

ANNUAL REPORT 2020

AUSTRALIAN SANDS.
UNIVERSAL DEMAND.



2020

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Corporate Directory

Directors

Gregory Starr, Non-Executive Chairman
Chen (William) Wang, Non-Executive Director
Yufeng (Daniel) Zhuang, Non-Executive Director
Michael Chapman, Non-Executive Director

Chief Executive Officer

Neil McIntyre

Chief Operating Officer

Peter Brown

Company Secretary

Tuan Do

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Securities Exchange

Australian Securities Exchange
(ASX: DRX)

CHAIRMAN'S REVIEW 2020



Dear Shareholder

The 2020 year was tumultuous with COVID-19 having an unprecedented modern-day impact on all aspects of our lives.

Diatreme was not immune to the crisis, although it weathered the storm thanks to the hard work of the Board, management, staff, suppliers and all involved with our Company.

I would now like to draw upon some of the highlights of the year.

Galalar's economic benefits highlighted

Diatreme's Galalar Silica Project (Project) in North Queensland saw further advances in 2020 which have set it on the path for near-term development.

In February 2020, Diatreme lodged an application to undertake a voluntary Environmental Impact Statement (EIS) for Galalar, in accordance with the Environmental Protection Act 1994 (Qld). This followed the lodging in December 2019 of a Mining Lease Application (MLA) with Queensland's Department of Natural Resources, Mines and Energy.

A voluntary EIS allows for only a single study to be produced for both the Queensland and Commonwealth governments, resulting in a streamlined albeit still vigorous approval process.

Also in February, the Galalar project received a further boost with the expanding of its total resource by 26% to an estimated 38 million tonnes (Mt) (cut-off grade >99% SiO₂), up 26% on the previous estimate.

April saw the release of an independent economic study which highlighted the project's enormous potential. The study by Cummings Economics showed Galalar would make a sizeable economic impact on Hope Vale, Cooktown and the surrounding region, injecting around \$23 to \$24 million in the construction phase and up to \$42m in operation.

Significantly, the biggest economic gains would come from a Nob Point loading solution, which is also the Company's preferred option in terms of minimising community and environmental disturbance impacts compared to trucking the product for loading in Cooktown.

Galalar's potential to become a long-term mining operation was demonstrated yet again with another resource expansion announced in May. The assessment by independent consultants upgraded the resource by 25% to 47.5 Mt, including a maiden Measured Mineral Resource of 30.9 Mt @ 99.28% SiO₂.

Subsequent exploration drilling comprising 44 air-core drill holes for 835m and related bulk samples showed the potential for a further resource expansion, particularly in the project's southern section.

Following July's release for public comment of an Initial Advice Statement and draft terms of reference for the EIS, Diatreme received in November the final terms of reference. Some 51 submissions were received on the draft terms of reference, including from government agencies, traditional owners and other community members, with such feedback to be incorporated in the EIS.

This year, Diatreme plans to lodge the draft EIS with the relevant Queensland Government departments, followed by another round of public consultation. Should all proceed as planned, the Company aims to finalise the Environmental Authority which together with the MLA will permit the project to proceed.

This is currently being targeted for the fourth quarter of 2021, with potential first production as early as 2022, pending the necessary approvals and finance.

Diatreme continues to engage widely to earn a social licence to operate. This has included the opening of a community office in Hope Vale, together with regular meetings with representatives of the Projects affected native title holders, community members and other key stakeholders.

Project pipeline advances

Elsewhere, the Company's project pipeline remains solid, with the opportunity to generate further value for shareholders.

The 'shovel ready' Cyclone Zircon Project in Western Australia is in an excellent position to advance, with talks continuing with a range of potential project participants.

While the restrictions imposed on international travel due to COVID-19 hampered the ability of interested offshore parties to conduct site due diligence, the easing of such restrictions in the year ahead should see such interest intensify.

Constrained supply of high-grade zircon and solid demand underpin the project's fundamentals, particularly as the global economy picks up speed post-pandemic.

While the Company's focus is on advancing Galalar, Cyclone provides the opportunity for an additional boost to shareholder value.

Investor support

Unquestionably, having support from high-calibre investors makes an enormous difference to the success of a company.

In this regard, we have been delighted by the strong support from our cornerstone investor, Illwella Pty Ltd. Illwella's support of the \$4.6m placement undertaken in October 2020 was a major contributor to its success, with the placement also seeing the arrival of a leading German institutional investor on the register.

Together with these investors, support from all Diatreme shareholders was excellent, with a Share Purchase Plan (SPP) launched the same month closing significantly oversubscribed.

There is no doubt that support from investors has substantially grown over the past year, which saw a significant increase in the Company's market value.

New director, COO

As part of our evolution from exploration to development, experienced mining engineer Mike Chapman was appointed a Non-Executive Director in August 2020. With more than 40 years' experience in the development, engineering, construction and management of open-cut and underground mining projects, Mr Chapman brings a wealth of knowledge to the Company that will be invaluable as Galalar progresses towards production.

Post-balance date, another experienced mining executive, Peter Brown, was appointed as Chief Operating Officer. His focus will be on ensuring the timely delivery of permitting and other approvals for Galalar, along with detailed planning for pre- and post-mining activities, together with further economic enhancements.

Both new appointments are welcome additions to our growing team at Diatreme.

Bright outlook

With the economic outlook post COVID-19 looking very bright Diatreme fortunes also improve.

In its flagship publication, the International Energy Agency's "World Energy Outlook" for 2020 described solar as the "new king of electricity," with solar PV "consistently cheaper than new coal or gas-fired power plants in most countries."

Silica has been described as "the next lithium" due to its role in supplying the solar PV market, which continues to boom as solar energy becomes mainstream.

With ESG (environmental, social, governance) investment becoming a real focus as investors pay increased attention to the impact of their investment decisions, Diatreme is well placed to benefit as these are already inherent cornerstones to Diatreme's Project development philosophy.

In 2021, in addition to progressing Galalar's permitting and approval process, Diatreme is also evaluating potential opportunities for downstream processing or manufacturing in regional centres such as Townsville, which could add further value to Galalar's premium quality silica product.

Once again, I would like to thank shareholders, employees, contractors, suppliers, partners and all others associated with our Company for your support.

With your backing and support, I have every confidence the year ahead will see the company significantly advance.

Yours sincerely



Gregory Starr

Chairman



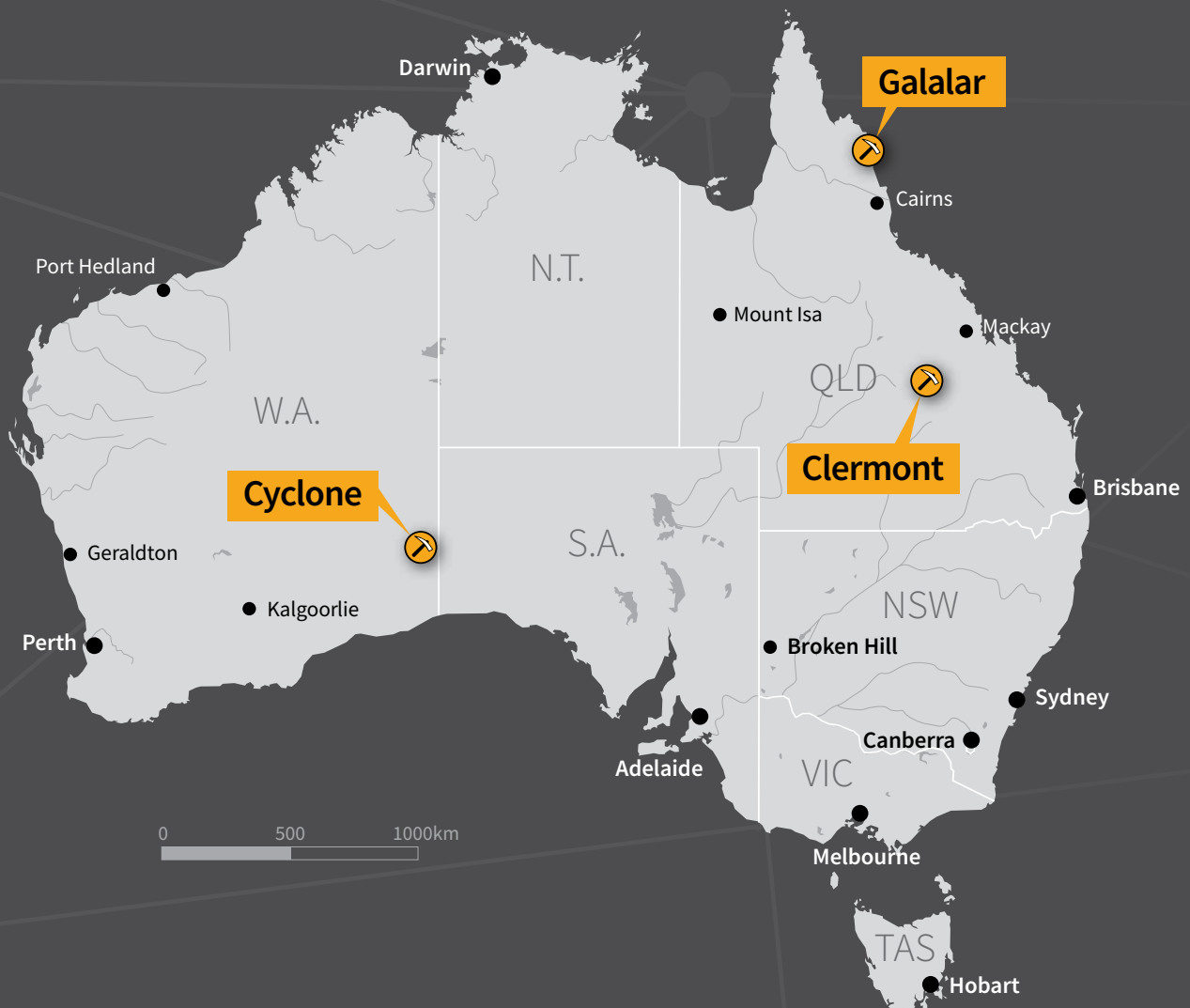
COMPANY OVERVIEW

Diatreme Resources Limited (ASX code: DRX) is an emerging Australian producer of mineral and silica sands based in Brisbane, Queensland.

Our key projects comprise the Galalar Silica Project in North Queensland, located next to the world's biggest silica sand mine, together with the Cyclone Zircon Project in Western Australia's Eucla Basin, considered one of a handful of major zircon-rich discoveries of the past decade.

Diatreme has an experienced Board and management, with expertise across all stages of project exploration, development and financing, with a vast network of contacts across Asia.

Importantly for shareholders, we have a clear focus on maximising shareholder value by only pursuing those projects considered capable of generating a near-term return on investment, while minimising corporate overheads.



2020 HIGHLIGHTS

Galalar approvals advance

EIS study underway with receipt of final terms of reference from Qld Govt; targeting environmental and mining lease application approvals by fourth quarter 2021



Galalar resource expands

Resource estimate upgraded to 47.5Mt, including maiden Measured Mineral Resource of 30.9Mt @ 99.28% SiO₂



Investor support

Cornerstone investor, Ilwella Pty Ltd, representing interests of Flannery Family Office, backs successful \$4.6m capital raising together with new German institutional investor; SPP raises \$2.5m, closing heavily oversubscribed

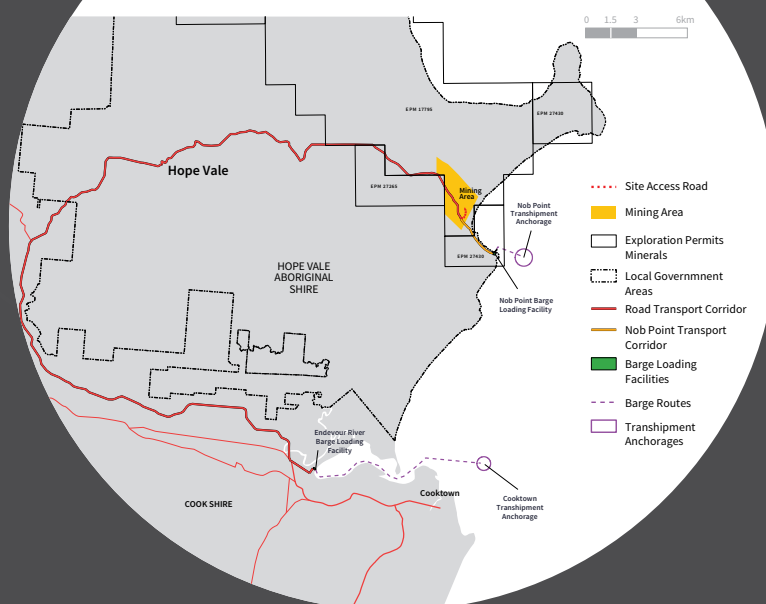


Economic study highlights Galalar benefits

Independent economic study estimates Galalar would inject up to \$42m in operation and create around 110 full-time equivalent jobs for benefit of Hope Vale/Cooktown region



Galalar Silica Sand Project Initial Advice Statement



Review of Operations

INTRODUCTION

During 2020, Diatreme Resources Limited (“Diatreme”) continued with its focus on advancing the permitting and approvals process along with enhancing the resource for its Galalar Silica Project in North Queensland, together with progressing the development of the ‘shovel-ready’ Cyclone Zircon Project in Western Australia.

Highlights include:

- Lodging an application to undertake a voluntary Environmental Impact Statement (EIS) in accordance with Queensland’s Environmental Protection Act 1994, streamlining the environmental approval process for the Galalar Silica Project
- Release of the Initial Advice Statement and draft terms of reference for Galalar’s Environmental Impact Statement (EIS) for public comment, followed by final terms of reference issued by the Queensland Government
- Advances in stakeholder engagement, including opening of community office in Hopevale, Qld
- 26% increase in total Inferred and Indicated Mineral Resource upgrade to 38 million tonnes (cut-off grade >99% SiO₂) (February 2020)
- Further increase announced in May 2020 to Galalar’s total Mineral Resource and a maiden Measured Mineral Resource. The total Mineral Resource rose by 25% to 47.5 Mt, while the maiden Measured Mineral Resource estimate comprised 30.9 Mt > 99.28% SiO₂
- Independent economic study undertaken by Cummings Economics showed that Galalar would deliver a sizeable economic injection into Hope Vale, Cooktown and the surrounding region
- Drilling program in August 2020 highlighted expansion potential with 2,000kg of bulk samples collected for detailed mine planning.

GALALAR SILICA PROJECT (North Queensland)

The Galalar Silica Project (Cape Bedford EPM17795) covers a large quaternary sand dune field, part of which is currently being mined by Mitsubishi Corporation’s subsidiary, Cape Flattery Silica Mines Pty Ltd and is the world’s largest silica sand mining operation.

Another attractive point of the project is its close proximity to the world’s largest silica markets in China, Japan, South Korea and Taiwan. Galalar has the potential to supply high-grade silica products for use in glass manufacture, foundry casting, electronics, ceramics and construction. These industries are in demand and growing in developing Asia, with the market expected to expand at a compound annual growth rate of 7.2% through to 2022, reaching revenues of US\$9.6 billion (source: IMARC Group).

Significantly, Galalar’s premium quality product is also capable of supplying the fast-growing solar PV market, which is seen reaching nearly US\$50 billion by 2025, amid strong demand from the Asia-Pacific region. The International Energy Agency has described solar as the “new king of electricity” and demand continues to rise on the back of the global clean energy revolution.

Environmental Approvals

In a move aimed at expediting the project’s regulatory approvals, in February 2020 Diatreme lodged an application to undertake a voluntary Environmental Impact Statement (EIS) in accordance with the Environmental Protection Act 1994 (Qld). A voluntary EIS allows for only a single EIS to be produced for both the Queensland and Commonwealth governments, resulting in a streamlined but still vigorous approval process. The move followed the December 2019 lodgement of a Mining Lease Application.

Review of Operations

Pending the approval of Diatreme's application to undertake a voluntary EIS, the Company referred the project to the Commonwealth Government under the Environment Protection and Biodiversity Conservation Act 1999 (Cwlth) and will include any requirements under that Act in the draft terms of reference. Diatreme then commenced many of the various detailed specialist studies likely to be required in support of the voluntary EIS.

The September quarter 2020 saw the release of the Initial Advice Statement (IAS) and draft terms of reference (DToR) for the project's environmental impact statement (EIS). This followed acceptance by the Queensland Department of Environment and Science (DES) of the Company undertaking a voluntary EIS process under the Environmental Protection Act 1994 (Qld) (EP Act).

The Commonwealth Department of Agriculture, Water and the Environment (DAWE) provided guidelines setting out its requirements for the EIS and these will complement the final Queensland ToR. The DToR was made available for public review and comment from 27 July 2020 to 14 September 2020, as part of the consultation and engagement process.

Diatreme subsequently prepared a detailed report setting out information concerning all comments received and recommendations for any necessary changes to the DToR. DES will then review these recommendations and issue the final ToR, at which point the EIS process will formally commence.

The EIS will be informed by a program of detailed technical studies designed to address the ToR and guidelines. Many of these studies had commenced and are well advanced, as part of Diatreme's aim of speeding the project's development.

Once the draft EIS has been deemed to be satisfactory by DES and DAWE, another round of public input will commence and if necessary, the draft EIS will be revised or supplementary studies undertaken. At that time, assessment of state and Commonwealth matters will be undertaken under the Queensland/Commonwealth bilateral agreement.

Technical studies to support the draft EIS also advanced, with detailed studies and field work including the following:

- Design and layout of the mine site
- Hydrogeology and surface water
- Terrestrial ecology
- Coastal processes and marine ecology
- Visual amenity
- Social Impact Assessment (SIA)
- Cultural heritage
- Air, noise and climate change impacts.

In November 2020, Diatreme received the final terms of reference (ToR) for the project's EIS study from the Queensland Government following a public submission and comment period. A total of 51 submissions were received on the draft ToR by the close of the public submission period in September 2020, with each submission reviewed and considered by both the Queensland Department of Environment and Science (DES) and Diatreme. The submissions received were from government agencies, community members, traditional owner groups and other stakeholders.

The final ToR issued by the Queensland Government incorporated feedback from these submissions together with tailored requirements concerning specific matters for investigation identified by DES and the Australian Government's Department of Agriculture, Water and Environment (DAWE) related to Matters of National Environmental Significance, as the lead agencies for the EIS assessment process

Following approval of the EIS, Diatreme will then proceed to finalise the Environmental Authority (EA) which, together with the mining lease (ML) that was applied for in December 2019 and various operational works approvals, will permit the project to commence.

Review of Operations

Resource upgrade

The Company announced in February 2020 an upgrade to its already solid resource at Galalar. Based on an assessment by independent consultants Ausrocks Pty Ltd, the 2019 auger drilling contributed to the project's Inferred Resource being upgraded to 16.5Mt for a total Inferred and Indicated Mineral Resource of 38Mt (cut-off grade of >99% SiO₂), up 26% on the previous estimate.

There was a further upgrade based on assessment by Ausrocks in May 2020, with a maiden Measured Mineral Resource comprising 30.9 Mt @ 99.28% SiO₂, while the total Mineral Resource expanded to 47.5 Mt, up 25% on the previous estimate of 38 Mt.

Exploration drilling

In August 2020, the Company undertook some exploration drilling and the subsequent receipt of related sample testing highlighted Galalar's potential for further expansion. The drilling program comprised 44 air-core drill holes for 835m, with some 2,000kg of bulk samples collected from the preliminary mine plan footprint (years one to five). The bulk samples are intended for use in detailed mine planning in anticipation of mining commencement.

The program also completed exploration drilling to the north and east of the current resource. Significantly, new holes at the southern section encountered deeper sections of silica sand than anticipated, indicating the potential for an increased resource in this area.

Diatreme concentrated bulk sampling within the year 1 to 5 mine plan at the southern end of the resource, with early exploration redrilled to confirm historic drilling and collect samples on 1m intervals to better define the resource envelope. Drill spacing was closed to 50m centres in this area to increase confidence in the geological interpretation and continuity of resource in the initial years of mining.

As part of the EIS process, a comprehensive LIDAR survey was also completed over the Galalar and Galalar Extended areas to provide increased resolution of the surface topography. This imagery is able to be seen through the vegetation and reveals the sand dune structure and outlines the different phases of dune formation to better reconcile the stratigraphy and future mine plan, particularly where dune formation and relative age has been identified as a factor in targeting low iron, low contamination dune structures.

Preliminary review of the results of the infill drilling and twinning of older holes confirmed the resource quality with respect to SiO₂ percentage and the contaminants Fe₂O₃ and Al₂O₃.

The results indicate a sand quality which meets the quality requirements for inclusion into future resource estimations and should contribute to a significant increase in resource tonnages.

The program utilised Diatreme's air-core drill rig managed and operated by Diatreme personnel, with added labour to help sampling provided by traditional owners from Hopevale Congress acting also as cultural heritage monitors under strict on-site activity supervision guidelines.

Economic benefits

An independent economic study was undertaken during the year to examine the impacts of the Galalar Silica Project in North Queensland, with the study highlighting the project's potential to deliver significant investment and new jobs for the benefit of the Hope Vale and Cooktown region.

Conducted by Cummings Economics, the economic study's key findings included:

- Construction phase: total expenditure of \$23-24m; majority of expenditure to be incurred in regional Queensland; direct employment of around 25-26 jobs, with total employment including flow-on effects of around 110 (equivalent full-time positions)

Review of Operations

- Operational phase: total expenditure (with contingencies) of \$42m for Cooktown loading option vs \$23.3m for Nob Point loading; majority of spending in local region; 53 jobs for Cooktown loading vs 41 for Nob Point, with total employment including flow-on effects of 130 vs 90
- Revenue: estimated \$80.25m annual revenue based on a production target of 750,000 tonnes per annum high-grade silica (refer to the Company's scoping study released on 9 September 2019) and sale of 750,000 tonnes per annum of high-grade silica at a commodity price of US\$75 (A\$107) per tonne; \$1.475m of annual royalties and over \$10m in company tax, with estimated after-tax return of \$24.7m (Cooktown loading) or \$39.2m (Nob Point loading) per annum
- Hope Vale community to gain significant benefits, including new high-paying jobs; income from supply of goods and other services; royalties to project partner, Hope Vale Congress Traditional Owner Group (12.5% project interest); total direct benefits estimated at \$6.2m (Cooktown loading) vs \$10.9m (Nob Point loading); households to enjoy 39% income gain from Cooktown loading and 68% for Nob Point
- Government savings estimated at \$2m per annum from reduction in welfare benefits and increased income tax; operation set to become area's largest employer outside Hope Vale Aboriginal Shire Council.

Community & stakeholder engagement

Stakeholder consultation and engagement ramped up on the project, with Diatreme establishing a local project office in Hope Vale for community consultation, including with project partners, Hopevale Congress Aboriginal Corporation (RNTBC), and directly affected native title holders. The purpose of the local office is to discuss the project with the local community, receive feedback and disseminate relevant project information.

Engagement also continues with a range of government agencies and authorities relevant to the project, including the Hope Vale Aboriginal Shire Council and Cooktown Shire Council, together with state and federal government.

CYCLONE ZIRCON PROJECT

Diatreme continued discussions during the year with potential project participants with the aim of maximising shareholder value from the Cyclone Zircon Project in WA's zircon-rich Eucla Basin.

Unfortunately, restrictions imposed on international travel due to the COVID-19 pandemic hampered the ability for interested offshore parties to complete site due diligence visits to the proposed mine site, hindering the finalisation of potential offers into more binding arrangements.

Constrained supply of high-grade zircon and solid demand still underpin the project's fundamentals, with the global economy projected to pick up speed in 2021 as COVID-19 vaccines are distributed worldwide and recovering economies drive ambitious growth targets that focus on infrastructure driven programs.

Cyclone's principal products of zircon and titanium remain linked to economic and construction activity generally and have significant uses in renewables (wind, solar, nuclear, batteries) which remain an important priority in increasingly decarbonised world economies.

Diatreme continues to actively examine the potential for Cyclone's holding vehicle, Lost Sands Pty Ltd to be annexed into a separated process to unlock value for shareholders. The Company is advanced in discussions to assemble this and other potential project development options concurrently with its other existing initiatives and will keep the market fully informed when these potentially transition to a more formally documented process.

CLERMONT COPPER-GOLD PROJECT

The Clermont Copper-Gold Project 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 the Rosevale Project and the historic Peak Downs Copper Mine.

Review of Operations

No field exploration was undertaken during 2020. However, Diatreme management and external consultants continue to review the project, particularly the Rosevale Porphyry Corridor, to determine its potential for further exploration or disposal.

CORPORATE

In March 2020 Diatreme announced an agreement to extend a \$1.5 million debt facility's maturity, from 31 July 2020 to 30 November 2021, as part of the Company's capital management strategy.

To further strengthen the Board, Mr Mike Chapman was appointed as a Non-Executive Director for the Company in August 2020. Mr Chapman is an experienced mining engineer with more than 40 years' experience in the development, engineering, construction and management of open-cut mining projects in Australia and internationally.

During October 2020, the Company successfully completed a Placement for \$4.64 million (before costs) to new and existing sophisticated and institutional investors, including cornerstone shareholder Ilwella Pty Ltd, which subscribed for \$1.65 million.

On 10 November, Diatreme announced the successful completion of the Share Purchase Plan (SPP), raising \$2.53 million. The SPP closed heavily oversubscribed, with applications received for around \$4 million worth of DRX shares from eligible shareholders, requiring a scale back of applications.

Total funds raised under the Placement and SPP amounted to around \$7.1m (before costs), an extremely positive outcome for the Company.

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 2020.

DIRECTORS

The following persons were directors of Diatreme Resources Limited during the whole year and up to the date of this report, other than as denoted below:

G B Starr
C Wang
Y Zhuang
M J Chapman (appointed 1 August 2020)

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration for mineral/silica sands in Australia. There were no changes in the nature of the Group's principal activities during the year.

DIVIDENDS

No dividend has been paid since the end of the previous year and the Directors do not recommend the payment of any dividend for the year ended 31 December 2020.

REVIEW OF OPERATIONS

Refer to pages 6-10 above for Review of Operations.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2020 was \$1,041,547 (2019: loss of \$1,373,529).

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio, with 91% expenditure on Galalar and 7% on Cyclone. The Group monitors cash flow requirements for operational, exploration and evaluation expenditure and will continue to use capital market issues to satisfy anticipated funding requirements.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO REPORTING DATE

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

Directors' Report

FUTURE DEVELOPMENTS

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

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

Directors' Report

INFORMATION ON DIRECTORS

Name:	Gregory Barry Starr
Title:	Non-Executive Chairman
Qualifications:	B Bus, CPA
Experience:	Mr Starr was appointed a Non-Executive Director and Chairman in May 2018. He is a highly experienced corporate leader in the resourcesector, with over 25 years of executive management experience across a number of Australian and international companies. This includes roles as Chief Executive Officer of Pulse Markets Pty Ltd, Executive Director of BIR Financial Limited, Managing Director of Crater Gold Mining Company Limited (ASX), President and Director of Kenai Resources Limited (TSX), Chief Executive Officer of Golden China Resources (TSX) and Managing Director of Emperor Mines Limited.
Other current directorships:	BIR Financial Limited AHP Group limited Smart Auto Australia Limited
Former directorships (last 3 years):	Azure Health Technology Limited Ephraim Resources Limited World.Net Limited
Special responsibilities:	Chair of audit committee and remuneration committee
Interests in shares:	None
Interests in options:	None

Name:	Cheng (William) Wang
Title:	Non-Executive Director
Qualifications:	MBA
Experience:	Mr Wang was appointed a Director in May 2011. For 15 years he held senior management positions in several major Chinese state owned companies, with his most recent role being in charge of an international commodities trading arm with group assets exceeding \$1.5 billion. Having worked across most provinces in China and understanding Chinese politics and government systems, he has developed wide business connections within China. Now domiciled in Australia, he has over recent years been active with Australian companies including directorships with China Century Capital Limited, Jupiter Mines Limited, and Gulf Alumina Limited.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of audit and remuneration committee
Interests in shares:	6,267,255 ordinary shares (held indirectly)
Interests in options:	None

Name:	Yufeng (Daniel) Zhuang
Title:	Non-Executive Director
Qualifications:	BA (Beijing, China), MSc (New Jersey, USA)
Experience:	Mr. Zhuang was appointed a Director in August 2013. He was nominated to the Board by the former association of Chinese shareholders Messrs Zhensheng Zhuang, Chenfei Zhuang and Qi Lin, to represent their significant investment and ongoing corporate commitments towards the Company. He has worked for Ping An Securities in Beijing and Fujian Minxing Group in Zhangzhou, China.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of audit committee
Interests in shares:	151,841,819 ordinary shares (held directly)
Interests in options:	None

Directors' Report

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

COMPANY SECRETARY

Tuan Do – B Comm., CA

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

MEETINGS OF DIRECTORS

The number of meetings of Directors held during the year ended 31 December 2020, and the number of meetings attended by each Director was as follows:

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

During the year, the Board also undertook regular informal teleconferences assessing all matters associated with the Company's operational and Corporate activities. Circular resolutions were passed as necessary to execute formal Board decisions.

REMUNERATION REPORT - AUDITED

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

Directors' Report

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

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

(a) Key management personnel (KMP)

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

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

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

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

Non-Executive Directors

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

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

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

Directors' Report

(c) Relationship of remuneration with Group performance

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

	Unit	2016 (restated)	2017	2018	2019	2020
Share price at year end	\$/share	0.011	0.016	0.016	0.012	0.018
Market capitalisation	\$	8,767,327	15,916,953	21,284,871	21,965,416	46,313,220
Revenue	\$	62,944	13,814	15,053	19,393	21,279
Total assets	\$	14,060,241	14,441,405	17,214,636	19,881,539	25,622,323
Net loss after tax	\$	1,850,962	1,418,526	2,749,202	1,373,529	1,041,547

(d) Details of remuneration

2020	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments		
	Cash salary & fees \$	Annual leave payout \$	Superannuation \$	Long service leave \$	Shares as incentive \$	Performance Rights \$	Total \$
Non-Executive Directors							
G B Starr	65,000	-	6,175	-	-	-	71,175
C Wang	47,000	-	4,465	-	-	-	51,465
Y Zhuang	105,000	-	9,975	-	-	-	114,975
M J Chapman	19,583	-	1,860	-	-	-	21,443
Other KMP							
N J McIntyre #	240,000	36,365	26,255	977	-	16,453	320,050
T Do	161,250	-	15,319	3,953	-	-	180,522
Total	637,833	36,365	64,049	4,930	-	16,453	759,630

Part of annual leave accrual owing to N McIntyre (\$20,000) was converted to 2,000,000 shares under the October 2020 Share Purchase Plan offered to all shareholders.

Directors' Report

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

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

The group also paid \$98,555 (2019: \$92,750) for specialist market and consultancy services from Fortune Corporation Australia Pty Limited, a director-related entity of C Wang.

(e) Employment contracts

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

(f) Share-based compensation

Shares

There were no shares issued to key management personnel as part of compensation during the year ended 31 December 2020.

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

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

Performance Rights

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

Based upon a valuation of the performance rights at the grant date an amount of \$16,453 has been included in remuneration of the recipient based on the value attributable to the milestones over the determined vesting period during the 2020 financial year (2019: \$36,603).

The fair value of the performance rights granted in 2019 is estimated as at the date of grant using the Monte Carlo Simulation valuation model taking into account the following inputs:

Directors' Report

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

(g) Equity instruments held by KMP

Fully paid ordinary shares

Key Management Personnel	Balance at start of year	Issued as remuneration	Acquired/ (disposed)	Net other change #	Balance at end of the year
G B Starr	-	-	-	-	-
C Wang	5,767,255	-	500,000	-	6,267,255
Y Zhuang	151,841,819	-	-	-	151,841,819
M J Chapman	-	-	-	-	-
N J McIntyre	7,122,998	-	(1,090,000)	2,000,000	8,032,998
T Do	-	-	-	-	-
Total	164,732,072	-	(590,000)	2,000,000	166,142,072

Part of annual leave accrual owing to N McIntyre was converted to shares under the October 2020 Share Purchase Plan.

Share options

None of the key management personnel of the Group held share options during the financial year

Performance Rights

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

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

END OF AUDITED REMUNERATION REPORT

Directors' Report

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option as at 31 December 2020 are as follows:

Issue date	Expiry date	Exercise price	Number under option	Type
3 June 2019	3 June 2021	2.4 cents	50,000,000	Unlisted
5 February 2020	4 February 2022	2.0 cents	181,714,365	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.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of the Company were issued during the year ended 31 December 2020 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
5 February 2020	\$0.02	2,500,000

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.

Directors' Report

NON-AUDIT SERVICES

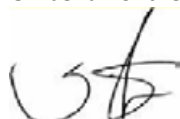
William Buck (Qld), the Company's current auditor, did not perform any other services in addition to their statutory audit duties.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 21.

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



Greg Starr
Non-Executive Chairman

Brisbane, 26 March 2021

Auditor's Independence Declaration



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

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2020, there have been:

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

J A Latif

J A Latif
Director

Brisbane, 26 March 2021

ACCOUNTANTS & ADVISORS

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2020

	Note	2020 \$	2019 \$
Revenue	2	21,279	19,393
Other income	2	589,890	109,557
Reversal of provision for rehabilitation	7	-	272,000
Total revenue and income		611,169	400,950
Employee benefit expenses		(704,454)	(621,728)
Depreciation expenses	2	(71,500)	(75,273)
Exploration expenditure written off	10	(26,715)	-
Share based payment expense	18	(16,453)	(117,852)
Decrease in fair value of financial assets	7	-	(36,058)
Other expenses	2	(659,434)	(722,104)
Finance costs		(174,160)	(201,464)
Total expenses		(1,652,716)	(1,774,479)
Loss before income tax		(1,041,547)	(1,373,529)
Income tax benefit	3	-	-
Net loss for the year		(1,041,547)	(1,373,529)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,041,547)	(1,373,529)
		Cents	Cents
Loss per share			
Basic earnings per share	4	(0.1)	(0.1)
Diluted earnings per share	4	(0.1)	(0.1)

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

Consolidated Statement of Financial Position

as at 31 December 2020

	Note	2020 \$	2019 \$
Current Assets			
Cash and cash equivalents	5	5,787,541	2,487,120
Trade and other receivables	6	96,636	61,677
Financial asset	7	-	526,442
Total Current Assets		5,884,177	3,075,239
Non-current Assets			
Property, plant and equipment	8	100,664	114,893
Right-of-use assets	9	22,091	66,273
Exploration and evaluation assets	10	19,594,526	16,610,502
Other assets	11	20,865	14,632
Total Non-current Assets		19,738,146	16,806,300
Total Assets		25,622,323	19,881,539
Current Liabilities			
Trade and other payables	12	717,906	753,891
Borrowings	13	1,603,658	1,590,929
Lease liabilities	14	31,483	56,146
Provisions	15	5,818	4,422
Total Current Liabilities		2,358,865	2,405,388
Non-current Liabilities			
Lease liabilities	14	-	31,484
Provisions	15	42,642	32,250
Total Non-current Liabilities		42,642	63,734
Total Liabilities		2,401,507	2,469,122
Net Assets		23,220,816	17,412,417
Equity			
Issued capital	16	67,473,677	60,640,184
Reserves	17	326,283	309,830
Accumulated losses	19	(44,579,144)	(43,537,597)
Total Equity		23,220,816	17,412,417

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

Consolidated Statement of Changes in Equity for the year ended 31 December 2020

	Note	Issued capital	Share- based payment reserve	Accumulated losses	Total
		\$	\$	\$	\$
At 1 January 2019		55,979,231	255,496	(42,332,265)	13,902,462
Adjustment for change in accounting policy (AASB 16)		-	-	(23,741)	(23,741)
Balance at 1 January 2019 – restated		55,979,231	255,496	(42,356,006)	13,878,721
Total comprehensive income: Loss for the year		-	-	(1,373,529)	(1,373,529)
Transactions with owners in their capacity as owners:					
Shares issued		5,112,770	-	-	5,112,770
Share issue costs		(242,147)	-	-	(242,147)
Options issued as success fee for share placement	18 (a)	(236,382)	236,382	-	-
Performance rights issued	18 (a)	-	36,602	-	36,602
Exercise of vested performance rights	16	26,712	(26,712)	-	-
Reclassification of expired options		-	(191,938)	191,938	-
Balance at 31 December 2019		60,640,184	309,830	(43,537,597)	17,412,417
At 1 January 2020		60,640,184	309,830	(43,537,597)	17,412,417
Total comprehensive income: Loss for the year		-	-	(1,041,547)	(1,041,547)
Transactions with owners in their capacity as owners:					
Shares issued		7,175,053	-	-	7,175,053
Share issue costs		(341,560)	-	-	(341,560)
Performance rights issued	18 (a)	-	16,453	-	16,453
Balance at 31 December 2020		67,473,677	326,283	(44,579,144)	23,220,816

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts in the course of operations		15,276	17,549
Payments to suppliers and employees		(1,336,772)	(1,358,822)
Interest received		6,003	4,793
Government grants & incentives		256,923	-
Finance costs		(81,950)	(26,893)
Net cash used in operating activities	5(a)	<u>(1,140,520)</u>	<u>(1,363,373)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(13,089)	(344)
Payments for exploration and evaluation assets		(3,089,188)	(2,128,494)
Proceeds from sale of investments	7	777,225	-
Payments for security deposits		(1,000)	(1,500)
Refund of security deposits		-	404,188
Net cash used in investing activities		<u>(2,326,052)</u>	<u>(1,726,150)</u>
Cash flows from financing activities			
Proceeds from issue of shares		7,170,053	5,016,520
Payments for share issue costs		(341,560)	(242,147)
Repayment of lease liabilities		(61,500)	(56,029)
Net cash from financing activities		<u>6,766,993</u>	<u>4,718,344</u>
Net increase in cash and cash equivalents		3,300,421	1,628,821
Cash and cash equivalents at the beginning of the financial year		<u>2,487,120</u>	<u>858,299</u>
Cash and cash equivalents at the end of the financial year	5	<u>5,787,541</u>	<u>2,487,120</u>

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

1. Statement of significant accounting policies

(a) Basis of preparation

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

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

The financial statements were approved by the Board of Directors on 26 March 2021

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Accounting policies

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

Good and services tax (GST)

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

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

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

(e) Adoption of new and revised accounting standards

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(f) Going Concern

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

The Group has incurred a net loss after tax for the year ended 31 December 2020 of \$1,041,547 and a net cash outflow from operations of \$1,140,520. At 31 December 2020, the Group's current assets exceeded its current liabilities by \$3,525,312.

During the year ended 31 December 2020 the Group raised \$7,170,053 (before costs) from private placements and a Share Purchase Plan that was received overwhelmingly by existing shareholders.

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

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

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

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

(g) Critical accounting estimates and judgements

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

Share-based payment transactions:

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

Exploration and evaluation assets:

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

2. Revenue, other income and expenses

	2020 \$	2019 \$
a) Revenue		
Interest	6,003	4,793
Rent	15,276	14,600
	<u>21,279</u>	<u>19,393</u>

b) Other income

Gain on fair value adjustment to borrowings	74,128	106,608
Government grants & incentives	256,721	-
Increase in fair value of financial assets (Note 7)	250,783	-
Other	8,258	2,949
	<u>589,890</u>	<u>109,557</u>

Accounting policy: Government grants & incentives

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

c) Depreciation

Plant and equipment	27,318	31,091
Right-of-use assets - buildings	44,182	44,182
	<u>71,500</u>	<u>75,273</u>

d) Other expenses

Professional fees	66,694	96,768
Short term lease payments	18,591	16,863
Listing and share registry expenses	87,051	86,337
Administration costs	487,098	522,136
	<u>659,434</u>	<u>722,104</u>

Accounting policy: revenue recognition

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

3. Income Tax

The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:

	2020 \$	2019 \$
Loss before income tax	(1,041,547)	(1,373,529)
Prima facie income tax benefit at 26.0% (2019: 27.5%)	(270,802)	(377,720)
Tax effect of amounts which are not deductible in calculating taxable income:		
Other	(20,520)	35,074
	(291,322)	(342,646)
Deferred tax assets not recognised	291,322	342,646
Total income tax benefit	-	-

(a) Tax losses

Unused tax losses	72,470,627	67,781,117
Potential tax effect at 26.0% (2019: 27.5%)	18,842,363	18,639,807

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

Accounting policy: income tax

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

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

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

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

Tax consolidation legislation

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

4. Loss per share

	2020 \$	2019 \$
Loss after income tax attributable to the owners of Diatreme Resources Limited	(1,041,547)	(1,373,529)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	2,002,119,113	1,428,681,311
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,002,119,113	1,428,681,311
	Cents	Cents
Basic earnings per share	(0.1)	(0.1)
Diluted earnings per share	(0.1)	(0.1)

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

Accounting policy: earnings/loss per share

Basic earnings per share

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

Diluted earnings per share

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

5. Cash and cash equivalents

	2020 \$	2019 \$
Cash on hand	2,505	1,422
Cash at bank	1,285,036	985,698
Cash on deposit	4,500,000	1,500,000
	<u>5,787,541</u>	<u>2,487,120</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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

	2020 \$	2019 \$
Loss for the year	(1,041,547)	(1,373,529)
Non-cash items		
Profit on sale of investments	(250,783)	-
Depreciation	71,500	75,273
Exploration expenditure written off	26,715	-
Share based payment expense	16,453	117,852
Fair value movement in financial asset	-	36,058
Interest expense for leases	5,353	9,463
Gain on fair value adjustment to borrowings	12,729	58,500
Annual leave payout via shares issue	20,000	-
Other non-cash item	(2,823)	-
Movements in operating assets and liabilities		
Decrease / (increase) in receivables	(49,957)	29,771
Decrease / (increase) in other assets	(5,233)	-
Increase / (decrease) in payables	45,285	(72,195)
Increase / (decrease) in provisions	11,788	(244,566)
Net cash used in operating activities	(1,140,520)	(1,363,373)

Accounting policy: cash and cash equivalents

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

6. Trade and other receivables

	2020 \$	2019 \$
Other receivables #	96,636	61,677
	<u>96,636</u>	<u>61,677</u>

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

Accounting policy: trade and other receivables

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

7. Financial Asset

On 11 March 2019, the Company executed a binding, conditional Heads of Agreement to sell its interest in the Tick Hill Gold Project, to a nominee of Berkut Minerals Limited (Berkut) (ASX: BMT). Berkut itself entered into a series of interdependent agreements whereby it first acquired Carnaby, and then through Carnaby (as its nominee) acquired 100% of the legal and beneficial interest in the Project. This sale transaction was completed on 24 April 2019, and the Company was issued with 7,211,529 shares in the capital of BMT to the value of \$562,500.

Berkut subsequently changed its name on 1 May 2019 to Carnaby Resources Limited (ASX: CNB).

	2020 \$	2019 \$
Opening balance	526,442	-
Shares received as consideration for the interest in the Tick Hill Gold Project	-	562,500
Revaluation	250,783	(36,058)
Proceeds from sale of 7,211,529 shares	(777,225)	-
Closing balance	-	526,442

Accounting policy: Financial asset

The CNB shares are stated at fair value.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 1) Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability;
- 3) Level 3 Inputs for the asset or liability that are not based on observable market data.

The CNB securities are traded in an active market, being the Australian Securities Exchange, and consequently they are measured as a Level 1 instrument on the fair value hierarchy. The quoted market price, used to determine the value of these securities is the bid price at balance date.

\$272,000 provision for rehabilitation in relation to the Tick Hill project was reversed as a result of the sale in 2019.

8. Property, plant & equipment

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

	Furniture and fittings	Motor vehicles	Plant and Equipment	Total
	\$	\$	\$	\$
Year ended 31 December 2020				
Opening net book amount	2,462	40,200	72,231	114,893
Additions	-	-	13,089	13,089
Depreciation charge	(494)	(9,005)	(17,819)	(27,318)
Closing net book amount	1,968	31,195	67,501	100,664
At 31 December 2020				
Cost	134,723	144,150	1,079,348	1,358,221
Accumulated depreciation	(132,755)	(112,955)	(1,011,847)	(1,257,557)
Net book amount	1,968	31,195	67,501	100,664

Accounting policy: property, plant and equipment

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

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

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

9. Right-of-use assets

	2020 \$	2019 \$
Opening balance (adoption of AASB 16 on 1 January 2019)	66,273	110,455
Depreciation charge	(44,182)	(44,182)
Closing balance	22,091	66,273

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

Accounting policy: Right-of-use assets

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

10. Exploration and evaluation assets

	2020 \$	2019 \$
Exploration and evaluation assets – at cost less impairment	19,594,526	16,610,502
Opening balance	16,610,502	15,154,429
Costs capitalised during the year	3,010,739	1,456,073
Costs written off	(26,715)	-
Closing balance	19,594,526	16,610,502

Accounting policy: Exploration and evaluation assets

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

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

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

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

At balance date the carrying amount of exploration and evaluation assets was \$19,594,526 of which \$14,221,265 is attributable to the significant exploration of the Group's Cyclone Zircon Project.

Accounting policy: impairment of assets

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

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

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

11. Other non-current assets

	2020	2019
	\$	\$
Rent guarantee deposit	13,365	13,365
Security deposits	7,500	1,267
	<u>20,865</u>	<u>14,632</u>

12. Trade, other payables and employee benefits

	2020	2019
	\$	\$
Unsecured		
Trade payables	415,753	429,883
Other payables and accruals	244,490	230,038
Employee benefits	57,663	93,970
	<u>717,906</u>	<u>753,891</u>

Accounting policy: trade and other payables

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

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

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

13. Borrowings

	2020	2019
	\$	\$
Unsecured loan	<u>1,603,658</u>	<u>1,590,929</u>
Total borrowings	<u>1,603,658</u>	<u>1,590,929</u>
Current liability	<u>1,603,658</u>	<u>1,590,929</u>
	<u>1,603,658</u>	<u>1,590,929</u>

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

On March 2020, the Company announced an agreement had been executed to extend the maturity date of the \$1.5 million debt facility from 31 July 2020 to 30 November 2021 (Refer to ASX announcement 27 March 2020) and the interest rate was increased to 7%.

Accounting Policy: borrowings

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

14. Lease liabilities

	2020	2019
	\$	\$
Current liability	31,483	56,146
Non-current liability	-	31,484
	<u>31,483</u>	<u>87,630</u>

The lease liabilities are presented as below:

Operating lease commitments disclosed as at 31 December 2018	-	24,582
Extension of lease term to 30 June 2021 and increment of monthly rental	-	109,614
Opening balance (adoption of AASB 16 from 1 Jan 2019)	87,630	134,196
Payments recognised as financial cash outflow	(61,500)	(56,029)
Interest charges during the year	5,353	9,463
Closing balance	<u>31,483</u>	<u>87,630</u>

Accounting policy: lease liability

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

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

15. Provisions

	2020	2019
	\$	\$
Current liabilities		
Long service leave	<u>5,818</u>	<u>4,422</u>
Non-current liabilities		
Long service leave	<u>42,642</u>	<u>32,250</u>

Accounting policy: employee benefits - Long Service Leave

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

16. Issued Capital

	2020 \$	2019 \$
2,572,956,646 (Dec 2019: 1,830,451,346) ordinary shares	67,473,677	60,640,184

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price \$	\$
1 Jan 2019	Opening balance	1,330,304,442		55,979,231
Apr ⁽¹⁾	Shares issued	125,521,205	0.011	1,380,733
May ⁽²⁾	Shares issued	2,083,334	0.012	25,000
Jun ⁽³⁾	Shares issued	1,500,000	0.011	16,500
Jun ⁽⁴⁾	Shares issued	5,113,636	0.011	56,250
Nov ⁽¹⁾	Shares issued	363,428,729	0.010	3,634,287
Nov ⁽⁵⁾	Shares issued	2,500,000	0.010	26,712
	Shares issue costs	-		(478,529)
31 Dec 2019	Balance	1,830,451,346		60,640,184
3 Feb 2020 ⁽⁶⁾	Shares issued	25,000,000	-	-
16 Oct ⁽¹⁾	Shares issued	463,862,800	0.010	4,638,628
12 Nov ⁽¹⁾	Shares issued	251,642,500	0.010	2,516,425
12 Nov ⁽⁷⁾	Shares issued	2,000,000	0.010	20,000
	Shares issue costs	-		(341,560)
31 Dec 2020	Balance	2,572,956,646		67,473,677

⁽¹⁾ During both the 2019 and 2020 financial years the Company completed several placements to sophisticated and professional investors. A share purchase plan was also completed in November 2020.

⁽²⁾ Shares issued as compensation to CEO for achieving various KPIs.

⁽³⁾ Part of April 2019 Placement – shares subscribed by director (C Wang). Approved at May 2019 AGM.

⁽⁴⁾ Shares issued as consideration for portion of advisory fees provided by Hartleys in carrying out its October 2018 Placement.

⁽⁵⁾ Shares issued to CEO from exercise of vested Performance Rights.

⁽⁶⁾ Rebate shares issued to Ilwella Pty Ltd. Approved at February 2020 GM.

⁽⁷⁾ Shares issued to CEO as part of the share purchase plan completed in November 2020 from payout of portion of annual leave.

Ordinary shares

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

Accounting policy: issued capital

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

b) Share options

Expiry date	Exercise Price	Number at end of year	
		2020	2019
2 June 2021 (unlisted) ⁽¹⁾	\$0.024	50,000,000	50,000,000
4 February 2022 (unlisted) ⁽²⁾	\$0.020	181,714,365	-

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

⁽²⁾ Unlisted options from the November 2019 Placement. Issued in February 2020 subsequent to shareholder approval at the February 2020 General Meeting

Share options issued by the Company carry no rights to dividends and no voting rights. All options are exercisable for cash on a 1:1 basis.

Movement in unlisted share options	Number at end of year	
	2020	2019
Opening balance	50,000,000	7,000,000
Issued 3 June 2019 (subsequent to approval at 30 May 2019 AGM)	-	50,000,000
Issued 4 February 2020 (subsequent to approval at 3 February 2020 GM)	181,714,365	-
Lapsed	-	(7,000,000)
Closing balance	231,714,365	50,000,000

Movement in listed share options	Number at end of year	
	2020	2019
Opening balance	-	60,847,327
Lapsed	-	(60,847,327)
Closing balance	-	-

17. Share-based payment reserve

	2020	2019
	\$	\$
Opening balance	309,830	255,496
Reverse options relating to expired options	-	(191,938)
Options issued to broker as success fee for share placement	-	236,382
Performance rights expense (net of vested performance rights)	16,453	9,890
Closing balance	326,283	309,830

Nature and purpose of share-based payment reserve

The share-based payment reserve is used to recognise the fair value of options issued under the employee share option plan, options issued to broker as success fee for share placement, and performance rights issued to CEO.

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

18. Share-based payments

	2020 \$	2019 \$
(a) Value of share-based payments in the financial statements		
<i>Expensed:</i>		
Incentive based payment to CEO - shares	-	25,000
Payment for portion of broker's advisory fees - shares	-	56,250
Incentive based payment to CEO – performance rights	16,453	36,602
Recognised in statement of comprehensive income	16,453	117,852
Share based payments in capital raising costs:		
Unlisted options	-	236,382
Recognised on statement of changes in equity	-	236,382

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

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

(b) Accounting Policy: share-based payment transactions

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

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

(c) Summary of share-based payments

Incentive based payment to CEO

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

Payment for portion of broker's advisory fees

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

Incentive based payment to CEO – performance rights

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

Options to a Broker (2019)

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

Information of options issued to the broker is as follows:

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

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

Employee Share Option Plan

The Company established an employee share option plan (ESOP 2012) which was approved by shareholders at the AGM on 24 May 2012. The purpose of the scheme was to give an additional incentive to Directors, employees and consultants, to provide dedicated and on-going commitment and effort to the Company. All of the options had lapsed as at 31 December 2019.

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

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

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

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

19. Accumulated losses

	2020 \$	2019 \$
Accumulated losses at the beginning of the year	(43,537,597)	(42,332,265)
Adjustment for change in accounting policy (refer Note 1 (e))	-	(23,741)
Net loss for the year	(1,041,547)	(1,373,529)
Reclassification of expired options	-	191,938
Accumulated losses at the end of the year	(44,579,144)	(43,537,597)

20. Financial instruments

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(a) Categories of financial instruments

	2020 \$	2019 \$
Financial assets		
Cash and cash equivalents	5,787,541	2,487,120
Trade and other receivables	96,636	61,677
Financial asset	-	526,442
Security and other deposits	20,865	14,632
Total financial assets	5,905,042	3,089,871
	2020 \$	2019 \$
Financial liabilities		
Trade and other payables	717,906	753,891
Borrowings	1,603,658	1,590,929
Lease liabilities	31,483	87,630
Total financial liabilities	2,353,047	2,432,450

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

(b) Capital risk management

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

(c) Market risk

Interest rate risk

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

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

	2020 \$	2019 \$
Cash at bank	1,285,036	985,698
Cash on deposit	4,500,000	1,500,000
	5,785,036	2,485,698

(d) Credit risk

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

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(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 2019						
Trade and other payables	753,891	753,891	753,891	-	-	-
Borrowings	1,590,929	1,636,500	117,000	1,519,500	-	-
Lease liabilities	87,630	92,250	30,750	30,750	30,750	-
	<u>2,432,450</u>	<u>2,482,641</u>	<u>901,641</u>	<u>1,550,250</u>	<u>30,750</u>	<u>-</u>

Consolidated	Carrying amount \$	Contractual cash flow \$	< 6 months \$	6-12 months \$	1-3 years \$	> 3 years \$
31 Dec 2020						
Trade and other payables	717,906	717,906	717,906	-	-	-
Borrowings	1,603,658	1,698,500	137,250	1,561,250	-	-
Lease liabilities	31,483	30,750	30,750	-	-	-
	<u>2,353,047</u>	<u>2,447,156</u>	<u>885,906</u>	<u>1,561,250</u>	<u>-</u>	<u>-</u>

(f) Fair values

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

21. Interests in subsidiaries

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 December 2020. 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

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

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

Name of subsidiary	Country of Incorporation	Principal activity	Ownership Interest	
			2020	2019
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.

22. Parent Entity Information

	2020 \$	2019 \$
Financial position		
Current assets	5,881,795	3,065,549
Non-current assets	22,106,659	18,971,853
Total assets	27,988,454	22,037,402
Current liabilities	2,161,613	2,013,812
Non-current liabilities	42,642	63,734
Total liabilities	2,204,255	2,077,546
Net assets	25,784,199	19,959,856
Shareholders' equity		
Contributed equity	67,473,677	60,640,184
Reserves	326,283	309,830
Accumulated losses	(42,015,761)	(40,990,158)
Total equity	25,784,199	19,959,856
Loss for the year	(1,025,603)	(1,353,569)
Total comprehensive loss for the year	(1,025,603)	(1,353,569)

Non-Current Assets

Non-current assets include \$14,758,202 (2019: \$14,340,661) of intercompany receivables balances with recoverability of the debt based on successful exploitation of various tenement sites.

Contingent Liabilities

The parent entity had no contingent liabilities at 31 December 2020 (2019: nil).

Contractual commitments

The parent entity had no contractual commitments for property, plant and equipment at 31 December 2020 (2019: nil).

Guarantees

The parent entity had no guarantees as 31 December 2020 (2019: nil).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

23. 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:

	2020 \$	2019 \$
Payable within 1 year	73,640	96,671
Payable between one and five years	1,291,822	893,582
	<u>1,365,462</u>	<u>990,253</u>

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. In 2020 cash security bonds totalling \$7,500 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (2019: \$1,267).

24. Contingent Liability

The Group does not have any contingent liability at 31 December 2020 (2019: Nil).

25. Financial reporting by segments

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

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

26. 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 21.

(c) Key management personnel

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 December 2020.

	2020 \$	2019 \$
Short-term employee benefits	674,198	597,875
Post-employment benefits	64,049	56,798
Long-term benefits	4,930	28,996
Share-based payments	16,453	61,602
	<u>759,630</u>	<u>745,271</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(d) Transactions with related parties

	2020 \$	2019 \$
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).	98,555	92,750

27. Remuneration of auditors

	2020 \$	2019 \$
William Buck (Qld)		
Audit and review of the financial statements	23,000	20,000

The auditors did not provide any other services.

28. Events subsequent to balance date

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

29. New accounting standards and interpretations

At the date of authorisation of the financial report, certain Standards and Interpretations were on issue but not yet effective. These Standards and Interpretations have not been adopted in the preparation of the financial report for the year ended 31 December 2020. None of these Standards and Interpretations are expected to have significant effect on the consolidated financial statements of the Group.

The Group expects to first apply these Standards and Interpretations in the financial report of the Group relating to the annual reporting period beginning after the effective date of each pronouncement.

30. Corporate information

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

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

Directors' Declaration

for the year ended 31 December 2020

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1(a) to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2020 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



Greg Starr
Non-Executive Chairman

Brisbane, 26 March 2021

Independent Auditor's Report

Diatreme Resources Limited

Independent auditor's report to the members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Diatreme Resources Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

We 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.

ACCOUNTANTS & ADVISORS

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williambuck.com

Independent Auditor's Report

Material Uncertainty Related to Going Concern

We draw attention to Note 1(f) in the financial report, which indicates that the Group incurred a net loss after tax of \$1,041,547 during the year ended 31 December 2020 and had net cash outflows from operations of \$1,140,520. As stated in Note 1(f), these events or conditions, along with other matters as set forth in Note 1(f), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

CARRYING VALUE OF EXPLORATION COSTS	
Area of focus	How our audit addressed it
Refer also to note 10	
Capitalised exploration and evaluation assets represent 76% of the Group's total assets. The carrying value of exploration and evaluation assets is impacted by the Group's ability, and intention, to continue to explore and evaluate these assets. The results of these activities then determine the extent to which it may or may not be commercially viable to develop and extract identified reserves.	Our audit procedures included:
Due to the significance of this asset and the subjectivity involved in determining its carrying value and recoverable amount, this is a key audit matter.	<ul style="list-style-type: none"> — A review of the directors' assessment of the criteria for the capitalisation of exploration and evaluation expenditure and their assessment of whether there are any indicators of impairment to capitalised costs; — Considering the Group's intention and ability to continue activities necessary to support a decision to develop the exploration and evaluation assets, which included an assessment of the Group's ability to fund such activities and a review of their future budgets; — Performing an assessment of whether any indicators of impairment existed in line with requirements of Australian Accounting Standards, including a review of the integrity of tenement title status and total commitments value; and — We assessed the adequacy of the Group's disclosures in respect of the carrying value of exploration costs.

Independent Auditor's Report

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 2020, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Independent Auditor's Report

Report on the Remuneration Report

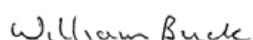
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 18 of the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Diatreme Resources Limited, for the year ended 31 December 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



William Buck (Qld)
ABN 21 559 713 106



Junaide Latif
Director

Brisbane, 26 March 2021

Shareholder Information

As at 15 March 2021

(a) Distribution of equity securities

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

Number of shares held	Number of shareholders	Number of fully paid shares	% Units
above 0 up to and including 1,000	686	149,348	0.01%
above 1,000 up to and including 5,000	259	714,974	0.03%
above 5,000 up to and including 10,000	181	1,529,525	0.06%
above 10,000 up to and including 100,000	917	42,840,003	1.66%
above 100,000	989	2,530,222,796	98.24%
Totals	3,032	2,575,456,646	100.00%

The number of security investors holding less than a marketable parcel on 15 March 2021 was 1,331 and they held 5,722,582 securities.

(b) Listing of 20 Largest Shareholders

Position	Name of shareholder	Number of shares held	% of shares held
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	485,694,327	18.86
2	DELPHI UNTERNEHMENSBERATUNG AKTIENGESELLSCHAFT	175,372,355	6.81
3	MR YUFENG ZHUANG	151,841,819	5.90
4	MS JIE WU	87,171,308	3.38
5	MR ZHENBIN JIAN	82,000,000	3.18
6	VW PTY LTD <VAN WELDEREN A/C>	67,000,001	2.60
7	CHENXIA ZHOU	62,500,000	2.43
8	MISS RUJING ZHUANG	41,666,667	1.62
9	HONGMING ZHANG	40,000,000	1.55
10	BORNEO MINERALS PTY LTD	39,975,000	1.55
11	MS LAI YOU	36,511,080	1.42
12	99WHM PTY LTD <MITCHELL FAM SUPER FUND A/C>	31,000,000	1.20
13	ZHIXIN LI	30,500,000	1.18
14	REMOND HOLDINGS PTY LTD <DEFINA A/C>	30,000,000	1.16
15	MR STEPHEN JOHN RYAN	28,508,188	1.11
16	DORAL LTD	23,500,000	0.91
17	REMOND HOLDINGS PTY LTD <DEFINA A/C>	20,833,250	0.81
18	MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	20,164,214	0.78
19	STARLET COURT PTY LTD <MUSGRAVE SUPER FUND A/C>	18,000,000	0.70
20	CAIFENG ZENG	16,666,667	0.65
20	MS LAI YOU	16,666,667	0.65
	TOTAL	1,505,571,543	58.46

(c) Substantial Holders

Name of substantial shareholder	Number of shares	%
ILWELLA PTY LTD	440,669,688	17.11
DELPHI UNTERNEHMENSBERATUNG AG	190,372,355	7.39
MR YUFENG ZHUANG	151,841,819	5.90

Shareholder Information

As at 15 March 2021

(d) Unlisted Share Options

Number of holders	Exercise price	Expiry date	Number of options
4	\$0.024	3 June 2021	50,000,000
15	\$0.020	4 February 2022	179,214,365

(e) Unlisted Performance Rights

Number of holders	Expiry date	Number of Rights
1	24 May 2021	3,333,333

(f) Voting rights

The voting rights attached to ordinary shares are that on a show of hands every member present in person or by proxy shall have one vote and upon a poll each shall have one vote.

Options do not carry voting rights.

Performance Rights do not carry voting rights.

(g) On-market Buy-back

There is no current on-market buy back

Tenement Information

Current interests in tenements held by Diatreme Resources Limited and its subsidiary companies as at 15 March 2021 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	Cape Bedford	Cape Bedford	EPM27265	33 km ²	100%	DRX
QLD	Clermont	Clermont	EPM17968	252 km ²	100%	CHAL

Abbreviations:

M	Western Australia	Mining Lease	DRX - Diatreme Resources Limited
R	Western Australia	Retention Licence	CHAL – Chalcophile Resources Pty Ltd
EPM	Queensland	Exploration Permit for Minerals	LSPL – Lost Sands Pty Ltd

Within the Cape Bedford tenement is the Nob Point silica resource, which was renamed as the “Galalar Silica Project”, following consultations with traditional owners representative body the Hopevale Congress Aboriginal Corporation RNTBC (Congress) (refer ASX announcement 5 Dec 2018) and the primarily affected native title holders, the Thiithaarr Clan.

The Galalar Silica Project will be making an application for a Mining Licence which would cover approximately only 1% of the whole Cape Bedford tenement.

In 2017, Congress and the Company executed a Conduct & Compensation Agreement for the purposes of exploration activity, in which the Company gave a commitment to Congress to grant an equity interest (12.5% -free carry) to a suitable agreed nominee (from the affected native title holders) in the potential future mining Project. This interest is to be formally documented at the appropriate time.

Ore Reserves and Mineral Resources Information

Ore Reserves and Mineral Resources are estimated using all available geological, drill hole sample 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 “modifying factors” in accordance with the JORC Code including, but not limited to, product prices, mining costs, metallurgical recoveries, environmental constraints, access and approvals. Resource estimates are determined by consideration of geology, HM cut-off grades, mineralisation thickness, overburden ratios and consideration of the potential mining and extraction methodology.

The information in relation to the Cyclone Project 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 the Mineral Resource that was separately reported in an announcement to the Australian Securities Exchange (ASX) on 27 April 2017 “Exploration Activities Report Quarter Ended 31 March 2017” and was prepared in accordance with the guidelines of the 2012 JORC Code.

The information in relation to the Galalar Project Mineral Resource estimate was reported in an announcement to the Australian Securities Exchange (ASX) on 12 May 2020 “Galalar Silica Resource expands 25% to 47.5Mt”. The Resource estimate was prepared in accordance with the guidelines of the 2012 JORC Code.

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 Competent Person 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 P McMurtrie MAusIMM is a director of Tisana Pty Ltd and a consultant to Diatreme Resources, Mr I Reudavey MAIG was a full-time employee of Diatreme Resources Limited, and Mr B Mutton FAusIMM FAIG is a director of Brice Mutton & Associates Pty Ltd. Mr McMurtrie, Mr Reudavey and Mr Mutton consent to the inclusion in this report of this information in the form and context in which it appears.

The Mineral Resource and Ore Reserve figures reported represent estimates at 31 December 2020. All tonnes and grade information has been rounded and small differences may be present in the totals. All Mineral Resource information is inclusive of Ore Reserves. Mineral Resources are not additional to Ore Reserves.

Diatreme HM Ore Reserves at 31 December 2020

Project	Ore Reserve Category	Ore 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	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 included within Mineral Resources.
4. Mineral assemblage is reported as a percentage of in situ heavy mineral (HM) content.
5. Rutile comprises Ti-Oxides >95% TiO₂, Leuco (Leucoxene) comprises Ti-oxides 85 - 95% TiO₂, HiTi comprises Ti-oxides 70 - 85% TiO₂, Alt Ilm (Altered Ilmenite) comprises Ti-oxides <70% TiO₂, Si-TiOx (Siliceous Ti-oxide) comprises Ti-oxides with >10% silica rich Ti minerals.

Ore Reserves and Mineral Resources Information

Diatreme HM Ore Reserves comparison 2019 to 2020

Project	Ore Reserve Category	2019 Ore Tonnes Millions	2019 HM Grade (%)	2019 In-situ HM Tonnes Millions	2020 Ore Tonnes Millions	2020 HM Grade (%)	2020 In-situ HM Tonnes Millions	In-situ HM Tonnes Millions Change
Cyclone	Probable	138	2.6	3.52	138	2.6	3.52	0.00

The annual review of Ore Reserves concluded that in the absence of new exploration data or additional feasibility evaluation during 2020, the Diatreme HM Ore Reserve remains unchanged.

Diatreme HM Mineral Resources at 31 December 2020

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
	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 small differences in totals.
5. Mineral assemblage is reported as a percentage of in situ heavy mineral content.
6. Rutile comprises Ti-oxides >95% TiO₂, Leuco (Leucoxene) comprises Ti-oxides 85 - 90% TiO₂, HiTi comprises Ti-oxides 70 - 85% TiO₂, Alt Ilm (Altered Ilmenite) comprises Ti-oxides <70% TiO₂, Si TiOx (Siliceous Ti-oxide) comprises Ti-oxides with >10% silica rich Ti minerals.

The information in relation to the Diatreme HM Mineral Resource is reported in compliance with the 2012 JORC Code, and the most recent update of Mineral Resources was announced to the Australian Securities Exchange (ASX) on 27 April 2017 "Exploration Activities Report Quarter Ended 31 March 2017".

Diatreme HM Mineral Resource comparison 2019 to 2020

Project	Mineral Resource Category	2019 Material Tonnes Millions	2019 HM Grade (%)	2019 In-situ HM Tonnes Millions	2020 Material Tonnes Millions	2020 HM Grade (%)	2020 In-situ HM Tonnes Millions	In-situ HM Tonnes Millions Change
Cyclone	Measured	156	2.4	3.81	156	2.4	3.81	0.00
	Indicated	48	1.9	0.89	48	1.9	0.89	0.00
	Total	203	2.3	4.70	203	2.3	4.70	0.00

The annual review of Mineral Resources concluded that in the absence of new exploration data or additional feasibility evaluation during 2020, the Diatreme HM Mineral Resource remains unchanged.

Ore Reserves and Mineral Resources Information

Diatreme Silica Sand Mineral Resources at 31 December 2020

Project	Mineral Resource Category	Material Tonnes Millions	Silica Grade (SiO ₂ %)
Galalar	Measured	30.89	99.28
	Indicated	6.02	99.10
	Inferred	10.59	>99.00
	Total	47.5	>99.19

1. Galalar Project is located 20km east of Hope Vale, Queensland
2. Competent Person - Mineral Resources, B Mutton FAIG FAusIMM
3. Mineral Resource is the quantity of sand with a silica grade exceeding 99% SiO₂.

The information in relation to the Galalar Mineral Resource was prepared and disclosed under the JORC Code 2012 and reported in an announcement to the Australian Securities Exchange (ASX) on 12 May 2020 "Galalar Silica Resource expands 25% to 47.5Mt".

Diatreme Silica Sand Mineral Resource comparison 2019 to 2020

Project	Mineral Resource Category	2019 Material Tonnes Millions	2019 Silica Grade (SiO ₂ %)	2020 Material Tonnes Millions	2020 Silica Grade (SiO ₂ %)	In-situ Silica Sand Million tonnes Change
Galalar	Measured	-	-	30.89	99.28	+30.89
	Indicated	21.5	99.3	6.02	99.10	-15.48
	Inferred	8.7	99.3	10.59	>99.00	+1.89
	Total	30.2	99.3	47.50	>99.19	+17.30

The announcement of the Galalar Mineral Resource expansion on 12 May 2020 resulted in an increase to the Measured Mineral Resource of 30.89 Mt, a decrease to the Indicated Mineral Resource of 15.48 Mt and an increase to the Inferred Mineral Resource of 1.89 million tonnes. The total Diatreme Silica Sand Mineral Resource increased by 17.30 million tonnes.

Mineral Resource and Ore Reserve Governance

Mineral Resource and Ore Reserves are estimated by suitably qualified Diatreme personnel or consultants 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 or engaged by Diatreme. Ore Reserve estimates are prepared in conjunction with feasibility studies which consider all material factors. The Ore Reserves and Mineral Resources Statement included in the Annual Report is reviewed by a suitably qualified Competent Person.

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UNIVERSAL DEMAND.**

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