

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

Financial Report Half year ended 30 June 2022

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These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

They do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 31 December 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Directory

Directors

Wayne Swan

Gregory Starr

Cheng (William) Wang

Michael Chapman

Independent non-executive Chairman

Non-Executive Director

Non-Executive Director

Non-Executive Director

Chief Executive Officer

Neil McIntyre

Chief Operating Officer

Peter Brown

Company Secretary

Tuan Do

Registered Office

Unit 8, 55-61 Holdsworth Street

Coorparoo QLD 4151

Telephone: 07 3397 2222

Website: www.diatreme.com.au

Share Registry

Automic Pty Ltd

Level 5, 126 Phillip Street

Sydney NSW 2000

Auditors

William Buck (Qld)

Level 22, 307 Queen Street

Brisbane QLD 4000

Directors' Report

The directors present their report on the Group consisting of Diatreme Resources Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 30 June 2022.

Directors

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

Mr Wayne Swan	Independent non-executive Chairman
Mr Gregory Starr	Non-Executive Director
Mr William Wang	Non-Executive Director
Mr Michael Chapman	Non-Executive Director

Review of operations

Company overview

Diatreme Resources Limited (DRX) is an Australian developer and explorer of mineral/silica sands. The Company is maintaining its focus on advancing development and exploration activities of its Cyclone Zircon Project and Galalar (Cape Bedford) Silica Sand Project.

Results of operations

The net loss of the Group for the half year to 30 June 2022 was \$1,460,546 (2021: loss of \$1,008,075). The loss for the half year arises primarily from corporate and marketing costs, administrative expenses incurred to support the Company's exploration and development activities for its Cyclone and Galalar projects.

No dividends were proposed or paid during the period (2021: nil). At 30 June 2022, the Company had cash and cash equivalents of \$16,227,005 (31 December 2021: \$6,500,017).

Galalar (Cape Bedford) Silica Project

During the half-year, the Company continued with its focus on advancing permitting & approvals process for its flagship Galalar Silica Project

Key highlights during the period in review include:

- On 10 January 2022, Diatreme announced it has discovered a second 'high-grade' silica sand resource within the northern section of its Cape Bedford exploration tenement. A JORC-2012 maiden inferred mineral resource estimate for the area, dubbed the Si 2 North Project, has delivered 53.2 million tonnes @ 99.32% SiO₂.
- On 23 February, Diatreme reported that it continued to expand its silica sand resource base, with new exploration drilling under way throughout the company's northern resource project, and the drilling was selectively testing extensions to dunes with low impact exploration activities.
- On 17 March 2022, Diatreme announced a significant expansion to Inferred Mineral Resource for its Si2 North Project, increasing by 134% from 53 million tonnes (Mt) to 124 Mt @ 99.33% silica (SiO₂).
- On 27 June 2022, Diatreme announced a transformational strategic partnership with a subsidiary of SCR-Sibelco, a European headquartered material solutions company. The partnership will raise up to \$52 million via a placement of new shares and a two-tranche asset joint venture with Sibelco and the company's largest shareholder, Ilwella. As part of the placement of new shares, \$13.97 million were received from Sibelco for 559,465,000 shares at 2.5 cents per share.

Directors' Report

Cyclone Zircon/Heavy Mineral (HM) Project

Diatreme continues to advance discussions with potential development partners for the Cyclone Zircon Project with the project well positioned given declining global supply and growing demand.

Major producer Iluka Resources reported a weighted average zircon price for premium and standard sand of US\$1,910 per tonne in the second quarter 2022, up 25% from the second half 2021. The rutile price also rose by 17% to US\$1,506 per tonne. Despite a challenging global macro environment, demand for such products remains strong and global supply tight, according to Iluka's quarterly review to 30 June 2022. These positive market dynamics support Diatreme's aim to maximise value from Cyclone by attracting a suitable investment partner to develop this shovel-ready project.

Corporate

Diatreme's Annual General Meeting was held on 26 May 2022 at the Company's head office in Brisbane. All resolutions were passed on a poll, with voting results available via the ASX release dated 26 May 2022

Matter subsequent to reporting date

On 5 July 2022 Diatreme announced the lodgement of Mining Lease Applications (MLA's) and Infrastructure MLA's for its Northern Silica Project.

During the extraordinary general meeting on 25 August 2022, the shareholders:

- Approved the issue of 132,111,500 shares to Ilwella Pty Ltd at an issue price of \$0.025 per share; and
- Approved the issue of 455,727,393 shares to Sibelco Asia Pacific Pty Ltd at an issue price of \$0.0248 per share. This is to rectify the 559,465,000 shares issued on 27 June 2022, where 103,737,607 shares were issued in excess of the Listing Rule 7.1 Capacity.

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 4.

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



Wayne Swan
Independent Chairman
Brisbane, 1 September 2022

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

Auditor's Independence Declaration

As lead auditor for the review of Diatreme Resources Limited for the half-year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been:

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

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

M. Monaghan

M J Monaghan
Director

Brisbane, 1 September 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 30 June 2022

	Note	30 June 2022 \$	30 June 2021 \$
Revenue		7,723	16,222
Other income		-	7,111
Total revenue and income		7,723	23,333
Employee benefits expenses		(586,323)	(418,029)
Depreciation expense		(71,127)	(40,091)
Exploration expenditure written off		-	(8,204)
Share based payment expense	8	(148,537)	(60,411)
Other expenses		(601,010)	(444,629)
Finance costs		(61,272)	(60,044)
Total expenses		(1,468,269)	(1,031,408)
Loss before income tax		(1,460,546)	(1,008,075)
Income tax expense		-	-
Net loss for the half-year attributable to owners		(1,460,546)	(1,008,075)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to owners		(1,460,546)	(1,008,075)
		Cents	Cents
Loss per share			
Basic earnings per share		(0.05)	(0.04)
Diluted earnings per share		(0.05)	(0.04)

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
At 30 June 2022

		30 Jun	31 Dec
	Note	2022	2021
		\$	\$
Current assets			
Cash and cash equivalents		16,227,005	6,500,017
Trade and other receivables		142,820	161,491
Total current assets		16,369,825	6,661,508
Non-current assets			
Property, plant and equipment		535,125	253,586
Right-of-use assets		58,347	87,520
Exploration and evaluation assets	5	29,136,521	26,094,898
Other assets		38,365	38,365
Total non-current assets		29,768,358	26,474,369
Total assets		46,138,183	33,135,877
Current liabilities			
Trade and other payables		604,806	712,703
Borrowings	6	1,537,500	1,518,125
Lease liabilities		61,642	57,877
Provisions		8,413	7,919
Total current liabilities		2,212,361	2,296,619
Non-current liabilities			
Lease liabilities		-	31,820
Provisions		49,302	46,086
Total non-current liabilities		49,302	77,906
Total liabilities		2,261,663	2,374,525
Net assets		43,876,520	30,761,347
Equity			
Issued capital	7	91,397,546	76,964,871
Reserves	8	368,295	225,251
Accumulated losses		(47,889,321)	(46,428,775)
Total equity		43,876,520	30,761,347

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

**Consolidated Statement of Changes in Equity
For the half year ended 30 June 2022**

	Issued capital	Share based payments reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
At 1 January 2021	67,473,677	326,283	(44,579,144)	23,220,816
Total comprehensive income:				
Loss for the half-year	-	-	(1,008,075)	(1,008,075)
Transactions with owners in their capacity as owners:				
Shares issued	50,000	-	-	50,000
Options and performance rights issued (Note 8)	-	60,411	-	60,411
Reverse portion relating to expired vested options (Note 8)	-	(332,712)	332,712	-
At 30 June 2021	67,523,677	318,011	(45,254,507)	22,323,152

	Issued capital	Share based payments reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
At 1 January 2022	76,964,871	225,251	(46,428,775)	30,761,347
Total comprehensive income:				
Loss for the half-year	-	-	(1,460,546)	(1,460,546)
Transactions with owners in their capacity as owners:				
Exercise of options	485,500	-	-	485,500
Shares issued from placement	13,968,096	-	-	13,968,096
Share issue costs	(26,414)	-	-	(26,414)
Options and performance rights issued (Note 8)	-	162,287	-	162,287
Exercise of vested performance rights (Note 8)	5,493	(5,493)	-	-
Reverse portion relating to expired unvested performance rights (Note 8)	-	(13,750)	-	(13,750)
At 30 June 2022	91,397,546	368,295	(47,889,321)	43,876,520

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

Consolidated Statement of Cash Flows
For the half year ended 30 June 2022

	30 June 2022 \$	30 June 2021 \$
Cash flows from operating activities		
Receipts in the course of operations	7,714	7,714
Payments to suppliers and employees	(1,002,565)	(1,037,244)
Interest received	9	8,508
Finance costs	(41,897)	(138,417)
Net cash outflow from operating activities	(1,036,739)	(1,159,439)
Cash flows from investing activities		
Payments for plant & equipment	(323,493)	(131,980)
Payments for exploration and evaluation assets	(3,311,907)	(2,291,711)
Payments for security deposit	-	(17,500)
Net cash outflow from investing activities	(3,635,400)	(2,441,191)
Cash flows from financing activities		
Proceeds from issue of shares	14,453,596	50,000
Payment of share issue costs	(26,414)	-
Repayments of lease liabilities	(28,055)	(30,750)
Net cash inflow from financing activities	14,399,127	19,250
Net decrease in cash and cash equivalents	9,726,988	(3,581,380)
Cash and cash equivalents at the beginning of the half-year	6,500,017	5,787,541
Cash and cash equivalents at the end of the half-year	16,227,005	2,206,161

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

Notes to the Financial Statements

1. REPORTING ENTITY

These condensed consolidated interim financial statements ('interim financial statements') for the half year to 30 June 2022 comprise Diatreme Resources Limited (Diatreme or the Company) and the entities it controlled during or at the end of the half year ended 30 June 2022 (the Group).

2. BASIS OF PREPARATION

Statement of Compliance

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with the International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

They do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 31 December 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. These interim financial statements were authorised for issue by the Company's Board of Directors on 1 September 2022.

Judgements and Estimates

The accounting policies include the capitalisation of exploration and evaluation expenditure which as at 30 June 2022 amounts to \$29,136,521 (31 December 2021: \$26,094,898). This represents a significant asset of the Group. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the relevant areas of interest. Where activities in these areas have not reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, these costs are carried forward if the tenements are active or significant operations in relation to these areas of interest are continuing.

Going concern

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

The Group has incurred a net loss after tax for the half-year ended 30 June 2022 of \$1,460,546 and a net cash outflow from operations of \$1,036,739. At 30 June 2022, the Group had \$16,227,005 in cash and cash equivalents (2021: \$6,500,017) and the Group's current assets exceeded its current liabilities by \$14,157,464 (31 Dec 2021: net current assets of \$4,364,889).

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

On 27 June 2022 the Group entered into a binding strategic partnership with a subsidiary of globally based, European headquartered material solutions company, SCR-Sibelco N.V. (Sibelco). Material terms of this partnership comprise:

- A placement of 559,465,000 ordinary shares in the Company to Sibelco at an issue price of 2.5 cents per share. These shares were issued on 27 June 2022 resulting in the receipt of cash of \$13.97 million on that date; and
- The Company and Sibelco to enter into a joint venture arrangement to develop the Galalar Silica Project and Northern Resource Project. Under the arrangement, Sibelco will make cash investments totalling \$35 million into a group entity to fund development of these projects comprising separate tranches of \$11 million and \$24 million.

Notes to the Financial Statements

Going concern (continued)

The Group also entered into binding terms for a placement to existing major shareholder Ilwella of 132,111,500 new ordinary shares at 2.5 cents per share to raise a further \$3.3 million. This amount was approved by shareholders on 25 August 2022.

After consideration of the funding that has been received and is to be received, as well as cash projections prepared that consider the operational requirements of both the Company and the extended Group, the directors are of the opinion that the Group is well positioned to meet its objectives and obligations going forward and therefore that the basis upon which the financial statements are prepared is appropriate in the circumstances.

The directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements at 30 June 2022. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards and Interpretations adopted

The Group 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. They do not have a material impact on the Group's financial statements.

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

4. SEGMENT INFORMATION

The Group currently operates in one business segment and one geographical segment, namely exploration 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.

5. EXPLORATION AND EVALUATION ASSETS

	30 Jun 2022	31 Dec 2021
	\$	\$
Exploration and evaluation assets – at cost	29,136,521	26,094,898
Opening balance	26,094,898	19,594,526
Costs capitalised	3,041,623	6,517,792
Costs written off during the period	-	(17,420)
	29,136,521	26,094,898

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

6. BORROWINGS

	30 Jun 2022	31 Dec 2021
	\$	\$
Unsecured loan	1,537,500	1,518,125
Total borrowings	1,537,500	1,518,125

The loan has an interest rate of 7.5% per annum and matures on 30 November 2022.

Notes to the Financial Statements

7. ISSUED CAPITAL

	30 Jun 2022 Number of shares	31 Dec 2021 Number of shares	30 Jun 2022 \$	31 Dec 2021 \$
Ordinary shares - fully paid	3,597,647,626	3,013,717,560	91,397,546	76,964,871

Movements in ordinary share capital

Details	Date	Number of shares	Issue price \$	\$
Balance	1 Jan 2022	3,013,717,560		76,964,871
Issue of shares on exercise of vested performance rights	10 Jan 2022	190,066	0.029	5,493
Issue of shares on exercise of options	18 Jan 2022	1,000,000	0.020	20,000
Issue of shares on exercise of options	21 Jan 2022	3,625,000	0.020	72,500
Issue of shares on exercise of options	28 Jan 2022	10,500,000	0.020	210,000
Issue of shares on exercise of options	4 Feb 2022	9,150,000	0.020	183,000
Issue of shares from Placement	27 Jun 2022	559,465,000	0.025	13,968,096
Share issue costs				(26,414)
Balance	30 Jun 2022	3,597,647,626		91,397,546

8. SHARE-BASED PAYMENTS RESERVE

	30 Jun 2022 \$	31 Dec 2021 \$
Opening balance	225,251	326,283
Options expense	157,300	210,996
Performance rights expense	4,987	56,441
Exercise of vested Performance rights	(5,493)	-
Reverse amounts relating to expired performance rights	(13,750)	(368,469)
	368,295	225,251

Nature and purpose of share-based payment reserve

The share-based payment reserve is used to recognise the fair value of options issued to the directors and performance rights issued to CEO and COO.

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

Type	Holder(s)	Services provided
Performance rights	Chief Executive Officer (CEO) and Chief Operating Officer (COO)	Employment – incentive for various key performance indicators
Options to directors	Directors	Employment – corporate governance

Grant Date	Holder(s)	Type	Number of instruments at 1 January 2022	Granted in current period	Exercised during current period	Expired in current period	Closing balance as at 30 June 2022
16 Feb 2021	CEO and COO	Performance rights	667,566	-	190,066	(477,500)	-
27 May 2021	Directors	Options	40,000,000	-	-	-	40,000,000

9. CONTINGENCIES

There are no contingent liabilities (31 December 2021: nil) as at the reporting date.

10. COMMITMENTS

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 are as follows:

	30 Jun 2022	31 Dec 2021
	\$	\$
Payable within 1 year	293,029	379,572
Payable between one and five years	1,775,095	1,782,708
	<u>2,068,124</u>	<u>2,162,280</u>

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. At 30 June 2022 cash security bonds totalling \$25,000 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (Dec 2021: \$25,000).

11. EVENTS SUBSEQUENT TO REPORTING DATE

On 5 July 2022 Diatreme announced the lodgement of Mining Lease Applications (MLA's) and Infrastructure MLA's for its Northern Silica Project.

During the extraordinary general meeting on 25 August 2022, the shareholders:

- Approved the issue of 132,111,500 shares to Ilwella Pty Ltd at an issue price of \$0.025 per share; and
- Approved the issue of 455,727,393 shares to Sibelco Asia Pacific Pty Ltd at an issue price of \$0.0248 per share. This is to rectify the 559,465,000 shares issued on 27 June 2022, where 103,737,607 shares were issued in excess of the Listing Rule 7.1 Capacity.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 5 to 12 are in accordance with the Corporations Act 2001 and:

- (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the half-year ended on that date.

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

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



Wayne Swan
Independent Chairman
Brisbane, 1 September 2022

Diatreme Resources Limited

Independent auditor's review report

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Diatreme Resources Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Directors for the Financial Report

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

Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

William Buck

William Buck (Qld)
ABN 21 559 713 106

M. Monaghan

M J Monaghan
Director

Brisbane, 1 September 2022