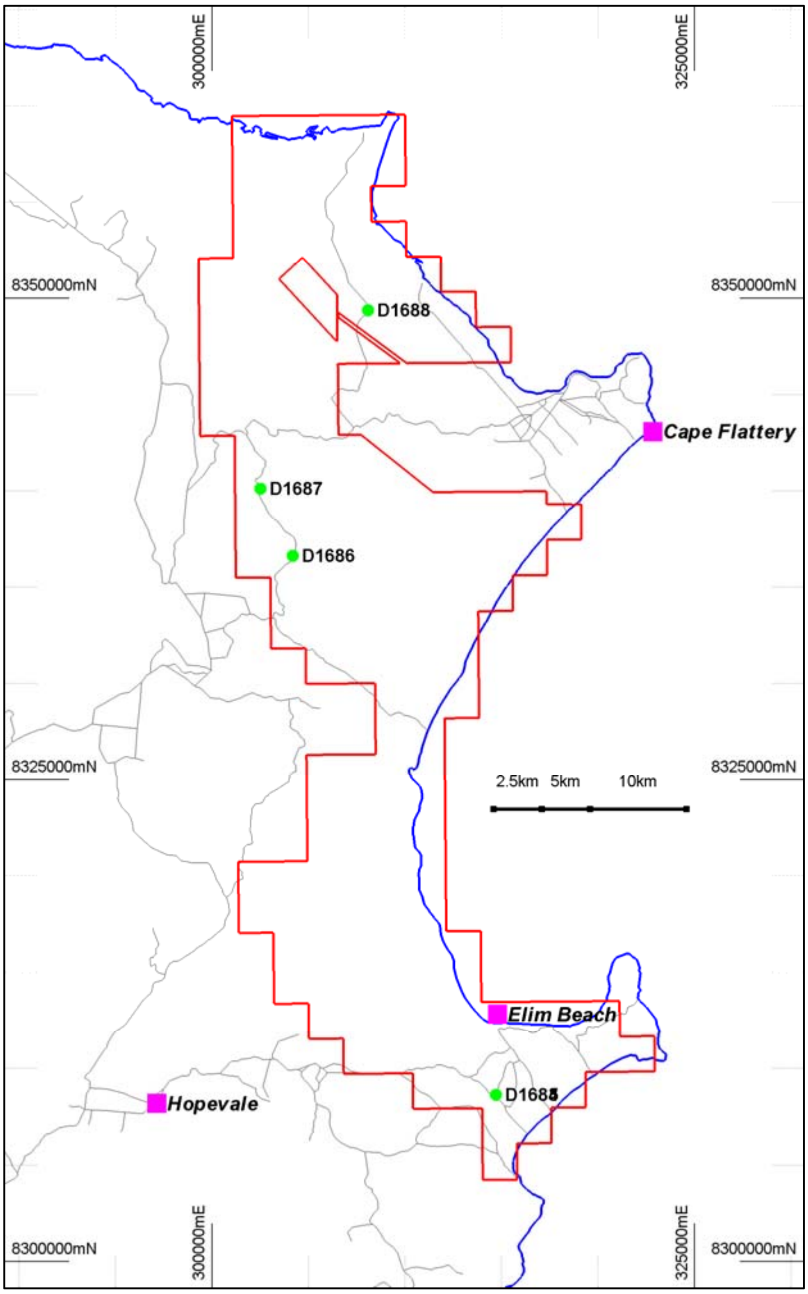
A program of geological / geomorphological mapping, drilling and sample assaying is anticipated to quickly generate silica sand resources. Bulk sample collection will allow process flowsheet development and product quality analysis, with scoping studies then undertaken.



Cape Bedford Project Tenement Locality Map

Six grab samples of silica sand were collected during an October 2016 reconnaissance site visit to the dunefield at Cape Bedford as part of low impact exploration activity. All samples were submitted for HM analysis and the two samples (D1686, D1687) that displayed visible HM mineralisation subsequently returned HM assays of 3.3% HM and 1.6% HM, respectively. Together with the observation of HM slicks on some of the exposed beaches, this suggests that HM mineralisation may be present at several locations within the EPM.

The silica "float" fraction of the reconnaissance grab samples was submitted for XRF analysis, and all reported ≥99.8% SiO_2 with low levels of Fe_2O_3 (average 0.014%) and Al_2O_3 (average 0.043%). This preliminary work confirms the potential of the widespread silica sand dune material to generate high-quality silica sand.



Cape Bedford Reconnaissance Sample Location

A preliminary metallurgical test was also undertaken on a 90kg sample of dune material collected from a road cutting immediately south of the Elim Beach campsite. The sample contained low levels of slimes (-45micron) and oversize (+1.0mm), and Heavy Mineral content was determined at 2.6%. The sample processed readily and initial work indicates the sands to be amenable to the use of standard mineral sands process methodologies and equipment.

Wet tabling produced a HMC which was then processed using a simple combination of magnetic separation, further wet tabling, electrostatic separation and magnetic separation to produce a primary ilmenite product, a potential secondary ilmenite concentrate, HiTi/Rutile concentrate and zircon concentrate.

The primary ilmenite product contained 54% TiO2 and low levels of contaminants, particularly Cr_2O_3 and U+Th. The other titanium concentrates display positive characteristics suggesting that chloride grade ilmenite and HiTi products could be produced with further detailed processing. The zircon concentrate returned low levels of Fe_2O_3 and U+Th.

GRAYS HILL HM PROJECT – CENTRAL QUEENSLAND

The company has identified several topographic features within Quaternary sediments on the coastal plain in the eastern part of EPM25117 that may represent targets for HM accumulation. An agreement needs to be negotiated with the landholder to facilitate access for reconnaissance exploration.

METALS

TICK HILL GOLD PROJECT – NORTHWEST QUEENSLAND

The Tick Hill Gold Project comprises three granted Mining Lease No's 7094, 7096 and 7097 (totaling 390ha). The Tick Hill Gold Deposit was mined between 1991 and 1995 by Carpentaria Gold Pty Ltd (a subsidiary of MIM Holdings Limited) to produce 513,333 ounces of gold from 705,000 tonnes of ore at a recovered grade of 22.6 g/t gold (source: MIM – Annual Reports). This makes it one of the highest-grade gold deposits in Australia's recent gold producing history.

Pursuant to the 2004 Tick Hill Option and Sale Agreement with MIM, DRX exercised that option via an Implementation Deed resulting in the assignment to DRX of a 100% interest in the three ML's. Finalisation of transfers and tenement ownership in Diatreme's name was achieved in March 2015, and this assignment satisfied certain conditions precedent for the commencement of the DRX Farm-In and Joint Venture Agreement with Superior Resources Limited (ASX:SPQ) over the Tick Hill Gold Project. Under the Joint Venture Agreement, Superior Resources has the right to earn a 50% interest in the project by:

- Completing $750,000 of exploration expenditure;
- Making a payment to DRX of $100,000; and
- Lodging 50% of the Queensland Government security bond on the tenements.

However, exploration and assessment of the surface material within the leases (including alluvials, tailings and waste dumps) is to be conducted as a joint operation, with each party contributing 50% of the costs.

The initial exploration work program was focussed on an assessment of the tailings from the previous mining to determine if they contained sufficient gold to warrant detailed investigation of reprocessing options, with a particular emphasis on the short-term opportunity to facilitate positive revenue generation. The total reported production for the Tick Hill Gold Mine was 705,000t at 22.6 g/t Au for 15,900kg Au at 97% gold recovery. Some high grade open pit ore was mined and transported to the Carpentaria Gold operations at Ravenswood to provide early cash flow to the project, this has been estimated at 20,000t based on the reported 19,000oz produced at Ravenswood in the 1991/1992 financial year (with head grades for that year of 30.2 g/t Au). This information suggests that approximately 685,000t of tailings remain on site, with an estimated grade around 0.7 g/t Au.

Tails Drilling

A reconnaissance drilling program of the filled and capped tailings dam, decant pond and an area of alluvial potential (as defined by historical soil surveys) occurred in late July 2015 utilising the company's aircore drilling rig to allow a cost-efficient exploration program to be undertaken using in-house equipment and expertise.

Encouraging results were returned from the tailings dam, with an overall average grade of 1.04 g/t Au. The eastern tailings paddock returned an average grade of 1.42 g/t Au from 78 samples, whilst the western tailings paddock which has been filled to a slightly higher elevation, returned 0.73 g/t Au from 91 samples.

An infill drilling program was undertaken over the Tailings Dam in September 2015 with holes drilled at 50m x 50m spacing with an equidistant offset from the reconnaissance drilling. The infill drill results show good correlation with the reconnaissance drilling results, with the combined weighted average grade for the eastern paddock calculated at 1.42 g/t Au (74.1m at 1.42 g/t Au from reconnaissance drilling and 81.2m at 1.43 g/t Au from infill drilling) and the combined weighted average grade for the western paddock calculated at 0.81 g/t Au (88.8m at 0.73 g/t Au from reconnaissance drilling and 107.1m at 0.88 g/t Au from infill drilling).

The tailings dam is calculated to have an average weighted grade of **1.08 g/t Au** based on the combination of reconnaissance and infill drilling (including a top cut of 4.0 g/t Au).

Tails Metallurgical Study

Bulk samples were collected during the infill drilling and a ~50kg composite sample from the central N-S line of drilling through each of the tailings paddocks was submitted for metallurgical testwork by ALS Metallurgy in Perth. As the presence of cyanide had been noted in previous environmental sampling of the tailings material, a 20kg sub-sample of the bulks was re-pulped with water for 24 hours and then pressure filtered. Analysis of the solids and solution returned assays showing gold distribution in solution of 11% for the eastern paddock, and 15% for western paddock.

By combining assays from the re-pulping work with earlier assays of the as-received bulk sample, a calculated head grade of 1.27 g/t Au for the eastern paddock and 0.71 g/t Au for the western paddock can be calculated. This correlates well with mass weighted average grades of the included drill samples of 1.33 g/t Au for the eastern paddock and 0.77 g/t Au for the western paddock.

Cyanidation leach testwork on the washed tailings residue was undertaken, with generally low gold extraction rates of 24% for the eastern paddock and 32% for the western paddock. The low extraction rate is considered consistent with 'as-received' tailings material, and sizing analysis and assay indicate that gold distribution is weighted towards the coarser fractions of the tailings material, with 70% of the gold contained in the +75µm fractions of both tailings paddocks. As the gold grade increases in the coarser size fractions this suggests that unrecovered gold in the tailings is likely to be directly related to grind size and degree of liberation.

An ultra-fine re-grind of the samples was then undertaken, with the eastern paddock returning 95% gold extraction from a 24-hour leach on a sample with a p80 of 14 µm, and the western paddock returning 98% gold extraction from a 24-hour leach on a sample with a p80 of 11 µm. For both samples, very high levels of gold extraction were achieved within 4 hours (89% and 94% respectively). A series of grinding and leaching tests were then undertaken to develop a gold extraction vs grind size recovery curve, with a clear trend between grind size and gold extraction such that gold extraction increases at increasingly finer grind size. The target size would be a trade-off between costs (particularly grinding energy costs) and additional gold extraction.

The metallurgical work completed during 2015 indicates that very high levels of gold extraction can be achieved by cyanide leaching of re-ground tailings material, and this coupled with a significant proportion of water soluble gold provided encouragement for development of an efficient processing option for the Tick Hill tailings material.

Further studies were undertaken during Q2 of 2016 to help determine the optimal grain size required to balance leach extraction rates with energy requirements for regrinding of the tailings. The cyanide leach testwork showed that gold extraction increases with increasingly finer grind size, but gold extraction of ~90% or higher can be achieved at grind sizes of around P_{80} 35 µm and finer (based on previous testwork reported in October 2015). Gold extraction after 12 hours was consistently high at all grind sizes assessed (10 – 25 µm), and in most cases, increases between 12 and 24 hours. Ultra-fine grinding testwork utilizing an Isamill™ was conducted to determine the likely energy requirements. These results reported slightly higher than parameters used in the Scoping Study, but further work is required to generate data suitable for use in feasibility studies.

A 50kg sample was processed through a Knelson concentrator during Q3 of 2016 to assess the efficiency of gravity separation on the Tick Hill tailings material. Although a gravity concentrate with free gold was produced, the overall gold recovery to concentrate was too low for gravity separation to be considered as an alternate or complementary processing method.

Additional metallurgical testwork is required to allow detailed design of a process flowsheet, determination of capital and operating costs, and development of a financial model to further assess the economic potential for mining and processing of the tailings material.

Tails Resource

Diatreme announced a maiden mineral resource estimate for tailings material located within the rehabilitated tailings dam at the Tick Hill Gold Project in January 2016. The Indicated Resource is estimated at 630kt at 1.08 g/t Au (at 0.5 g/t Au cut-off) containing 680kg (22,000 troy ounces) of gold.

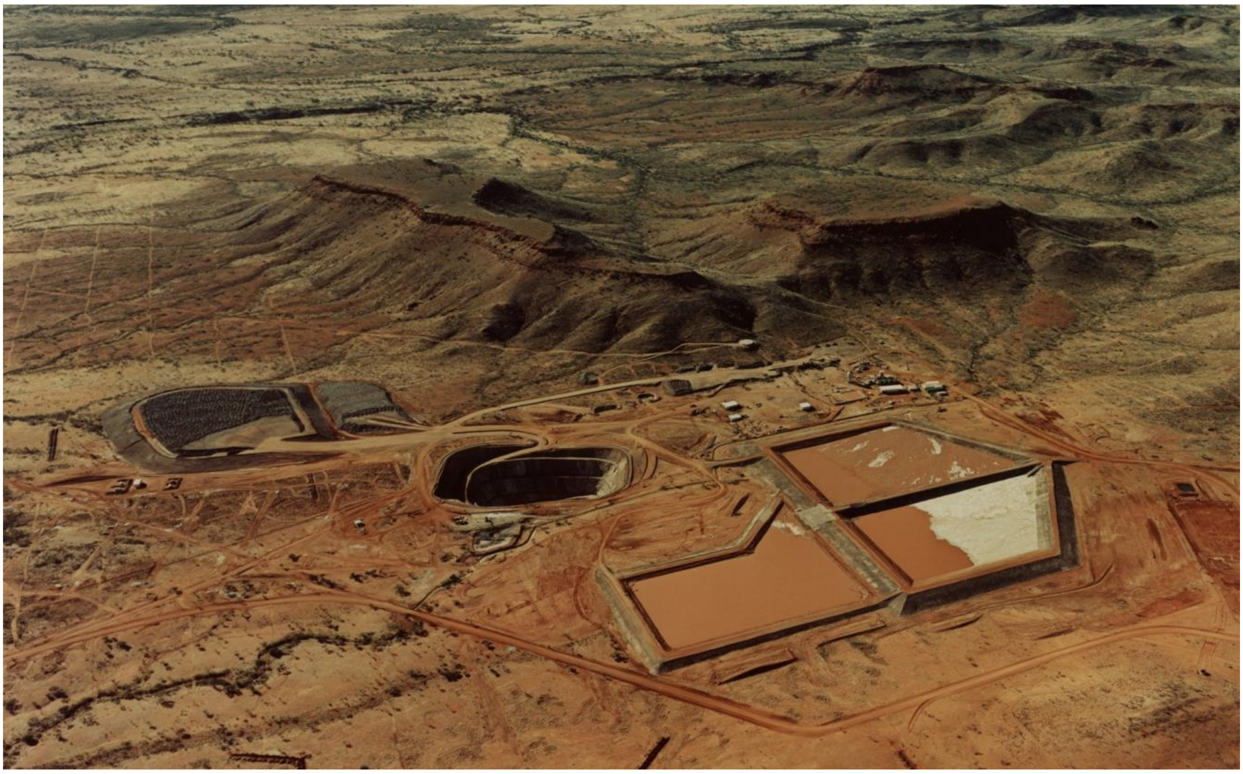
The resource estimate utilises data from Diatreme's 2015 drilling programs, together with documented design parameters for the Tailings Dam construction and a high-resolution DEM captured by Glencore in 2013 to estimate material volumes. The resource estimate concurs with previous calculations of the tailings material based on historical production and the exploration drilling results.

Work is now being planned to assess potential tailings mining and gold processing options, including process flowsheet design. Results from this work will allow completion of a scoping study and guide project development.

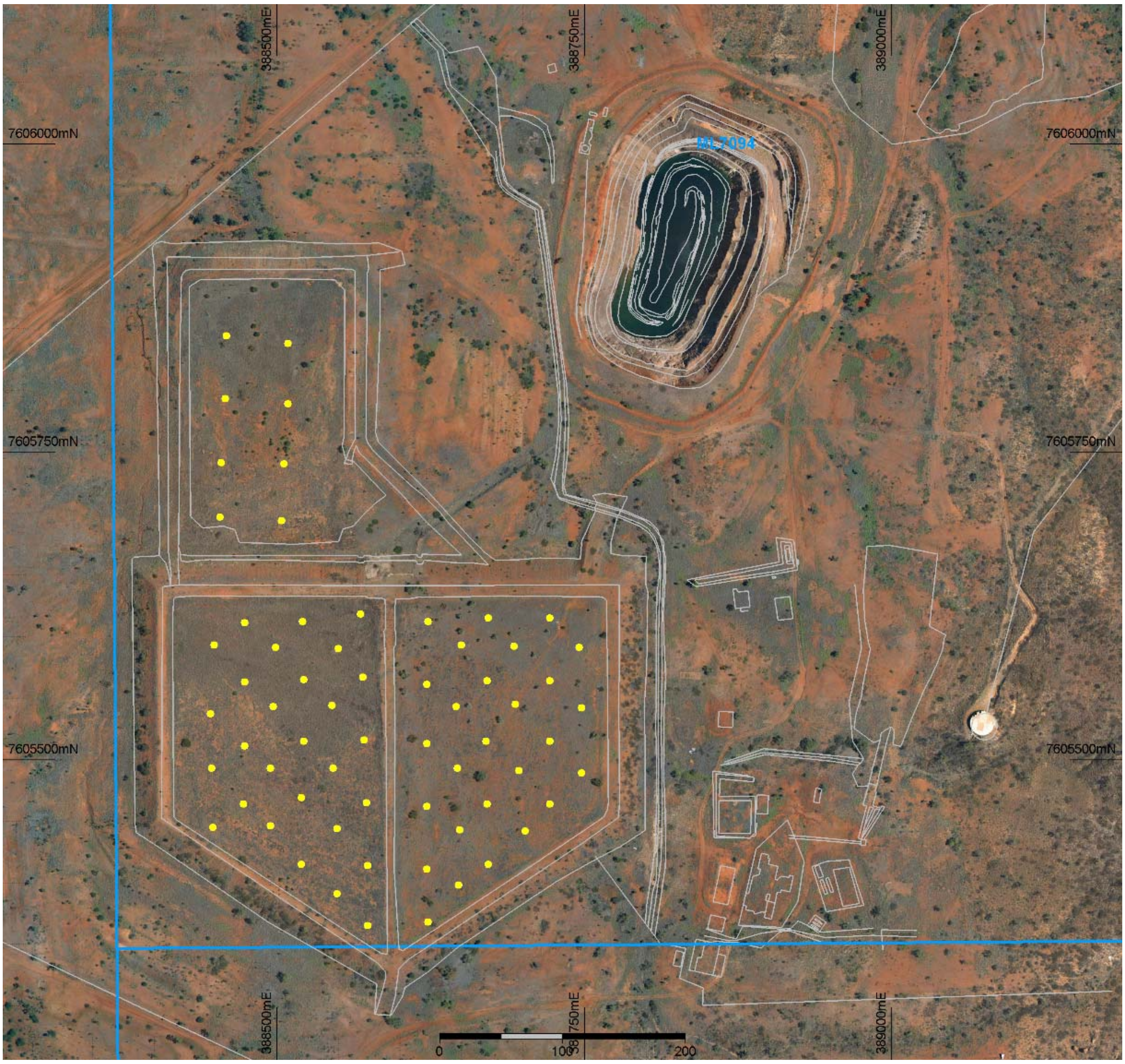
Scoping Study

A scoping study prepared by external consultants Metcor confirmed the potential for a standalone operation processing the tailings resource, via a 20-month operation processing the tailings using re-grinding and a standard CIP/CIL circuit. Using conservative gold price and exchange rate assumptions together with stage appropriate capital and operating cost estimates, the study shows Tick Hill's potential to deliver a commercial return.

Further engineering and commercial studies, including grinding requirements, the pricing of major plant items required for processing operations, and detailed energy and labour costs will allow a feasibility report to be prepared.



Tick Hill Gold Mine (circa 1993) looking easterly



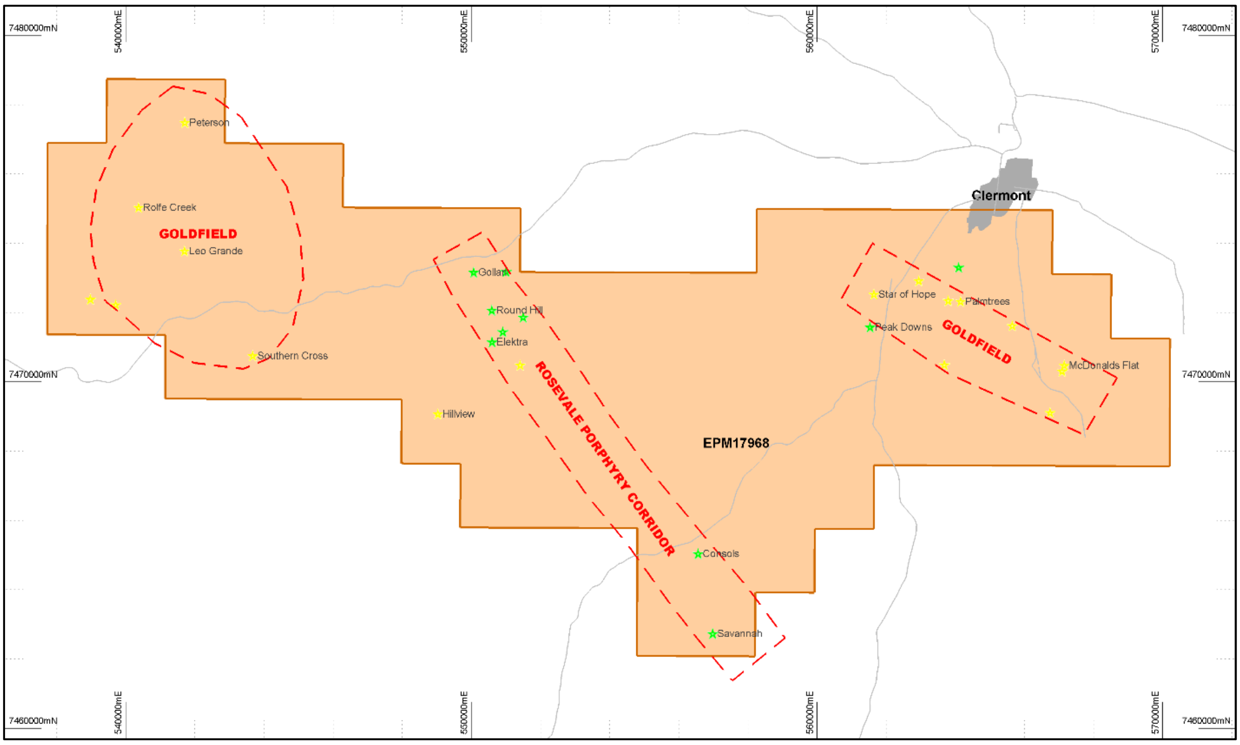
Tick Hill Project, tails drilling and previous site layout

CLERMONT COPPER/GOLD PROJECT – CENTRAL QUEENSLAND

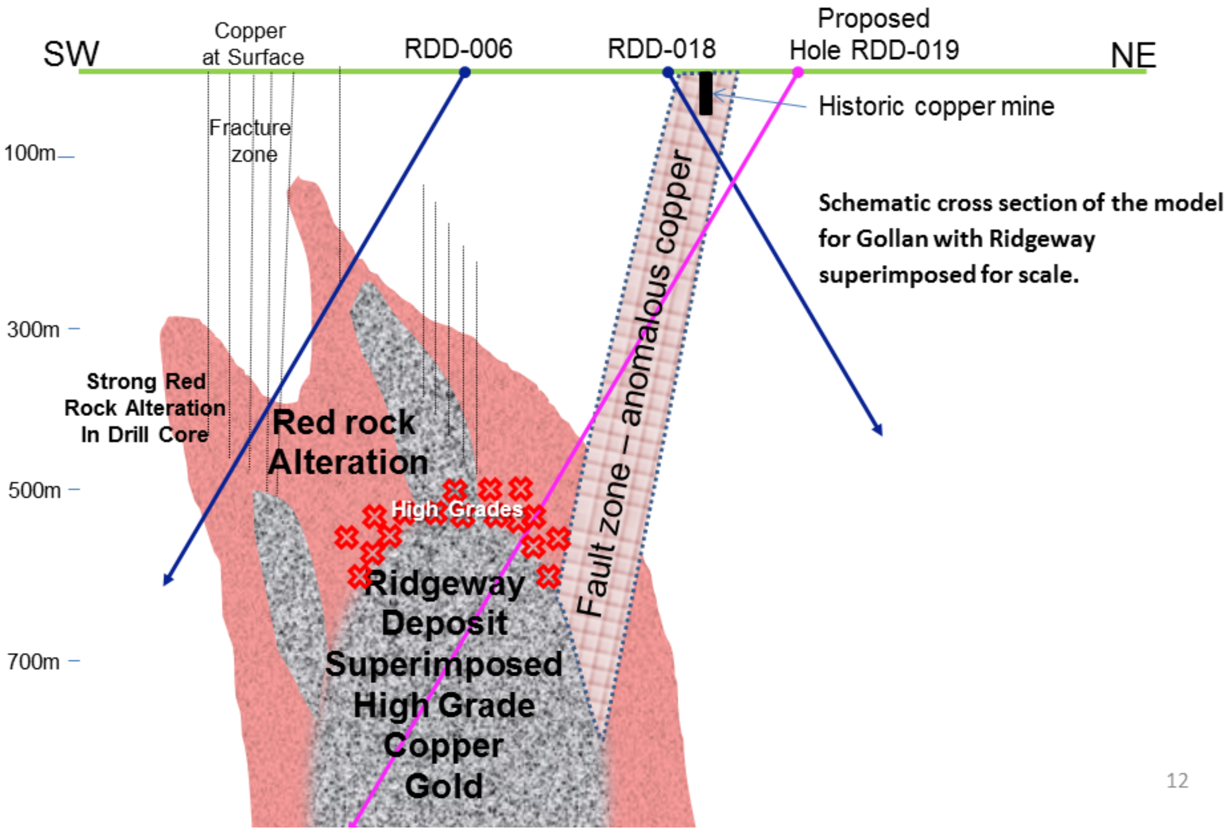
The Clermont Project, consisting of three exploration permits, is situated close to the town of Clermont in central Queensland. Diatreme is exploring the area for porphyry copper/gold targets and mesothermal gold targets. The project area covers numerous prospects including Rosevale Project and the historic Peak Downs Copper Mine.

At the Gollan Prospect, toward the north of the Rosevale Porphyry Corridor (RPC), the Company has defined, from previous drilling, a wide zone of hematite-bearing propylitic alteration of the intrusives, located in a zone of abundant secondary carbonate copper on surface. The geological setting is reminiscent of the high-grade Ridgeway deposit at Cadia NSW. Recent exploration has highlighted drill-ready porphyry copper targets for follow-up drilling.

No field exploration was undertaken during 2016, but further exploration is warranted over Clermont particularly over the RPC for copper and over the Palm Trees Prospect for gold. The tenement holding was reduced to EPM17968 which hosts the primary exploration targets.



Location of Clermont tenement and prospects



Schematic cross section of model for Gollan Prospect with Ridgeway superimposed for scale

GRAYS HILL COPPER PROJECT – CENTRAL QUEENSLAND

A review of historical exploration data and reports for the Wasp Porphyry prospect was undertaken by a consultant geologist familiar with porphyry related mineralisation systems. It is apparent that the Wasp prospect displays classic porphyry alteration together with low grade copper-molybdenum mineralisation, but has been discounted by previous explorers in the 1970's and 1980's as not representing potential open pittable mineralisation.

An exploration opportunity has been identified for both structurally controlled epithermal mineralisation (which was not recognised and/or targeted by previous explorers) and porphyry mineralisation beyond the limits of previous drilling. Historical drilling has not fully tested the areal or depth extent of the porphyry as it was typically <150m deep, and focussed on the outcropping south-eastern portion of the granodiorite stock. Field work is required to better assess to exploration opportunity at the Wasp prospect.

TENEMENT CONSOLIDATION

In maintaining the company's focus on core projects, there were minor changes to the company's tenement holding during 2016.

Clermont Project: Following a strategic review of exploration potential, a decision was made to surrender EPM19544, and to not seek renewal of a further term for EPM19189. A voluntary partial surrender of EPM17968 was also made to reduce administration costs whilst retaining the core Clermont exploration prospects.

Eucla Basin Heavy Mineral Sands Project: Following correspondence with the WA DMP that exemptions for exploration expenditure were likely to be refused for both E69/2425 (in June 2016) and E69/2408 (December 2016) the company decided to surrender both tenements, given that identified mineralisation within the tenements was low grade with significant overburden and thought unlikely to have economic potential in the short to medium term.

COMPETENT PERSON STATEMENTS

The information in this report, insofar as it relates to Exploration Results and Mineral Resources is based on information compiled by Mr Ian Reudavey, who is a full-time employee of Diatreme Resources Limited and a Member of the Australian Institute of Geoscientists. Mr Reudavey has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Reudavey consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Ore Reserves is based on information compiled by Mr Phil McMurtrie, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr McMurtrie is a director of Tisana Pty Ltd, and is a consultant to Diatreme Resources Limited. Mr McMurtrie has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr McMurtrie consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

Directors' Report

The Directors present their report on Diatreme Resources Limited ("Diatreme" or "the Company") and its subsidiaries (the "Group") for the year ended 31 December 2016.

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

A Tsang
C Wang
Y Zhuang

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration for heavy mineral sands, copper and gold in Australia. There were no changes in the nature of the Group's principal activities during the year.

DIVIDENDS

No dividend has been paid since the end of the previous year and the Directors do not recommend the payment of any dividend for the year ended 31 December 2016.

REVIEW OF OPERATIONS

During the year, Diatreme Resources Limited was primarily focussed on the advancement of its major projects by advancing and obtaining key Government agency approvals and undertaking further commercial and technical studies to allow continued progress on Cyclone (Cyclone Zircon Project), Tick Hill (Tick Hill Gold Project) and Cape Bedford (Cape Bedford Silica & HM Sands Project).

Concurrently with the major project program, management continue to examine tenement areas currently held and where possible pursue opportunities to reduce holding costs through tenement consolidation, reduction or relinquishment to ensure only the most prospective areas are held by the company and operational overheads are minimised. This process is ongoing and relentless in its pursuit of cost minimisation.

Diatreme's flagship project the "Cyclone Zircon Project" continues to be progressed through the last stage of a complex commercial, operational and permitting project de-risking process. This de-risking was identified historically by Diatreme following potential project participant's feedback during discussions and project due diligence exercises as key commercial/technical/permitting elements that needed to be removed so that participation discussions could be advanced and finalised. In essence advancing Cyclone to a "turn-key" opportunity fully permitted ready for mine development.

The last stage of this process is obtaining the W.A Minister for Environment's approval on environmental permitting needed to allow the mine access road and all associated camp infrastructure to be established. In addition, in order to update the previously undertaken Pre– Feasibility Studies (PFS) a full review and update of the Project was undertaken by an independent engineering services firm Sedgman Ltd. This report confirmed the project's commercial viability within the current day context and current commercial parameters including product pricing, wage/labour rates, fuel and power generation costs, etc.

Major Activities

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

- Reporting of a mineral resource estimate for the Tick Hill tailings material, and the subsequent completion of a scoping study for re-processing of the Tick Hill tailings material.

- An independent Cyclone Project Enhancement and Update Study that was undertaken by consultants Sedgman Limited generated financial modelling results of $121M NPV with payback in under 3 years. The study confirmed the robust commercial nature of the Cyclone Zircon Project.

- Award by the Queensland regulator of the Cape Bedford EPM (Exploration Permit for Minerals) to Diatreme Resources Ltd for a five-year term.

- The Western Australian EPA provided Lost Sands Pty Ltd with draft conditions relating to environmental approvals for the Cyclone Zircon Project in August 2016, these were reviewed by Diatreme and accepted. Following a two-week public comment period two objections to the approval were received by the Minister's Office. Diatreme and the Ministers' Office then engaged in a period of discussion with the various parties to gauge the validity or otherwise of these objections. Final regulatory approval is expected in early 2017*.

- Grinding and cyanide leach testwork on the Tick Hill tailings bulk sample showed that >90% gold recovery can be achieved by grinding to a P80 of 35 μm.

(* Following extensive work undertaken with regulatory authorities the final Ministerial approval for the Cyclone Zircon project environmental license was granted on January 10th, 2017).

Fundraising

During the course of 2016 Diatreme undertook the following fund raising activities:

- Continued drawdowns of a $3.0m convertible note facility from a private Chinese Investor on favourable terms to the company. Total drawn to 31 December 2016 was $2.7m with balance to be drawn during first quarter of 2017.

- Diatreme undertook a well-supported Share Purchase Plan (SPP) raising $519,000 in July 2016 and concurrently with the SPP process undertook a placement to an existing shareholder raising a further $235,000. Total raised in July 2016 was $754,000.

Exploration

Key Exploration operations during the year involved:

- Reporting of an updated global ore reserve estimate for the Cyclone Project of 138 million tonnes (Mt) at 2.6% heavy minerals (HM) at a 1% HM cut-off grade, containing 3.5Mt of HM.

- A maiden mineral resource estimate was reported for the Tick Hill tailings material, comprising 630kt at 1.08 g/t Au containing 680kg of gold (22,000 troy ounces). The estimate was based on the data from two aircore drilling programs and positive results obtained from metallurgical testwork on bulk samples from each of the tailings cells.

- A scoping study report for the Tick Hill Tailings Project confirmed the potential viability of a standalone operation extracting, re-grinding and processing the tailings through a standard CIP/CIL circuit.

- Cape Bedford EPM17795 in North Queensland was granted for a five-year term in June 2016. The EPM lies some 40km north of Cooktown and covers the majority of the Cape Bedford – Cape Flattery dunefield, surrounding the Cape Flattery silica sand mining operations. Extensive silica sand has been identified by previous exploration, and Diatreme plans to follow-up previous reports of HM occurrences.

With capital market conditions remaining difficult for junior explorers and commodity prices remaining subdued the Company continues to maintain tight control over exploration expenditure whilst aiming to ensure that the Company advances its priority exploration assets towards establishment where commercially viable of actual mining operations.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2016 was $1,850,962 (2015: loss of $3,877,435).

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio. The Group monitors cash flow requirements for operational, exploration and evaluation expenditure and will continue to use capital market issues to satisfy anticipated funding requirements.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year ended 31 December 2016, the Group drew down $1,600,000 from the convertible note facility, with final balance of $300,000 expected to be received in March 2017. Also during the year, the Group raised $754,000 comprising of $519,000 from a Share Purchase Plan, and $235,000 from a private placement.

EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial years subsequent to 31 December 2016.

FUTURE DEVELOPMENTS

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

INFORMATION ON DIRECTORS

Name:	Cheng (William) Wang
Title:	Non-executive Chairman
Qualifications:	MBA
Experience:	Mr Wang was appointed Director in May 2011. For 15 years he held senior management positions in several Chinese state owned companies. Now domiciled in Australia, he has been active with Australian companies including directorships with China Century Capital Limited, Jupiter Mines Limited Director and Gulf Alumina Limited. Mr Wang was appointed Non-executive Chairman on 1 July 2014.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of audit committee
Interests in shares:	2,982,640 ordinary shares
Interests in options:	1,000,000 unlisted options

Name:	Andrew Tsang
Title:	Non-executive Director
Qualifications:	None
Experience:	Mr Tsang is a naturalised Australian citizen who was born and educated in China and who has successfully established and run construction, engineering and property development businesses both in China and Australia as well as establishing successful import agencies for Australian manufactured goods into China.
Other current directorships:	Mindax Limited (since 28 March 2008)
Former directorships (last 3 years):	None
Special responsibilities:	Member of remuneration committee
Interests in shares:	111,536,110 ordinary shares
Interests in options:	1,000,000 unlisted options

Name:	Yufeng (Daniel) Zhuang
Title:	Non-executive Director
Qualifications:	BA (Bejing, China), MSc (New Jersey, USA)
Experience:	Mr. Zhuang was nominated to the Board by the (former) association of Chinese shareholders Messrs Zhensheng Zhuang, Chenfei Zhuang and Qi Lin, to represent their significant investment and ongoing corporate commitments toward the Company. He has worked for Ping An Securities in Beijing and Fujian Minxing Group in Zhangzhou, China.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of audit committee
Interests in shares:	120,983,890 ordinary shares
Interests in options:	None

COMPANY SECRETARY

Mr Tuan Do was appointed Company Secretary in May 2011 and is also the Group Financial Controller.

MEETINGS OF DIRECTORS

The number of meetings of the board of Directors held during the year ended 31 December 2016, and the number of meetings attended by each Director was:

Name	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
A Tsang	3	2	-	-	-	-
C Wang	3	3	2	2	-	-
Y Zhuang	3	3	2	2	-	-

REMUNERATION REPORT - AUDITED

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

A Principles used to determine the nature and amount of remuneration
B Relationship of remuneration with Group performance
C Details of remuneration
D Service agreements
E Share-based compensation
F Additional disclosures relating to key management personnel

A *Principles used to determine the nature and amount of remuneration*

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

(i) 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.

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

B Relationship of remuneration with Group performance

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

		2012	2013	2014	2015	2016
Share price at year end	$/share	0.02	0.02	0.01	0.01	0.01
Market capitalisation	$	9,471,648	12,191,649	7,264,157	8,097,490	8,767,327
Revenue	$	223,274	263,729	267,799	153,374	62,944
Total assets	$	23,064,562	22,102,096	15,237,360	13,545,426	14,060,241
Net profit/(loss) after tax	$	(4,908,468)	(4,797,128)	(7,252,709)	(3,877,435)	(1,850,962)

C *Details of remuneration*

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

N J McIntyre – Chief Executive Officer
T Do – Group Financial Controller/Company Secretary

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

2016	**Short-term employee benefits**	**Post-employment benefits**	**Long-term benefits**	**Termination benefits**	**Share-based payments**	
Name	**Cash salary, fees & leave $**	**Superannuation $**	**Long service leave $**	**Termination payments $**	**Options $**	**Total $**
Non-executive Directors						
A Tsang	32,000	3,040	-	-	-	35,040
C Wang	32,000	3,040	-	-	-	35,040
Y Zhuang	90,000	8,550	-	-	-	98,550
Other key management personnel						
N J McIntyre	177,395	-	-	-	-	177,395
T Do (1)	139,799	12,255	-	-	-	152,054
Total	471,194	26,885	-	-	-	498,079

(1) Employees worked at reduced hours per working week during the year ended 31 December 2016 due to the need for the Company to conserve cash.

2015	**Short-term employee benefits**	**Post-employment benefits**	**Long-term benefits**	**Termination benefits**	**Share-based payments**	
Name	**Cash salary, fees & leave $**	**Superannuation $**	**Long service leave $**	**Termination payments $**	**Options $**	**Total $**
Non-executive Directors						
A Tsang (1)	32,000	3,040	-	-	-	35,040
C Wang (1)	32,000	3,040	-	-	-	35,040
Y Zhuang	90,000	8,550	-	-	-	98,550
Other key management personnel						
N J McIntyre	179,825	-	-	-	-	179,825
T Do (2)	141,041	12,255	-	-	-	153,296
L Stanley(3)	10,500	-	-	-	-	10,500
Total	485,366	26,885	-	-	-	512,251

(1) The Directors voluntarily reduced their fees and salaries during the year ended 31 December 2015 due to the need for the Company to conserve cash.
(2) Employees worked at reduced hours per working week during the year ended 31 December 2015 due to the need for the Company to conserve cash.
(3) Resigned 30 April 2015.

D Service agreements

A Tsang, Non-executive Director

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $49,275.
- No termination benefit is specified in the agreement.

C Wang, Non-executive Chairman

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $49,275.
- No termination benefit is specified in the agreement.

Y Zhuang, Non-executive Director & Financial Investment Advisor

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $98,550.
- The agreement may be terminated by 1 month notice from either party
- In the event that the position is made redundant, redundancy payment will be made equivalent to minimum of 4 weeks' pay up to maximum of 12 weeks' pay, dependent on years of service with the company.

N J McIntyre, Chief Executive Officer

- Term of agreement – 12 months, with continuous renewal option for further 12 months.
- Fixed monthly fee - $15,000.
- The agreement may be terminated by 1 month notice from the employee and 3 months' notice from the company.
- No termination benefit is specified in the agreement.

T Do, Group Financial Controller/ Company Secretary

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $176,568.
- The agreement may be terminated by 1 month notice from either party.
- In the event that the position is made redundant, redundancy payment will be made equivalent to minimum of 4 weeks' pay up to maximum of 12 weeks' pay, dependent on years of service with the company.

E Share-based compensation

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

No new options or performance rights were granted as compensation to Directors and other key management personnel during the 2016 and 2015 financial years.

2016	Beginning balance	Granted as remuneration	Exercised during the year	Options lapsed	Balance at end of year
A Tsang	1,000,000	-	-	-	1,000,000
C Wang	1,000,000	-	-	-	1,000,000
Y Zhuang	-	-	-	-	-
N J McIntyre	1,000,000	-	-	-	1,000,000
T Do	1,000,000	-	-	-	1,000,000

F Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of compensation	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
A Tsang	111,536,110	-	-	-	111,536,110
C Wang	2,637,822	-	344,818	-	2,982,640
Y Zhuang	59,660,000	-	61,323,890	-	120,983,890
N J McIntyre	-	-	-	-	-
T Do	-	-	-	-	-
Total	173,833,932	-	61,668,708	-	235,502,640

Option holding – non-remuneration
The number of listed options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

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

END OF AUDITED REMUNERATION REPORT

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Issue/grant date	Expiry date	Exercise price	Number under option	
31 May 2013	30 April 2019	10 cents	3,000,000	Unlisted
15 March 2013	30 April 2019	10 cents	5,000,000	Unlisted

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

NON-AUDIT SERVICES

BDO Audit Pty Ltd, the Company's current auditor, did not perform any other services in addition to their statutory audit duties.

AUDITOR'S INDEPENDENCE DECLARATION

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

CORPORATE GOVERNANCE STATEMENTS

The Company's Corporate Governance Statement is available to view publically on the Company's website at www.diatreme.com.au/Corporate Governance.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

William Wang
Non-executive Chairman

20 March 2017
Brisbane

BDO

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Australia

Auditor's Independence Declaration

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

As lead auditor of Diatreme Resources Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

No contraventions of any applicable code of professional conduct in relation to the audit.

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

A J Whyte
Director

BDO Audit Pty Ltd

Brisbane, 20 March 2017

Financial Report

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Note	2016 $	2015 $
Revenue	2	62,944	153,374
Other income	2	29,336	45,024
Employee benefits expenses		(697,202)	(713,821)
Termination benefits expenses		-	(57,200)
Depreciation expenses	10	(48,395)	(62,597)
Exploration assets written off	11	(258,003)	(2,309,339)
Other expenses	2	(688,803)	(884,200)
Finance costs		(250,839)	(48,676)
Loss before income tax		(1,850,962)	(3,877,435)
Income tax benefit	5	-	-
Net Loss for the year		(1,850,962)	(3,877,435)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,850,962)	(3,877,435)

		Cents	Cents
Loss per share			
Basic earnings per share	4	(0.2)	(0.5)
Diluted earnings per share	4	(0.2)	(0.5)

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

	Note	2016 $	2015 $
Current Assets			
Cash and cash equivalents	13	310,362	20,320
Trade and other receivables	7	110,511	63,142
Total Current Assets		420,873	83,462
Non-current Assets			
Available-for-sale financial assets		3,252	3,252
Property, plant and equipment	10	172,316	231,262
Exploration and evaluation assets	11	13,417,168	13,114,514
Other assets	12	46,632	112,936
Total Non-current Assets		13,639,368	13,461,964
Total Assets		**14,060,241**	**13,545,426**
Current Liabilities			
Trade and other payables	8	296,056	361,702
Provisions	9	5,546	5,546
Total Current Liabilities		301,602	367,248
Non-current Liabilities			
Borrowings	14	2,623,466	983,409
Provisions	9	272,000	272,000
Total Non-current Liabilities		2,895,466	1,255,409
Total Liabilities		**3,197,068**	**1,622,657**
Net Assets		**10,863,173**	**11,922,769**
Equity			
Issued capital	15	48,750,812	48,048,903
Reserve	16	360,630	271,173
Accumulated losses	17	(38,248,269)	(36,397,307)
Total Equity		**10,863,173**	**11,922,769**

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

	Note	Issued capital	Share-based payment reserve	Convertible note reserve	Accumulated losses	Total
		$	$	$	$	$
Balance at 1 January 2015		**47,108,903**	**191,938**	**-**	**(32,519,872)**	**14,780,969**
Total comprehensive income: Loss for the year		-	-	-	(3,877,435)	(3,877,435)
Transactions with owners in their capacity as owners:						
Shares issued		1,000,000	-	-	-	1,000,000
Share issue costs		(60,000)	-	-	-	(60,000)
Convertible note draw down		-	-	79,235	-	79,235
Balance at 31 December 2015		**48,048,903**	**191,938**	**79,235**	**(36,397,307)**	**11,922,769**
Total comprehensive income: Loss for the year		-	-	-	(1,850,962)	(1,850,962)
Transactions with owners in their capacity as owners:						
Shares issued		758,370	-	-	-	758,370
Share issue costs		(56,461)	-	-	-	(56,461)
Convertible note draw down		-	-	89,457	-	89,457
Balance at 31 December 2016	15 to 17	**48,750,812**	**191,938**	**168,692**	**(38,248,269)**	**10,863,173**

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

	Note	2016 $	2015 $
Cash flows from operating activities			
Receipts in the course of operations		59,205	124,366
Payments to suppliers and employees		(1,394,522)	(1,579,603)
Interest received		3,618	12,701
Finance costs		(2,749)	(3,389)
Net cash used in operating activities	6	(1,334,448)	(1,445,925)
Cash flows from investing activities			
Payments for property, plant and equipment		(6,861)	(3,388)
Payments for exploration and evaluation assets		(665,035)	(680,882)
Proceeds from sale of property, plant and equipment		18,173	37,409
Payments for tenement acquisition	26	(39,365)	(415,000)
Refund of security deposits		105,669	200,421
Net cash used in investing activities		(587,419)	(861,440)
Cash flows from financing activities			
Proceeds from issue of shares		758,370	1,000,000
Payments for share issue costs		(56,461)	(66,737)
Proceeds from drawdowns of borrowings		1,600,000	1,100,000
Payments for borrowing costs		(90,000)	(60,000)
Net cash from financing activities		2,211,909	1,973,263
Net increase/(decrease) in cash and cash equivalents		290,042	(334,102)
Cash and cash equivalents at the beginning of the financial year		20,320	354,422
Cash and cash equivalents at the end of the financial year	13	310,362	20,320

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

Contents

A. CORPORATE INFORMATION

Diatreme Resources Limited (the "Company") is a public company listed on the Australian Securities Exchange (trading under the code DRX), and is incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business is Unit 8, 61 Holdsworth Street, Coorparoo, Queensland 4151. The Group financial statements as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

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

B. BASIS OF PREPARATION

(a) Statement of compliance

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

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

The financial statements were approved by the Board of Directors on 20 March 2017.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Accounting policies

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

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

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

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

(e) Adoption of new and revised accounting standards

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 January 2016. Adoption of these new and revised standards did not have a material impact on the financial report.

(f) Material Uncertainty Regarding Going Concern

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

The Group has incurred a net loss after tax for the year ended 31 December 2016 of $1,850,962, and a net cash outflow from operations of $1,334,448. At 31 December 2016, the Group's current assets exceeded its current liabilities by $119,271.

During the year ended 31 December 2016, the Group drew down $1,600,000 from the convertible note facility, with the final balance of $300,000 expected to be received in March 2017. Also during the year, the Group raised $758,370 comprising of $519,000 from a Share Purchase Plan, $235,000 from a private placement, and $4,370 from the exercise of listed options.

The Group's ability to continue as a going concern and pay its debts as and when they fall due, is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the Group's tenements, and/or sale of non-core assets.

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

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

The Directors believe that they will continue to be successful in securing additional funds through the issue of securities as and when required. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

(g) Critical accounting estimates and judgements

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

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

9. Rehabilitation provision
11. Exploration and evaluation assets

C. RESULTS

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

1. Operating segments

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

2. Revenue and other income

Revenue is recognised at the fair value of the consideration received or receivable, and recognised when the service is provided, or ownership of the product has passed to the customer. Interest revenue is recognised on a time proportion basis using the effective interest method.

	2016	**2015**
	$	**$**
a) Revenue		
Interest	3,618	12,701
Management fees	-	5,258
Other	59,326	135,415
	62,944	153,374
b) Other income		
Gain disposal of non-current assets	761	22,380
Gain on loan	28,575	22,644
	29,336	45,024

3. Other expenses

Professional fees	124,117	86,095
Rental expenses on operating leases (#)	245,731	390,925
Listing and share registry expenses	56,948	68,976
Administration costs	262,007	338,204
	688,803	884,200

(#) Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

4. Earnings per share

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

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

	2016 $	2015 $
Loss after income tax attributable to the owners of Diatreme Resources Limited	(1,850,962)	(3,877,435)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	842,281,273	755,654,872
Weighted average number of ordinary shares used in calculating diluted earnings per share	842,281,273	755,654,872

	Cents	Cents
Basic earnings per share	(0.2)	(0.5)
Diluted earnings per share	(0.2)	(0.5)

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

5. Taxation

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

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

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

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

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

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.

	2016 $	2015 $
(a) The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:		
Loss before income tax	(1,850,962)	(3,877,435)
Prima facie income tax benefit at 28.5% (2015: 30%)	(527,524)	(1,163,230)
Tax effect of amounts which are not deductible in calculating taxable income:		
Other	-	7,576
	(527,524)	(1,155,654)
Deferred tax assets not recognised	527,524	1,155,654
Total income tax benefit	-	-

(b) Deferred tax

	2016 $	2015 $
Deferred tax assets		
Unused tax losses	3,241,994	3,312,099
Unused capital losses	4,281	4,507
Temporary differences:		
- Property, plant and equipment	111,229	130,957
- Accruals	87,212	94,640
- Employee benefits	14,940	15,029
- Capital raising costs	150,540	179,826
- Other	213,697	197,296
	3,823,893	3,934,354
Deferred tax liabilities		
- Exploration expenditure	(3,823,893)	(3,934,354)
	(3,823,893)	(3,934,354)
Net deferred tax asset/liability	-	-

(c) Unrecognised deferred tax assets

	2016 $	2015 $
Unused tax losses	47,557,561	45,686,957
Potential tax effect at 28.5% (2015:30%)	13,553,905	13,706,087

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

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

	2016 $	2015 $
Loss for the year	(1,850,962)	(3,877,435)
Non-cash items		
Depreciation	48,395	62,597
Capitalised exploration expenditure written-off	258,003	2,304,339
Gain on loan	(28,575)	(79,235)
(Profit)/loss on sale of fixed assets	(761)	(22,380)
Movements in operating assets and liabilities		
(Increase)/decrease in receivables	6,384	71,701
(Increase)/decrease in other assets	-	6,600
Increase / (decrease) in payables	233,068	87,888
Net cash used In operating activities	(1,334,448)	(1,445,925)

D. WORKING CAPITAL AND OTHER ASSETS AND LIABILITIES

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

7. Trade and other receivables

Trade and other receivables are recognised at nominal amount less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 120 days overdue. On confirmation that the receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

	2016 $	2015 $
Trade receivables	95,079	40,457
Other receivables (1)	15,432	22,685
	110,511	63,142

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

8. Trade, other payables and employee benefits

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

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

	2016 $	2015 $
Unsecured		
Trade payables	18,862	66,825
Other payables and accruals	224,321	250,328
Employee benefits	46,873	44,550
	290,056	361,703

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

9. Provisions

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

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

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

	2016 $	2015 $
Current liabilities		
Employee benefits	5,546	5,546
Non-current liabilities		
Rehabilitation	272,000	272,000

E. TANGIBLE ASSETS

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

Impairment of assets
At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

The carrying values of capitalised exploration and evaluation expenditure and property, plant and equipment are assessed for impairment when indicators of such impairment exist. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment.

10. Property, plant and equipment

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

Depreciation is calculated on a diminishing value basis. Estimates of remaining useful lives are made on a regular basis for all assets.

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

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

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

	Furniture and fittings	Motor vehicles	Plant and Equipment	Total
	$	$	$	$
Year ended 31 December 2016				
Opening net book amount	6,104	43,848	181,310	231,262
Additions	-	-	6,861	6,861
Disposals	-	(17,412)	-	(17,412)
Depreciation charge	(1,294)	(6,751)	(40,350)	(48,395)
Closing net book amount	4,810	19,685	147,821	172,316
At 31 December 2016				
Cost	134,723	139,776	1,063,130	1,337,629
Accumulated depreciation	(129,913)	(120,091)	(915,309)	(1,165,313)
Net book amount	4,810	19,685	147,821	172,316

11. 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 the profit or loss.

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

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

	2016 $	2015 $
Exploration and evaluation assets – at cost less impairment	13,417,168	13,114,514
Opening balance	13,114,514	14,120,130
Tenement acquisition	-	415,000
Costs capitalised during the year	560,657	883,723
Costs written off during the year (#)	(258,003)	(2,304,339)
Closing balance	13,417,168	13,114,514

(#) During the years ended 31 December 2016 and 31 December 2015, reviews of exploration data in conjunction with management assessment, resulted in these write-off of exploration assets.

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

At balance date the carrying amount of exploration and evaluation assets was $13,417,168 of which $10,960,795 is attributable to the significant exploration of the Group's Cyclone Zircon Project.

Joint Venture

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

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

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

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

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

At 31 December 2016, SPQ has not earned any interest in the joint venture.

12. Other non-current assets

	2016 $	2015 $
Rent guarantee deposit	13,365	105,669
Security deposits	33,267	7,267
	46,632	112,936

F. CAPITAL STRUCTURE AND FINANCIAL RISKS

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

13. 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.

	2016 $	2015 $
Cash at bank and in hand	310,362	20,320

14. Borrowings

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

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

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

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

	2016 $	2015 $
Unsecured:		
Convertible notes	1,252,997	463,409
Loan	1,252,997	463,409
Deferred gain on initial recognition of loan	117,472	56,591
	2,623,466	983,409

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

The facility terms are as follows:

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

As at 31 December 2016, the Company had drawn down $2,700,000. The final balance of $300,000 is expected to be received in March 2017.

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

	2016 $	2015 $
Convertible note liability	1,252,997	463,409
Convertible note reserve	168,692	79,235
	1,421,689	542,644
The above is made up of:		
Face value of notes drawdown	1,350,000	550,000
Cost of convertible note facility	(75,000)	(30,000)
Interest accrual	146,689	22,644
	1,421,689	542,644

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

	2016 $	2015 $
Loan	1,252,997	463,409
Deferred gain on initial recognition of loan	117,473	56,591
	1,370,470	520,000
The above is made up of:		
Face value of loan drawdown	1,350,000	550,000
Cost of loan facility	(75,000)	(30,000)
Interest accrual	146,689	22,644
Recognition of gain on loan	(51,219)	(22,644)
	1,370,470	520,000

The effective interest rate is 14%.

15. Issued Capital

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

	2016 $	2015 $
876,732,679 (Dec 2015 809,749,043) ordinary shares	48,750,812	48,048,903

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
1 January 2015	Opening balance	726,415,709		47,108,903
Jan [1]	Shares issued	25,000,000	0.012	300,000
Mar [1]	Shares issued	16,666,667	0.012	200,000
Apr [1]	Shares issued	41,666,667	0.012	500,000
	Shares issue costs	-		(60,000)
31 December 2015	Balance	809,749,043		48,048,903
Mar	Exercise of listed options.	218,516	0.020	4,370
Jul [1]	Shares issued	19,583,333	0.012	235,000
Jul [2]	Shares issued	47,181,787	0.011	519,000
	Shares issue costs	-		(56,461)
31 December 2016	Balance	876,732,679		48,750,812

[1] During both the 2015 and 2016 years the Company completed several placements to sophisticated and professional investors.
[2] The Company completed a Share Purchase Plan in July 2016.

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Share Options

Expiry date	Exercise Price	Number at end of year 2016	Number at end of year 2015
11 March 2016 (listed) [1]	$0.02	-	15,266,611
30 June 2016 (unlisted) [2]	$0.02	-	33,333,333
30 April 2019 (unlisted)	$0.10	8,000,000	8,000,000

[1] 218,516 listed options were exercised and the balance of 15,048,095 listed options expired during 2016.
[2] All 33,333,333 unlisted options expired during 2016.

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.

16. Reserve

	Share based payment reserve $	Convertible note reserve $	Total $
Balance 31 December 2014	191,938	-	191,938
Equity component of convertible note drawdowns	-	79,235	79,235
Balance 31 December 2015	191,938	79,235	271,173
Equity component of convertible note drawdowns	-	89,457	89,457
Balance 31 December 2016	191,938	168,692	360,630

Nature and purpose of share-based payment – option reserve
The share-based payment reserve is used to recognise the fair value of options issued under the employee share option plan.

Nature and purpose of convertible note reserve
The convertible note reserve is used to recognise the fair value of the equity component of the convertible loan facility as described in Note 14 above.

17. Accumulated losses

	2016 $	2015 $
Accumulated losses at the beginning of the year	(36,397,307)	(32,519,872)
Net Loss for the year	(1,850,962)	(3,877,435)
Accumulated losses at the end of the year	(38,248,269)	(36,397,307)

18. Financial instruments

The Group's principal financial instruments comprise cash, short-term deposits, trade payables and borrowings. The main purpose of these financial instruments is to fund the Group's operations.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Categories of financial instruments

	2016 $	2015 $
Financial assets		
Cash and cash equivalents	310,362	20,320
Trade and other receivables	110,511	63,142
Security and other deposits	46,632	112,936
Available-for-sale financial assets	3,252	3,252
Total financial assets	470,757	199,650
Financial liabilities		
Trade and other payables	296,056	361,702
Borrowings	2,623,466	983,409
Total financial liabilities	2,919,522	1,345,111

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

(b) Capital risk management

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

(c) Market risk

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

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

	2016 $	2015 $
Cash and cash equivalents (variable interest rates)	310,362	20,320
Security deposits (fixed interest rates)	33,267	7,267
	343,629	27,587

Interest rate sensitivity analysis
An increase of 80 basis points in interest rates at the reporting date, with all other variables held constant, would have decreased the Group's loss and increased equity by $2,856 (2015: $176). Where interest rates decreased, there would be an equal and opposite impact on the loss and equity.

Price risk
The Group is exposed to equity securities price risk. This arises from an investment held by the Group and classified on the consolidated statement of financial position as an available-for-sale financial asset.

The price risk for unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. A sensitivity analysis has therefore not been performed.

The Group's financial instruments are not exposed to commodity price risk or currency risk.

(d) Credit risk

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

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

(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 2015						
Trade and other payables	361,702	(361,702)	(361,702)	-	-	-
Borrowings	983,409	(1,256,000)	(26,000)	(26,000)	(1,204,000)	-
	1,345,111	(1,617,702)	(387,702)	(26,000)	(1,204,000)	-

Consolidated	**Carrying amount $**	**Contractual cash flow $**	**< 6 months $**	**6-12 months $**	**1-3 years $**	**> 3 years $**
31 Dec 2016						
Trade and other payables	290,057	(290,057)	(290,057)	-	-	-
Borrowings	2,623,466	(2,933,441)	(138,441)	(65,000)	(2,730,000)	-
	450,845	(3,223,498)	(428,498)	(65,000)	(2,730,000)	-

(f) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their respective fair values, other than as noted below.

The fair value of the non-current asset comprising available-for-sale financial assets has been valued at cost less allowance for impairment.

G. GROUP STRUCTURES

This section sets out the legal structure of the Group.

19. Interests in subsidiaries

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 December 2016. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

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

Name of subsidiary	Country of Incorporation	Principal activity	Ownership Interest 2016	2015
Regional Exploration Management Pty Ltd	Australia	Logistical support	100%	100%
Chalcophile Resources Pty Ltd *	Australia	Metals exploration	100%	100%
Lost Sands Pty Ltd	Australia	Mineral sands exploration	100%	100%

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

20. Parent entity information

	2016 $	2015 $
Financial position		
Current assets	414,901	73,292
Non-current assets	15,896,529	15,277,267
Total assets	16,311,430	15,350,559
Current liabilities	114,103	140,100
Non-current liabilities	2,895,466	1,255,408
Total liabilities	3,009,569	1,395,508
Net assets	13,301,861	13,955,051
Shareholders' equity		
Contributed equity	48,750,812	48,048,903
Reserve	360,630	271,173
Accumulated losses	(35,809,581)	(34,365,025)
Total equity	13,301,861	13,955,051

Loss for the year	(1,444,556)	(10,911,493)
Total comprehensive loss for the year	(1,444,556)	(10,911,493)

Non-Current Assets
Non-current assets include $19,491,170 (2015: $11,092,810) of Intercompany Receivables balances with recoverability of the debt based on successful exploitation of various tenement sites.

Contingent Liabilities
The parent entity does not have any contingent liability.

Contractual commitments
The parent entity does not have any contractual commitments for property, plant and equipment at 31 December 2016.

Guarantees
The parent entity does not have any guarantees at 31 December 2016.

H. OTHER ITEMS

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

21. 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:

	2016 $	2015 $
Payable within 1 year	466,211	372,945
Payable between one and five years	2,018,228	1,847,154
	2,484,439	2,220,099

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 2016 cash security bonds totalling $33,267 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (2015: $7,267).

(b) Operating lease commitments

	2016 $	2015 $
Payable within 1 year	49,090	186,097
Payable between one and five years	75,146	-
	124,236	186,097

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

22. Contingent Liability

The Group does not have any contingent liability at 31 December 2016.

23. Share-based payments

The Company established an employee share option plan (ESOP 2012) which was approved by shareholders at the AGM on 24 May 2012. The purpose of the scheme was to give an additional incentive to Directors, employees and consultants, to provide dedicated and on-going commitment and effort to the Company.

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

2016	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
	15/03/2013	30/04/2019	$0.10	5,000,000	-	-	-	5,000,000
2015								
	15/03/2013	30/04/2019	$0.10	6,400,000	-	-	(1,400,000)	5,000,000

The remaining contractual life of the above share options outstanding at the end of the period was 2.3 years.

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

2016	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ other	Balance at end of the year
	31/05/2013	30/04/2019	$0.10	3,000,000	-	-	-	3,000,000
2015								
	31/05/2013	30/04/2019	$0.10	3,000,000	-	-	-	3,000,000

The remaining contractual life of the above share options outstanding at the end of the period was 2.
3 years.

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

Grant date	Expiry date	2016 Number	2015 Number
15/03/2013	30/04/2019	5,000,000	5,000,000
31/05/2013	30/04/2019	3,000,000	3,000,000

24. 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 19.

(c) Key management personnel

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

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

	2016 $	2015 $
Short-term employee benefits	471,194	485,366
Post-employment benefits	26,885	26,885
	498,079	512,251

(d) Transactions with related parties

	2016 $	2015 $
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).	84,305	99,743

25. Remuneration of auditors

	2016 $	2015 $
Amounts received, or due and receivable, by the Group's auditor – BDO Audit Pty Ltd:		
- Audit and review of the financial statements	40,000	35,500

The auditor did not provide any other services.

26. Payment for tenement acquisition

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

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

27. Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial years subsequent to 31 December 2016.

28. New accounting standards and interpretations

At the date of authorisation of the financial report, certain Standards and Interpretations were on issue but not yet effective. These Standards and Interpretations, including AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers, have not been adopted in the preparation of the financial report for the year ended 31 December 2016. None of these Standards and Interpretations is 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.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note B to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

William Wang
Non-executive Chairman

20 March 2017
Brisbane

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Independent Auditor's Report

To the members of Diatreme Resources Limited

Report on 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 2016, 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 report, including a summary of significant accounting policies 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 2016 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Material uncertainty related to going concern

We draw attention to Note B(f) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Recoverability of exploration and evaluation assets

Key audit matter	*How the matter was addressed in our audit*
Refer to note 11 to the financial report for details As at 31 December 2016, the Group has exploration and evaluation assets of $13,417,168. The recoverability of the exploration and evaluation assets was considered a key audit matter due to: • the carrying value of exploration and evaluation expenditure represents a significant asset of the Group, we considered it necessary to assess whether the facts and circumstances existed to suggest that the carrying amount of this asset may exceed the recoverable amount; and • Determining whether impairment indicators exist involves significant judgement by management.	We enquired of management if any impairment indicators in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources* have been identified across the Group's exploration projects, the indicators being: • Expiring, or imminently expiring, rights to tenure; • A lack of budgeted or planned exploration and evaluation spend on the areas of interest; • Discontinuation of, or a plan to discontinue, exploration activities in the areas of interest; and/or • Sufficient data exists to suggest carrying value of exploration and evaluation assets is unlikely be recovered in full through successful development or sale. We verified a sample of current tenement licences to determine that the group has the rights to tenure and maintains the tenements in good standing. We obtained the exploration budget for the 2017 year and assessed that there is reasonable forecasted expenditure to confirm continued exploration spend into the projects indicating that Management are committed to the projects. We also reviewed ASX announcements and Board meeting minutes for the year and subsequent to year end for exploration activity to identify any indicators of impairment.

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 2016, but does not include the financial report and our auditor's report thereon. The Group's annual report is expected to be made available to us after the date of this auditor's report.

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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Group's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

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 has 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 the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 8 of the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Diatreme Resources Limited, for the year ended 31 December 2016, 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.

BDO Audit Pty Ltd

BDO

A J Whyte
Director

Brisbane, 20 March 2017

Shareholder Information

The information set out below was applicable at 19 April 2017.

A DISTRIBUTION OF ASX QUOTED EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

Ordinary Shares

Range	Holders	%	Shares	%
1 to 1,000	692	29.51	154,523	0.02
1,001 to 5,000	269	11.47	744,598	0.09
5001 to 10,000	217	9.25	1,849,735	0.21
10,001 to 50,000	490	20.90	13,172,534	1.50
50,001 to 100,000	208	8.87	16,922,628	1.93
100,001 and Over	469	20.00	843,888,661	96.25
Total	**2,345**	**100.00**	**876,732,679**	**100.00**

The number of security investors holding less than a marketable parcel on 19 April 2017 was 1,625 and they held 13,771,390 securities.

B VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

Ordinary Shares
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.

Options
No voting rights.

C ASX QUOTED EQUITY SECURITY HOLDERS

The names of the twenty largest holders of ordinary shares (ASX:DRX) are listed below:

Rank	Name	Number of Ordinary shares held	Percent (%)
1	MR YUFENG ZHUANG	120,983,890	13.80
2	MR ZHENBIN JIAN	82,000,000	9.35
3	MS LAI YOU	53,177,747	6.07
4	CHENXIA ZHOU	50,000,000	5.70
5	LONGQIANG ZHUANG	41,666,667	4.75
6	MR ANDREW TSANG	38,895,600	4.44
7	VW PTY LTD	36,350,001	4.15
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	31,090,420	3.55
9	DORAL LTD	23,500,000	2.68
10	MR ZHANGXI ZENG	20,164,214	2.30
11	CAIFENG ZENG	16,666,667	1.90
12	XIANG RONG (AUSTRALIA) CONSTRUCTION GROUP PTY LTD	14,862,763	1.70
13	MR STEPHEN JOHN RYAN	13,000,000	1.48
14	CHUNYI WANG	12,500,000	1.43
14	YUAN WANG	12,500,000	1.43
15	HUNTLEY CUSTODIANS LIMITED	6,842,860	0.78
16	MR CHAOHUI ZHANG	6,316,309	0.72
17	MR PETER HOWELLS	5,363,636	0.61
18	SLADE TECHNOLOGIES PTY LTD	5,218,122	0.60
19	MR GUOZHONG YU	5,133,333	0.59
20	MR DAVID NIX & MRS CAROLE NIX	4,859,822	0.55
TOTAL		**601,092,051**	**68.56**
Balance of Share Register		**275,640,628**	**31.44**
Total ordinary shares on issue (19-04-2017)		**876,732,679**	**100.00**

D SUBSTANTIAL HOLDERS

Substantial holders of ordinary shares in the Company are set out below:

Name	Number held	Percentage of issued shares
Yufeng Zhuang	120,983,890	13.80
Andrew Tsang (and related parties)	111,536,110	12.72
Zhenbin Jian	82,000,000	9.35
Chenxia Zhou	50,000,000	5.70

Tenement Schedule

Current interests in tenements held by Diatreme Resources Limited and its subsidiary companies as at 19 April 2017 are tabled below.

State	Project	Tenement Name	Tenement ID	Area	Holder	Interest
WA	Cyclone	Cyclone	M69/141	1,558 ha	100%	LSPL
WA	Cyclone	Cyclone Extended	R69/1	1,227 ha	100%	DRX
QLD	Cape Bedford	Cape Bedford	EPM17795	552 km^2	100%	DRX
QLD	Clermont	Clermont	EPM17968	252 km^2	100%	CHAL
QLD	Yeppoon	Grays Hill	EPM25117	63 km^2	100%	DRX
QLD	Tick Hill	Tick Hill	ML7094	130 ha	100%	DRX
QLD	Tick Hill	Tick Hill	ML7096	130 ha	100%	DRX
QLD	Tick Hill	Tick Hill	ML7097	130 ha	100%	DRX

Abbreviations:

M	Western Australia	Mining Lease
R	Western Australia	Retention Licence
EPM	Queensland	Exploration Permit for Minerals
ML	Queensland	Mining Lease

DRX - Diatreme Resources Limited
CHAL – Chalcophile Resources Pty Ltd
LSPL – Lost Sands Pty Ltd

Ore Reserves and Mineral Resources Statement

Ore Reserves and Mineral Resources are estimated using all available geological and relevant drill hole and assay data, including mineralogical sampling and analysis and test work on mineral recoveries and final product qualities. Reserve estimates are determined by the consideration of all of the "modifying factors" in accordance with the JORC Code, and for example, may include but are not limited to, product prices, mining costs, metallurgical recoveries, environmental consideration, access and approvals. Resource estimates are determined by consideration of geology, HM cut-off grades, mineralisation thickness vs. overburden ratios and consideration of the potential mining and extraction methodology.

The information in this report relating to Mineral Resources and Ore Reserves is based on information compiled by Competent Persons (as defined in the JORC Code). Each of the Competent Persons has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they were undertaking to qualify as a Competent Person as defined by the JORC Code. Mr McMurtrie is a director of Tisana Pty Ltd and a consultant to Diatreme Resources and Mr Reudavey is a full-time employee of Diatreme Resources Limited. Mr McMurtrie and Mr Reudavey consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

The Mineral Resource and Ore Reserve figures reported represent estimates at 31 December 2016. All tonnes and grade information has been rounded, hence small differences may be present in the totals. All the Mineral Resource information is inclusive of Ore Reserves (i.e. Mineral Resources are not additional to Ore Reserves).

The information in relation to the Cyclone Ore Reserve was prepared and disclosed under the JORC Code 2012, and reported in an announcement to the Australian Securities Exchange (ASX) on 15 June 2016 "Cyclone Study Reaffirms Project Profitability". The Cyclone Ore Reserve estimate is based on a Mineral Resource estimate for the Cyclone Project that was separately reported in an announcement to the Australian Securities Exchange (ASX) on 9 April 2015 "Cyclone Zircon Project Resource Upgrade – World Class Zircon Deposit" which complies with the guidelines of the 2012 JORC Code.

Diatreme HM Ore Reserves at 31 December 2016

					HM Assemblage					
Project	Ore Reserve Category	Ore Tonnes Millions	In-situ HM Tonnes Millions	HM Grade (%)	Zircon Grade (%)	Rutile Grade (%)	Leuco Grade (%)	HiTi Grade (%)	Alt Ilm Grade (%)	Si-TiOx Grade (%)
Cyclone	Probable	138	3.52	2.6	28	3	7	23	13	22

Notes:

1. Cyclone Project is located in the Eucla Basin, Western Australia
2. Competent Person - Ore Reserves, P McMurtrie (MAusIMM)
3. Ore Reserves are a sub-set of Mineral Resources.
4. Mineral assemblage is reported as a percentage of in situ heavy mineral (HM) content.
5. Rutile comprises Ti-Oxides >95% TiO_2, Leuco (Leucoxene) comprises Ti-oxides 85 - 95% TiO_2, HiTi comprises Ti-oxides 70 - 85% TiO_2, Alt Ilm (Altered Ilmenite) comprises Ti-oxides <70% TiO_2, Si-TiOx (Siliceous Ti-oxide) comprises Ti-oxides with >10% silica rich Ti minerals.

Diatreme HM Ore Reserves comparison 2015 to 2016

Project	**Ore Reserve Category**	**2015 Ore Tonnes Millions**	**2015 HM Grade (%)**	**2015 In-situ HM Tonnes Millions**	**2016 Ore Tonnes Millions**	**2016 HM Grade (%)**	**2016 In-situ HM Tonnes Millions**	**In-situ HM Tonnes Millions Change**
Cyclone	**Probable**	**140**	**2.5**	**3.54**	**138**	**2.6**	**3.52**	**(0.02)**

The annual review of Ore Reserves concluded that the update to the Cyclone Ore Reserve reported in June 2016 has resulted in no significant adjustment to the global Cyclone Ore Reserve following optimisation of the proposed mine path.

Diatreme HM Mineral Resources at 31 December 2016

Project	Mineral Resource Category	Material Tonnes Millions	In-situ HM Tonnes Millions	HM Grade (%)	HM Assemblage Zircon Grade (%)	Rutile Grade (%)	Leuco Grade (%)	HiTi Grade (%)	Alt Ilm Grade (%)	Si TiOx Grade (%)
Cyclone	Measured	156	3.81	2.4	28	3	6	24	12	22
	Indicated	48	0.89	1.9	21	2	5	33	16	18
Cyclone	**Total**	**203**	**4.70**	**2.3**	**27**	**3**	**6**	**26**	**13**	**21**

1. Cyclone Project is located in the Eucla Basin, Western Australia
2. Competent Person - Mineral Resources, I Reudavey (MAIG)
3. Mineral Resources are inclusive of Ore Reserves.
4. Rounding may generate differences in last decimal place.
5. Mineral assemblage is reported as a percentage of in situ heavy mineral content.
6. Rutile comprises Ti-oxides >95% TiO_2, Leuco (Leucoxene) comprises Ti-oxides 85 - 90% TiO_2, HiTi comprises Ti-oxides 70 - 85% TiO_2, Alt Ilm (Altered Ilmenite) comprises Ti-oxides <70% TiO_2, Si TiOx (Siliceous Ti-oxide) comprises Ti-oxides with >10% silica rich Ti minerals.

The information in relation to the Cyclone Mineral Resource is reported in compliance with the 2012 JORC Code.

Diatreme HM Mineral Resource comparison 2015 to 2016

Project	**Mineral Resource Category**	**2015 Material Tonnes Millions**	**2015 HM Grade (%)**	**2015 In-situ HM Tonnes Millions**	**2016 Material Tonnes Millions**	**2016 HM Grade (%)**	**2016 In-situ HM Tonnes Millions**	**In-situ HM Tonnes Millions Change**
Cyclone	Measured	156	2.4	3.79	156	2.4	3.81	**0.02**
	Indicated	55	1.8	0.99	48	1.9	0.89	**(0.10)**
Cyclone	**Total**	**211**	**2.3**	**4.78**	**203**	**2.3**	**4.70**	**(0.08)**
Zephyr	**Inferred**	**92**	**1.3**	**1.18**	**-**	**-**	**-**	**(1.18)**
Eucla Basin	**Grand Total**	**303**	**2.0**	**5.96**	**203**	**2.3**	**4.70**	**(1.26)**

The annual review of Mineral Resources included an update to the Cyclone Mineral Resource estimate to incorporate the exclusion of mineralisation within E69/2425 (surrendered June 2016). This resulted in the exclusion of approximately 8 Mt of low grade mineralisation (containing approximately 90 kt of HM) on the SW margin of the Cyclone Mineral Resource. Similarly, the surrender of E69/2408 (proposed December 2016 and formally lodged January 2017) has resulted in the exclusion of the Zephyr Mineral Resource from Diatreme's resource inventory. A review of the Zephyr mineral resource during 2016 concluded that it was unlikely to represent a viable proposition for development in the short to medium term given its low HM grade and overburden depth.

These changes have resulted in a negative adjustment to the Eucla Basin Mineral Resource of 1.26 Mt of HM, however the change is not considered material given that there is no flow through impact on the Cyclone Ore Reserve, and the Zephyr mineralisation did not feature in any strategic planning for the Cyclone Project.

Mineral Resource and Ore Reserve Governance

Mineral Resource and Ore Reserves are estimated by suitably qualified Diatreme personnel in accordance with the requirements of the JORC Code, using industry standard techniques and internal guidelines for the estimation and reporting of Ore Reserves and Mineral Resources.

All Mineral Resource and Ore Reserve estimates and supporting documentation are reviewed by a Competent Person employed by Diatreme Resources.

All Ore Reserve estimates are prepared in conjunction with pre-feasibility studies which consider all material factors.

The Ore Reserves and Mineral Resources Statement included in the Annual Report is reviewed by suitably qualified internal Competent Person prior to its inclusion.

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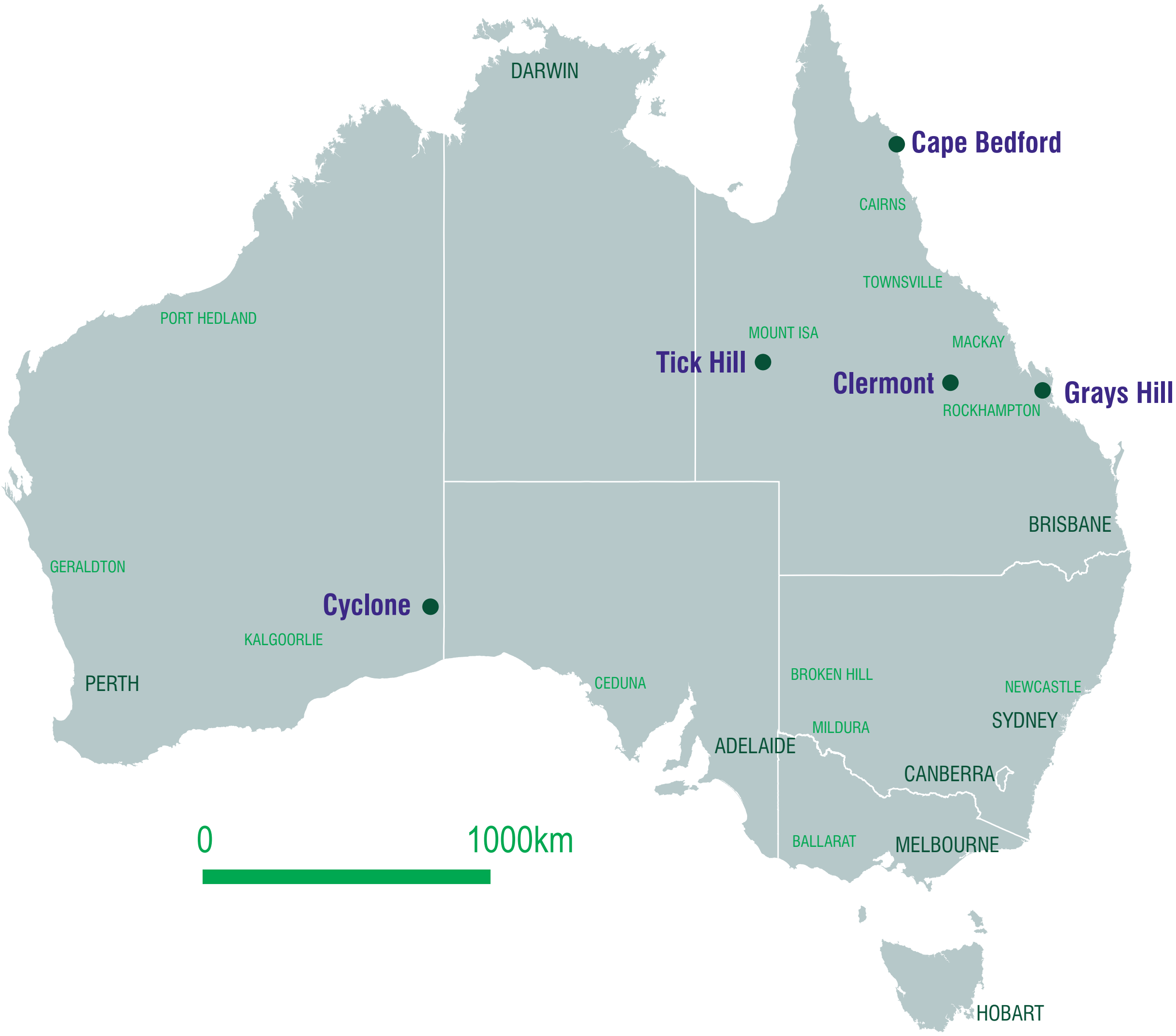
Diatreme Resources Limited
ABN: 33 061 267 061



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