DIATREME RESOURCES LIMITED

ABN 33 061 267 061

HALF-YEAR REPORT – 30 JUNE 2014

Contents

General information

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

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

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

87 Wickham Terrace
Spring Hill
Queensland 4000

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 9 September 2014.

COMPETENT PERSON STATEMENTS

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

DIRECTORS' REPORT

Your directors present their report on the Group consisting of Diatreme Resources Limited and the entities it controlled at the end of, or during, the half-year ended 30 June 2014.

Current 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:

A Tsang
C Wang (appointed Non-Executive Chairman on 1 July 2014)
N McIntyre (appointed Acting Managing Director on 1 July 2014; resigned as Director and appointed Chief Executive Officer on 26 August 2014)
Y Zhuang

Past directors that resigned and departed during the half-year and until the date of this report

G H White
Non-Executive Director
Appointed 21 April 2006

Mr White resigned as Non-Executive Director on 28 May 2014.

A J Fawdon
Executive Chairman/CEO
Appointed 12 January 2001

Mr Fawdon departed the Company on a negotiated early retirement and redundancy package on 1 July 2014.

D H Hall
Executive Director - Operations
Appointed 12 January 2001

Mr Hall departed the Company on a negotiated early retirement and redundancy package on 1 July 2014.

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

Review of operations
The loss after income tax of the Group for the half-year was $2,695,623 (2013: loss $2,388,924). The loss reflects the nature of the Group's principal activity.

During the half-year, Diatreme Resources Limited scaled back its mineral exploration activities and the Cyclone Zircon Project ("Cyclone") feasibility studies to conserve the Company's cash position. Efforts to secure corporate and project funding were undertaken both locally and overseas. Further funds are expected through this process and possibly by way of joint venture agreements.

The Company's flagship asset, the Cyclone Zircon Project located in Western Australia, continues to be progressed, with the following key highlights:

- Negotiations with Perpetual Mining Holding Limited completed and Heads of Agreement signed – 9 January 2014.

- Flora and Fauna Autumn surveys completed over the project area and the proposed access road to Forrest as part of the West Australian government public environmental review process.

- Hydrogeolology report received for the Cyclone water bore drilled in December 2013, the report confirms the potential high yield of the aquifer underlying Cyclone and its ability to act as the water supply for the Project.

- Updated resource (JORC 2012) determined for the Cyclone Deposit – 137 million tonnes (Mt) at 2.2% heavy minerals (HM) at a 1% HM cut-off grade, containing 3.0Mt.

Exploration operations during the half year involved:

- Review of regional mineral sand targets in the Eucla Basin (WA), resulting in the withdrawal of tenement applications in the GVDNR south of Cyclone, surrender of two tenements north of Cyclone and the partial relinquishment of others. Costs associated with the Wanna East tenement were written down during the year due to the low development potential of the Zephyr resource.

- Following review of proposed cultural heritage conditions for the Mandora EL application in the Canning Basin, the application was withdrawn.

- The Serpentine tenement immediately east of Cyclone which contains known heavy mineral prospects and untested extensions of the Barton Shoreline was granted during the half year and planning is underway for the initial exploration program.

- The Elliston tenement in SA was granted during the half year and planning is underway for the initial exploration program.

With market conditions remaining difficult for junior explorers, the Company maintains tight control over expenditure whilst aiming to ensure that the Company assets retain their true value.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

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.

N J McIntyre
Chief Executive Officer
9 September 2014

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DECLARATION OF INDEPENDENCE BY C J SKELTON TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

As lead auditor for the review of Diatreme Resources Limited for the half-year ended 30 June 2014, 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.

C J Skelton

Director

BDO Audit Pty Ltd

Brisbane: 9 September 2014

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2014

	Note	Half-year 2014 $	Half-year 2013 $
Revenue	3	185,132	159,112
Employee benefits expenses		(464,251)	(517,347)
Depreciation expenses		(55,584)	(58,366)
Exploration assets written off	3	(1,753,358)	(1,376,783)
Share based payment expenses	4	(134,258)	(39,764)
Other expenses	3	(469,930)	(553,580)
Finance costs		(3,374)	(2,196)
Loss before income tax		(2,695,623)	(2,388,924)
Income tax expense		-	-
Net loss for the half-year		(2,695,623)	(2,388,924)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year		(2,695,623)	(2,388,924)

	Cents	Cents
Loss per share		
Basic earnings per share	(0.4)	(0.5)
Diluted earnings per share	(0.4)	(0.5)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	30 Jun 2014 $	31 Dec 2013 $
ASSETS			
Current assets			
Cash and cash equivalents		481,364	981,546
Trade and other receivables		170,419	401,074
Total current assets		651,783	1,382,620
Non-current assets			
Available-for-sale financial assets		3,252	3,252
Property, plant and equipment		359,362	415,662
Exploration and evaluation assets	1(b)	17,297,216	19,598,602
Other assets		682,747	701,960
Total non-current assets		18,342,577	20,719,476
Total assets		18,994,360	22,102,096
LIABILITITES			
Current liabilities			
Trade and other payables		638,755	1,367,887
Provisions		136,404	136,404
Total current liabilities		775,159	1,504,291
Total liabilities		775,159	1,504,291
Net assets		18,219,201	20,597,805
EQUITY			
Issued capital	4	45,990,049	45,733,401
Reserve	6	191,938	131,567
Accumulated losses		(27,962,786)	(25,267,163)
Total equity		18,219,201	20,597,805

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 2014

	Issued capital	Share based payments reserve	Accumulated losses	Total equity
	$	$	$	$
Balance at 1 January 2013	**43,089,752**	**-**	**(20,470,035)**	**22,619,717**
Total comprehensive income:				
Loss for the half-year	-	-	(2,388,924)	(2,388,924)
Transactions with owners in their capacity as owners:				
Issue of share capital, net of transaction costs	726,073	-	-	726,073
Options issued	-	39,764	-	39,764
At 30 June 2013	**43,815,825**	**39,764**	**(22,858,959)**	**20,996,630**

	Issued capital	Share based payments reserve	Accumulated losses	Total equity
	$	$	$	$
At 1 January 2014	**45,733,401**	**131,567**	**(25,267,163)**	**20,597,805**
Total comprehensive income:				
Loss for the half-year	-	-	(2,695,623)	(2,695,623)
Transactions with owners in their capacity as owners:				
Issue of share capital, net of transaction costs	256,648	-	-	256,648
Options issued	-	60,371	-	60,371
At 30 June 2014	**45,990,049**	**191,938**	**(27,962,786)**	**18,219,201**

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 2014

	Note	Half-year 2014 $	Half-year 2013 $
Cash flows from operating activities			
Receipts in the course of operations		147,357	100,737
Receipts from research and development tax claims		-	401,061
Payments to suppliers and employees		(777,178)	(1,096,215)
Interest received		15,249	46,501
Finance costs		(3,374)	(2,196)
Net cash inflow/(outflow) from operating activities		(617,946)	(550,112)
Cash flows from investing activities			
Payments for property, plant and equipment		-	(7,422)
Receipt from Perpetual Mining Holding Limited	7	1,750,000	-
Receipt from Antofagasta Minerals S.A.	8	-	828,281
Payments for exploration and evaluation assets		(2,195,725)	(1,187,744)
Proceeds from sale of property, plant and equipment		10,228	-
Payments for security deposits		-	(2,500)
Refund of security deposit		20,500	-
Net cash inflow/(outflow) from investing activities		(414,997)	(369,385)
Cash flows from financing activities			
Proceeds from issue of shares		231,445	850,000
Payments for share issue costs		(48,684)	(123,927)
Receipt of deposit on shares placement		350,000	43,975
Repayment of interest-bearing liabilities		-	(13,572)
Net cash inflow/(outflow) from financing activities		532,761	756,476
Net increase/(decrease) in cash and cash equivalents		(500,182)	(163,021)
Cash and cash equivalents at the beginning of the half-year		981,546	1,973,713
Cash and cash equivalents at the end of the half-year		481,364	1,810,692

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACOUNTING POLICIES

a) Statement of compliance

These general purpose financial statements for the interim half-year reporting period ended 30 June 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2013 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, unless otherwise stated.

b) Critical judgements in applying accounting policies

The accounting policies include the capitalisation of exploration and evaluation expenditure which as at 30 June 2014 amounts to $17,297,216 (31 December 2013: $19,598,602). 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 or where activities in the areas have not reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the areas are continuing.

c) Material uncertainty regarding going concern

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

The Group has incurred a net loss after tax for the half-year ended 30 June 2014 of $2,695,623 (2013: $2,388,924), and a net cash outflow from operations of $617,946 (2013: $550,112). At 30 June 2014, the Group’s current liabilities exceeded its current assets by $123,376 (31 December 2013: current liabilities exceeded current assets $121,671).

The Group’s ability to continue as a going concern and pay its debts as and when they fall due, given the Group’s intended operational plans, assumes the following:

- further capital raisings in the next twelve months; and
- active management of the current level of discretionary expenditure in line with the funds available to the Group.

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.

For the previous twelve months to 31 December 2013, the Group had raised $2,890,000 (before costs) from share placements to sophisticated and professional investors. During the current half-year to 30 June 2014, the Group raised $231,500 (before costs) from a Rights Issue, and received $1,750,000 from Perpetual Mining Holding Limited to fund the Cyclone Zircon Project.

In the event that adequate funds cannot be raised as required, there will exist 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.

d) Available for sale financial assets

As detailed in Note 20 (f) of the previous annual financial statements, the available for sale financial assets are recorded at cost as there is no active market for the shares of the investee company.

The Group follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement to determine when an available-for-sale financial asset is impaired.

This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

e) New, revised or amending Accounting Standards and Interpretations

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

2. SEGMENT INFORMATION

Operating segments are reported in a manner that is consistent with the internal reporting to the chief operating decision maker ("CODM"), which has been identified by the Group as the Chairman and the other members of the Board of directors.

(i) Identification of reportable segments
The Group has identified that it operates in only one segment based on the internal reports that are reviewed and used by the CODM in assessing performance and determining the allocation of resources. The Group operates in one business segment as an explorer for heavy mineral sands, copper, gold and base metals in Australia.

(ii) Revenue and assets by geographical region
The Group's revenue is received from sources and assets that are located wholly within Australia.

(iii) Financial Information
Reportable items required to be disclosed in this note are consistent with the information disclosed in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and are not duplicated here.

	6 months ended	
	30 Jun 2014	30 Jun 2013
	$	$

3. REVENUE, IMPAIRMENT AND OTHER EXPENSES

(a) Revenue

	30 Jun 2014 $	30 Jun 2013 $
Interest	16,535	53,664
Management fees	-	2,394
Other	168,597	103,054
	185,132	159,112

(b) Other expenses

	30 Jun 2014 $	30 Jun 2013 $
Professional fees	70,210	58,114
Rental expenses on operating leases	202,818	179,358
Listing and share registry expenses	33,808	34,991
Administration costs	163,094	281,117
	469,930	553,580

(c) Exploration assets written off
During the half year a review of exploration data in conjunction with management assessment, resulted in $1,753,358 write-off of exploration assets (30 June 2013: $1,376,783).

4. SHARE BASED PAYMENT EXPENSE

	30 Jun 2014 $	30 Jun 2013 $
Share based payments made during the period (1)	73,887	-
Share based option payments made during the period (2)	60,371	39,764
	134,258	39,764

(1) 3,694,235 shares at an issue price of 2 cents per share (and 3,694,235 free attaching options) were issued as full consideration for the Corporate Advisory and Management Fees incurred under the Lead Manager mandate for the 2014 renounceable rights issue.

(2) The Company established an employee share option plan (ESOP 2012) which was approved by shareholders at the AGM on 24 May 2012.

9,400,000 share options were issued to the Company's employees and consultants on 15 March 2013, and on 31 May 2013, following shareholders' approval, 6,000,000 share options were issued to the Directors. The exercise price of the options is $0.10 per share vesting on 1 May 2014, and with an expiry date of 30 April 2019.

All options issued were valued using the Black-Scholes model. The fair value of options granted was estimated on the date of issue using the following assumptions:

	Issue date	
	15 Mar 2013	31 May 2013
Exercise price ($)	0.10	0.10
Share price volatility (%)	103.68	107.76
Risk-free interest rate (%)	3.28	3.28
Expected life of the options (years)	6.13	5.92
Share price at issue date ($)	0.02	0.01

For the six months ended 30 June 2014, the Company has recognised $60,371 of share based payment transactions expense in the consolidated statement of comprehensive income (30 June 2013: $39,764).

5. ISSUED CAPITAL

	30 Jun 2014 $	31 Dec 2013 $
624,849,042 (Dec 2013: 609,582,431) fully paid ordinary shares	45,990,050	45,733,401

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
1 January 2013	Opening balance	473,582,422		43,089,752
May	Shares issued	4,797,363	0.025	119,934
Jun	Shares issued	29,202,637	0.025	730,066
July	Shares issued	22,000,000	0.020	440,000
Aug	Shares issued	80,000,000	0.020	1,600,000
Sep	Shares issued	9	0.150	1
	Shares issue costs	-		(246,352)
31 December 2013	Balance	609,582,431		45,733,401
Mar 2014 (1)	Shares issued	11,572,276	0.020	231,446
May (2)	Shares issued	3,694,335	0.020	73,887
	Shares issue costs			(48,684)
30 June 2014	Balance	624,849,042		45,990,050

(1) In March 2014, the Company completed a non-renounceable rights issue to shareholders on a 1 for 4 basis. As a consequence, $231,446 was raised through the issue of 11,572,276 fully paid ordinary shares at 2 cents each, each with a free attaching listed option exercisable at 2 cents expiring on 11 March 2016.

(2) 3,694,235 Shares (and 3,694,235 options) issued as full consideration for the Corporate Advisory and Management Fees incurred under the Lead Manager mandate for the 2014 renounceable rights issue.

(b) Share options

Expiry date	Exercise price	Number 30 Jun 2014	Number 31 Dec 2013
11 March 2016 (listed)	$0.02	15,266,611	-
30 April 2019 (unlisted)	$0.10	15,400,000	15,400,000

15,266,611 listed options were issued during the 2014 year. (Refer Note 5(a) above).
15,400,000 unlisted options were issued during the 2013 year. (Refer Note 4 above).

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.

6. RESERVE

Share-based payment reserve	30 Jun 2014 $	31 Dec 2013 $
Opening balance	131,567	-
Share based payments relating to unlisted options issued	60,371	131,567
Closing balance	191,938	131,567

7. RECEIPT FROM PMHL

The Group's 100% owned subsidiary, Lost Sands Pty Ltd ("Lost Sands") executed a Heads of Agreement ("HoA") on 9 January 2014 with Perpetual Mining Holding Limited ("PMHL") for $2 million investment in the Cyclone Zircon Project. Under the HoA, PMHL agreed to invest $2 million into the Project to earn 6% equity by way of a series of cash calls.

For the half-year ended 30 June 2014 Lost Sands received $1,750,000 from PMHL. From this receipt, Lost Sands had incurred exploration and evaluation costs of $1,712,335 as at 30 June 2014, with the balance of $37,665 to be spent in July 2014. The final cash call of $250,000 is expected to be received in September 2014.

8. RECEIPT FROM ANTOFAGASTA

The Group's 100% owned subsidiary, Chalcophile Resources Pty Ltd entered into a Memorandum of Understanding ("MoU") on 27 March 2012 with Antofagasta Minerals S.A. ("Antofagasta") in respect of the Company's Clermont Copper Project. The Group subsequently executed a Farm-In Agreement with Antofagasta on 18 January 2013.

For the half-year ended 30 June 2013, and under the agreed terms, the Company received $828,281 ($US $863,585) from Antofagasta Minerals S.A to fund exploration at the Clermont Copper Project. From this receipt, the Company had incurred $744,870 ($US $765,710) as at 30 June 2013, with the balance of $83,411 ($US 97,875) spent in July 2013.

In October 2013 Antofagasta terminated the farm-in agreement under the MoU, and consequently exited the Clermont Copper Project without earning an interest.

9. CONTINGENCIES

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

10. COMMITMENTS

(a) Tenement expenditure commitments

So as to maintain current rights to tenure of exploration tenements, the Group will be required to outlay amounts in respect of tenement rent to the relevant governing authorities and to meet certain annual exploration expenditure commitments. These outlays (exploration expenditure and rent), which arise in relation to granted tenements, inclusive of tenement applications are as follows:

	30 Jun 2014 $	31 Dec 2013 $
Payable within 1 year	1,354,537	616,657
Payable between one and five years	1,924,903	1,480,825
	3,279,440	2,097,482

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. Cash security bonds totalling $575,478 (2013: $594,691) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

Performance bonds totalling $351,000 (2013: $351,000) have been issued by the Australia and New Zealand Banking Group Limited ("ANZ") on behalf of one of the Company's subsidiaries, in respect of several Western Australian tenements. ANZ will indemnify against any loss arising from the performance bonds and the indemnities are secured against the cash security bonds above.

(b) Operating lease commitments

	30 Jun 2014 $	31 Dec 2013 $
Payable within 1 year	325,003	327,183
Payable between one and five years	345,815	536,914
	670,818	864,097

The Company has leasing arrangements for the rental of office space expiring on 31 July 2016.

11. EVENTS SUBSEQUENT TO REPORTING DATE

On 1 July 2014 the Company announced that following a Company structural review undertaken by the Board that the Chairman/CEO, Mr Tony Fawdon, and the Executive Director Operations, Mr David Hall, will depart the Company on a negotiated early retirement and redundancy package effective 1 July 2014. The total amount payable under package is $437,617 (excluding leave provisions carried in the financial statements at 30 June 2014).

On 28 July 2014 the Company announced that it had executed agreements with sophisticated investors to subscribe for the following placements:

- 27,700,000 ordinary fully paid shares at 1.1 cents per share raising $304,700 before costs, and
- 50,000,000 ordinary fully paid shares at 1.2 cents per share, raising $600,000 before costs. These shares will also have 25,000,000 attaching options which are exercisable at 2.0 cents and expiring on 30 June 2016.

The placements were completed on 1 and 11 August 2014. The funds will be applied to the Company's project activities and for working capital.

In addition, the Company had received firm commitments from Ms Lai You, who is a related party of the Company's Non-Executive Director, Mr. Andrew Tsang, to place 34,000,000 ordinary fully paid shares (to rank equally in all respects with existing shares) at 1.2 cents raising $408,000 before costs. These shares will also have 17,000,000 attaching options which are exercisable at 2.0 cents and expiring on 30 June 2016.

On 26 August 2014 the Company issued a Notice of General Meeting of Shareholders to ratify and approve the above placements.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 5 to 15 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 2014 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:

N J McIntyre
Chief Executive Officer

Brisbane, 9 September 2014

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Diatreme Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Diatreme Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Diatreme Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

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

Conclusion

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 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1(c) in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity and management of expenditure. These conditions, along with other matters as set out in Note 1(c), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit Pty Ltd

BDO

C J Skelton

Director

Brisbane: 9 September 2014

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