DIATREME RESOURCES LIMITED

ABN 33 061 267 061

HALF-YEAR REPORT – 30 JUNE 2018

Contents

General information

The financial report covers Diatreme Resources Limited (the "Company") and the entities it controlled (together referred to as the "Group"). The financial report is presented in Australian dollars, which is Diatreme Resources Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Diatreme Resources Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit 8
61 Holdsworth Street
Coorparoo
Queensland 4151

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 13 September 2018.

COMPETENT PERSON STATEMENTS
The information in this report that relates to Cape Bedford Mineral Resources is based on information compiled by John Siemon from Ausrocks Pty Ltd who has significant experience in Industrial Minerals and Quarry Resource assessments. John Siemon has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking 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 (The JORC Code).

DIRECTORS' REPORT

Your directors present their report on the Group consisting of Diatreme Resources Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 30 June 2018.

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

G Starr
A Tsang
C Wang
Y Zhuang

Principal activities

During the financial half-year the principal activity of the Group was exploration for heavy mineral sands, copper, gold and base metals in Australia.

Review of operations

The loss after income tax of the Group for the half-year ended 30 June 2018 was $1,389,703 (2017: loss $640,274). The loss reflects the nature of the Group's principal activity.

Management continues to examine tenement areas currently held and where possible actively pursues 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 has enabled Diatreme to efficiently allocate its resources in a way that targets maximum benefit for the company by advancing priority projects that have the highest potential benefit to the company.

Through the strict application of budgeting programs and strong fiscal controls the company keeps fund raising activities to the minimum to maintain operational integrity and allows priority projects forward progress. Diatreme remains relentless in its pursuit of cost minimisation where it can without hampering operations.

During the half-year, further significant milestones were achieved for the Cyclone Zircon Project, Tick Hill Gold Project and the Cape Bedford Silica & HM Sands Project.

Major Activities

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

Cyclone Zircon/Heavy Mineral (HM) Project

- Replacing the previous non-binding Memorandum of Understanding announced on 11 September 2017, Diatreme and China ENFI Engineering (ENFI) signed in January 2018 two contracts comprising:

➢ A **Cooperation Agreement**, under which ENFI will use its network within China's state-owned enterprise (SOE) and banking sectors to assist the company in sourcing project investors, offtakers and project debt funding;

➢ A **Consulting Services Agreement**, detailing the remaining definitive feasibility study (DFS) aspects to be completed by ENFI, including project costings and economics, engineering studies and implementation planning.

The DFS studies on Cyclone are due for completion by the end of the 3rd quarter 2018 and Diatreme will continue to work with ENFI in assembling major potential investment and development partners that will allow the project to move to the next phase of potential development.

Cape Bedford Silica/HM Project

- On 2 March 2018 the company released results from initial metallurgical testwork which showed the Cape Bedford Silica/Heavy Minerals Project capable of producing high-quality glass-grade silica sand. The testwork achieved 80% recovery of a primary silica sand product ranging from 99.6% to 99.9% silicon dioxide with less than 0.02% iron, easily meeting the specifications for glass-grade silica sand.

- Based upon the results from reconnaissance drilling and the initial metallurgical testwork, an Exploration Target for potential high-grade silica sand has been generated for the Nob Point dune area of 15 million to 20 million tonnes of high quality silica sand.

- In a major company milestone, the Company announced on 13 August 2018 a Maiden Inferred Mineral Resource for the Cape Bedford Project, confirming the presence of a world-class, high-grade silica sand deposit. The maiden inferred resource is an estimated 21.6 million tonnes grading at more than 99% silica. The resource spans an area of around 1 square kilometre and confirms the presence of a world-class, high-grade silica sand deposit. The resource estimate also found open dune extensions to the immediate north and west, highlighting the potential for additional exploration to expand the silica sand deposit.

Tick Hill

- On 5 June 2018, the Company signed a binding term sheet to sell its Tick Hill Gold Project into the upcoming Initial Public Offering (IPO) by Carnaby Resources Limited (Carnaby). Diatreme will receive a minimum of 3.2 million shares, and a maximum of 4.5 million shares, priced at 25 cents each, for its 75% share in the project. The Company will hold a 4.5% interest in Carnaby post the IPO. This transaction will only occur if Carnaby is successful in its IPO.

Fundraising

During the period $660,000 was received from the exercise of unlisted options and completion of two private placements to sophisticated investors raised $740,000. The company also announced on 31 July 2018 that it had embarked on a private placement program to raise $927,500.

Corporate

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

Exploration

Key exploration operations during the period involved:

- metallurgical testwork for Cape Bedford was carried out using six bulk samples which were wet tabled to simulate conventional washing and gravity separation typical of silica sand processing, with c. 80% recovery of a primary silica sand product ranging from 99.6 – 99.9% SiO_2 with <0.02% Fe_2O_3 – easily meeting specifications for glass-grade silica sand.

- Exploration drilling with a combination of infill drilling and further reconnaissance drilling was completed in the Nob Point dune area drilled in June 2018. This will provide further data for geological interpretation and confirmation of the continuity of the white sand mass.

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

There remained underlying and continued struggles in attracting capital and bringing development and early stage exploration projects to market, however overall capital market conditions continue to improve during the 1st half of 2018.

We remain optimistic that the current favourable trends within the heavy minerals sector driven by sustainable product pricing increases will enhance our Cyclone Project economics along with early signs of improved capital market sentiment will give us the impetus needed to deliver the project. We are further encouraged by the rapid progress on our Cape Bedford tenement following confirmation of the maiden inferred mineral resource of high quality silica sand.

Significant changes in the state of affairs

During the period $660,000 was received from the exercise of unlisted options and completion of two private placements to sophisticated investors raised $740,000

Auditor's independence declaration

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

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

G B Starr
Chairman
13 September 2018

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

Auditor's Independence Declaration

As lead auditor for the review of Diatreme Resources Limited for the half-year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif
A Member of the Firm

Brisbane: 13 September 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2018

		Half-year	
	Note	2018 $	2017 $
Revenue		7,036	6,513
Other income		-	46,815
Employee benefits expenses		(278,810)	(353,959)
Depreciation expenses		(14,913)	(18,338)
Impairment of exploration asset	3	(672,275)	-
Other expenses		(306,525)	(154,849)
Finance costs		(124,216)	(166,456)
Loss before income tax		(1,389,703)	(640,274)
Income tax expense		-	-
Net loss for the half-year attributable to owners		(1,389,703)	(640,274)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to owners		(1,389,703)	(640,274)

	Cents	Cents
Loss per share		
Basic earnings per share	(0.1)	(0.1)
Diluted earnings per share	(0.1)	(0.1)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	30 Jun 2018 $	31 Dec 2017 $
Current assets			
Cash and cash equivalents		39,085	158,011
Trade and other receivables		29,490	120,813
		68,575	278,824
Non-current assets classified as held for sale	3	1,125,000	-
Total current assets		1,193,575	278,824
Non-current assets			
Property, plant and equipment		115,456	130,369
Exploration and evaluation assets	4	13,361,777	13,988,080
Other assets		41,632	44,132
Total non-current assets		13,518,865	14,162,581
Total assets		14,712,440	14,441,405
Current liabilities			
Trade and other payables		428,067	353,568
Borrowings	5	1,876,086	1,752,959
Provisions		9,238	9,238
Share application monies		100,000	-
Total current liabilities		2,413,391	2,115,765
Non-current liabilities			
Provisions		272,000	272,000
Total non-current liabilities		272,000	272,000
Total liabilities		2,685,391	2,387,765
Net assets		**12,027,049**	**12,053,640**
Equity			
Issued capital		51,342,178	49,979,066
Reserves		1,657,637	1,657,637
Accumulated losses		(40,972,766)	(39,583,063)
Total equity		**12,027,049**	**12,053,640**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2018

	Issued capital	Share based payments reserve	Convertible note reserve	Accumulated losses	Total equity
	$	$	$	$	$
At 1 January 2017	**48,750,812**	**191,938**	**1,334,601**	**(38,164,537)**	**12,112,814**
Total comprehensive income:					
Loss for the half-year	-	-	-	(640,274)	(640,274)
Transactions with owners in their capacity as owners:					
Convertible note drawdown	-	-	131,098	-	131,098
At 30 June 2017	**48,750,812**	**191,938**	**1,465,699**	**(38,804,811)**	**11,603,638**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2018

	Note	Half-year 2018 $	2017 $
Cash flows from operating activities			
Receipts in the course of operations		5,885	24,228
Payments to suppliers and employees		(555,256)	(529,754)
Interest received		-	313
Finance costs		-	(628)
Net cash outflow from operating activities		(549,371)	(505,841)
Cash flows from investing activities			
Payments for property, plant and equipment		-	(1,121)
Payments for exploration and evaluation assets		(1,085,167)	(151,937)
Refund of security deposit		2,500	-
Net cash outflow from investing activities		(1,082,667)	(153,058)
Cash flows from financing activities			
Share application monies received		100,000	100,000
Proceeds from issue of shares		1,450,000	-
Payments for share issue costs		(36,888)	-
Proceeds from drawdowns of borrowings	5	-	300,000
Net cash inflow from financing activities		1,513,112	400,000
Net (decrease)/increase in cash and cash equivalents		(118,926)	(258,899)
Cash and cash equivalents at the beginning of the half-year		158,011	310,362
Cash and cash equivalents at the end of the half-year		39,085	51,463

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2018

1. STATEMENT OF SIGNIFICANT ACOUNTING POLICIES

a) Statement of compliance

These general purpose financial statements for the interim half-year reporting period ended 30 June 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

b) New, revised or amending Accounting Standards and Interpretations adopted by the Group

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new standards applicable to annual reporting periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has applied, for the first time, AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments*. Neither standard has had a material impact on the transactions and balances recognised in the financial statements and do not have any impact on the disclosures included in these interim financial statements.

c) Critical judgements in applying accounting policies

The accounting policies include the capitalisation of exploration and evaluation expenditure which as at 30 June 2018 amounts to $13,361,777 (31 December 2017: $13,988,080). This represents a significant asset of the Group. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the relevant areas of interest. Where activities in these areas have not reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, these costs are carried forward if the tenements are active or significant operations in relation to these areas of interest are continuing.

Non-current assets classified as held for sale have been valued based on the expected proceeds from sale of the relevant tenement (refer Note 3).

d) Material uncertainty regarding going concern

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

The Group has incurred a net loss after tax for the half-year ended 30 June 2018 of $1,389,703 and a net cash outflow from operations of $549,371. At 30 June 2018, the Group’s current liabilities exceeded its current assets by $1,219,816.

The Group’s ability to continue as a going concern and pay its debts as and when they fall due, is dependent upon the successful future raising of necessary funding through equity (refer to Note 8), extension of the maturity date of the convertible note facility (refer to Note 8), successful exploration and subsequent exploitation of the Group’s tenements, securing product offtake agreements for the Cyclone Project, and/or sale of non-core assets.

d) Material uncertainty regarding going concern (continued)

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

The Directors have reviewed the business outlook and cash flow forecasts and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will achieve the matters set out above. As such, the Directors believe that they will continue to be successful in securing additional capital through debt or equity issues as and when the need to raise working capital arises. Accordingly, the financial statements do not include any adjustments relating to the recoverability and 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.

e) Fair values

The fair values of the Group’s financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

2. SEGMENT INFORMATION

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

3. CURRENT ASSETS - Non-current assets classified as held for sale

On 5 June 2018, the Company signed a binding term sheet to sell its Tick Hill Gold Project into the upcoming Initial Public Offering (IPO) by Carnaby Resources Limited (Carnaby). Under the term sheet, the Company will receive a minimum of 3,225,000 shares and a maximum of 4,500,000 shares dependent on total subscriptions received priced at $0.25 each (valued from $806,250 to $1,125,000) to be allocated in a successful public float by Carnaby.

Carnaby’s technical team and management led by former Beadell Resources Limited executives Peter Bowler and Robert Watkins have a highly successful track record in progressing gold projects from exploration to mining. Accordingly, the upper limit of the sale consideration of $1,125,000 will be highly probable, and as this value is less than the carrying amount, an impairment charge of $672,275 has been recorded.

4. EXPLORATION AND EVALUATION ASSETS

	30 Jun 2018 $	31 Dec 2017 $
Exploration and evaluation assets – at cost	13,361,777	13,988,080
Opening balance	13,988,080	13,417,168
Costs capitalised	1,170,972	582,233
Costs written off	-	(11,321)
Impairment of Tick Hill Project (refer Note 3)	(672,275)	-
Transfer Tick Hill Project to non-current assets classified as held for sale (refer Note 3)	(1,125,000)	-
	13,361,777	13,988,080

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

5. BORROWINGS

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

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) during the period ended 30 June 2015, to comprise a fully drawn facility of $3 million.
- Interest rate – 5.20% pa.
- Term – 36 months from the first drawdown date.
- Repayment:
  - o 50% of notes ($1.5 million) convertible to ordinary shares at maturity at a fixed price of $0.02 and repayable in cash in certain circumstances (equity component); and
  - o 50% of notes ($1.5 million) in cash by the Company at maturity (cash component).

During the year ended 31 December 2017, the final balance of $300,000 was drawn down. Total borrowings are as follows:

	30 Jun 2018 $	31 Dec 2017 $
Unsecured		
Loan	1,876,086	1,752,959
Total borrowings	1,876,086	1,752,959
Current liability	1,876,076	1,752,959
	1,876,076	1,752,959

Accounting standards require the separate recognition of the debt and equity components of the convertible note facility. At the date of recognition of the new 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:

	30 Jun 2018 $	31 Dec 2017 $
Borrowings	1,876,076	1,752,959
Convertible note reserve	1,465,699	1,465,699
	3,341,775	3,218,658

On 25 July 2018 (refer to Note 8), the holder of the convertible note has agreed to:
- extend the maturity date from 31 July 2018 to 31 July 2020 for the $1.5 million cash component of the Note with interest of 5.20% p.a. payable quarterly in arrears;
- the conversion of $1.5 million equity component of the Note is subject to shareholder approval at an extraordinary general meeting (GM); and
- all outstanding interest up to maturity date of 31 July 2018, on both the equity and cash component of the Note will be converted into ordinary shares of the Company which will also be subject to shareholder approval at the GM. The interest will be converted at the prevailing share price as at the date of conversion, which the Company expects will be within 3 business days of the date of the GM.

6. CONTINGENCIES

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

7. 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:

	30 Jun 2018 $	31 Dec 2017 $
Payable within 1 year	1,356,213	1,771,741
Payable between one and five years	1,420,951	1,420,951
	2,777,164	3,192,692

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. In 2018 cash security bonds totalling $28,267 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (Dec 2017: $30,767).

(b) Operating lease commitments

	30 Jun 2018 $	31 Dec 2017 $
Payable within 1 year	49,572	50,071
Payable between one and five years	-	25,073
	49,572	75,144

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

8. EVENTS SUBSEQUENT TO REPORTING DATE

In July 2018, Diatreme Resources Limited announced that it has undertaken a private placement program to sophisticated investors to issue fully paid ordinary shares at $0.02 per share. As at the date of this report, Diatreme has received $577,500 and commitments of a further $350,000.

In accordance with the Converting Notes Investment Agreement signed on 11 May 2015, the convertible note facility (the Note) was to mature on 31 July 2018. On 25 July 2018, the holder of the convertible note has agreed to:

- extend the maturity date from 31 July 2018 to 31 July 2020 for the $1.5 million cash component of the Note with interest of 5.20% p.a. payable quarterly in arrears;
- the conversion of $1.5 million equity component of the Note is subject to shareholder approval at an extraordinary general meeting (GM); and
- all outstanding interest up to maturity date of 31 July 2018, on both the equity and cash component of the Note will be converted into ordinary shares of the Company which will also be subject to shareholder approval at the GM. The interest will be converted at the prevailing share price as at the date of conversion, which the Company expects will be within 3 business days of the date of the GM.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 6 to 13 are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(b) give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date.

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

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

G B Starr
Chairman
Brisbane, 13 September 2018

Diatreme Resources Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Diatreme Resources Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity) on pages 6 to 14, which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Diatreme Resources Limited on pages 6 to 14 is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half year ended on that date; and
b) complying with *Australian Accounting Standard 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(d) in the financial report, which indicates that the Group incurred a net loss of $1,389,703 during the half year ended 30 June 2018 and, as of that date, the Group's current liabilities exceeded its current assets by $1,219,816 and had net cash outflows from operations of $549,371. As referenced in note 1(d), subsequent to reporting date management has undertaken a private placement program to raise additional working capital and extended the maturity date for the $1.5 million cash component of the convertible note. These events or conditions, along with other matters as set forth in Note 1(d), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

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

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

- giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

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

Independence

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

Junaide Latif
A Member of the Firm

Brisbane: 13 September 2018

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