

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

Financial Report Half year ended 30 June 2023

CONTENTS

	Page
Corporate directory	1
Directors' report	2
Auditor's independence declaration	4
Consolidated statement of profit or loss and other comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	13
Independent auditor's review report	14

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 2022 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.

Directors

Wayne Swan, Non-Executive Chairman
Michael Chapman, Non-Executive Director
Gregory Starr, Non-Executive Director
Cheng (William) Wang, Non-Executive Director
Karalyn Keys, Non-Executive Director

Securities Exchange

Australian Securities Exchange
ASX Code: DRX

Chief Executive Officer

Neil McIntyre

Auditors

William Buck (Qld)
Level 22, 307 Queen Street
Brisbane QLD 4000

Company Secretary

Tuan Do

Registered Office

Unit 8, 55-61 Holdsworth Street
Coorparoo QLD 4151
Telephone: 07 3397 2222
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Website: www.diatreme.com.au

Share Registry

Automic Pty Ltd
Level 5, 126 Phillip Street
Sydney NSW 2000

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 2023.

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	Non-Executive Chairman
Mr Michael Chapman	Non-Executive Director
Mr Gregory Starr	Non-Executive Director
Mr William Wang	Non-Executive Director
Ms Karalyn Keys	Non-Executive Director (appointed on 19 July 2023)

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 Northern Silica Sand Project and Cyclone Zircon Project.

Results of operations

The net loss of the Group for the half year to 30 June 2023 was \$1,137,828 (2022: loss of \$1,460,546). 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 silica sand and Cyclone zircon projects.

No dividends were proposed or paid during the period (2022: nil). At 30 June 2023, the Group had \$12,825,602 in cash and cash equivalents (December 2022: \$13,640,939). In addition, the joint venture had \$7,401,875 in cash at 30 June 2023.

Northern Silica Project

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

Key highlights during the period in review include:

- On 13 March, Diatreme announced an 89% increase in the resource estimate for the Si₂ deposit to 235 million tonnes (Mt), up from 124.1Mt previously. Diatreme's total silica sand resource base now exceeds 310Mt across its high-grade Far North Queensland silica sand projects.
- On 14 June, Diatreme announced the results of a scoping study on the Northern Silica Project. The scoping study estimated a post-tax net present value of A\$830 million and an internal rate of return of 32%, with the pay-back period estimated at six years. The base case analysis estimated a capital cost of A\$356 million, including a A\$46.4-million contingency, to establish a three-million-tonne-a-year operation.
- On 16 June, the Company completed another key milestone with the Northern Silica Project being determined a "controlled action" under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC) via a referral with the Australian (federal) government Department of Climate Change, Energy, the Environment and Water (DCCEEW). One of the benefits of the controlled action is to allow a more streamlined process between state and federal regulatory agencies during the EIS process.

Cyclone Zircon/Heavy Mineral (HM) Project

Diatreme continued to engage with discussions during the period with potential project partners for the Cyclone Zircon Project.

In an investor presentation on 1 March 2023, major producer Iluka Resources reported a weighted average zircon price of US\$2,054 per tonne in Q4 2022 for premium and standard sand, up 29% from Q4 2021.

Market analysts TZMI have projected a growing supply deficit for zircon through to 2035, with demand increasing by 2.5-3% year-on-year but production declining by an average of 5% per annum.

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 2023 and all resolutions were passed on a poll, with voting results available via the ASX release dated 26 May 2023.

On 30 June 2023, Diatreme announced the completion of the sale of shares pursuant to an Unmarketable Parcel Share Sale Facility. Following the close of the facility, approximately 4 million shares owned by 1,178 shareholders were sold on market, at an average price of \$0.024 per share.

Matter subsequent to reporting date

In July Diatreme signed a Memorandum of Understanding (MOU) with Flat Glass Group Co Ltd (FLAT) to negotiate and potentially facilitate long-term binding offtake arrangements for the supply of photovoltaic grade, high purity low iron silica from Diatreme's Northern Silica Project (NSP) for FLAT's glass manufacturing operations in China.

On 20 July, Diatreme announced the appointment Ms Kara Keys as a Non-Executive Director

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
Non-Executive Chairman
Brisbane, 29 August 2023

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 2023, 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

Matthew Monaghan
Director

Brisbane, 29 August 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 30 June 2023

	Note	30 June 2023 \$	30 June 2022 \$
Revenue		207,273	7,723
Share of joint venture income	5	116,346	-
Total revenue and income		323,619	7,723
Employee benefits expenses		(430,511)	(586,323)
Depreciation expense		(89,675)	(71,127)
Exploration expenditure written off		(20,779)	-
Share based payment expense	9	(277,752)	(148,537)
Other expenses		(584,794)	(601,010)
Finance costs		(57,936)	(61,272)
Total expenses		(1,461,447)	(1,468,269)
Loss before income tax		(1,137,828)	(1,460,546)
Income tax expense		-	-
Net loss for the half-year attributable to owners		(1,137,828)	(1,460,546)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive loss for the half-year attributable to owners		(1,137,828)	(1,460,546)
		Cents	Cents
Loss per share			
Basic earnings per share		(0.03)	(0.05)
Diluted earnings per share		(0.03)	(0.05)

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 2023

		30 Jun	31 Dec
	Note	2023	2022
		\$	\$
Current assets			
Cash and cash equivalents		12,825,602	13,640,939
Trade and other receivables		190,210	562,984
Total current assets		13,015,812	14,203,923
Non-current assets			
Investment in joint venture	5	25,233,830	25,117,484
Property, plant and equipment		563,316	581,361
Right-of-use assets	-	-	29,174
Exploration and evaluation assets	6	15,352,471	15,363,583
Other assets		47,465	38,365
Total non-current assets		41,197,082	41,129,967
Total assets		54,212,894	55,333,890
Current liabilities			
Trade and other payables		699,008	967,303
Borrowings	7	1,528,125	-
Lease liabilities		-	31,819
Provisions		4,876	8,950
Total current liabilities		2,232,009	1,008,072
Non-current liabilities			
Borrowings		-	1,509,375
Provisions		94,654	70,136
Total non-current liabilities		94,654	1,579,511
Total liabilities		2,326,663	2,587,583
Net assets		51,886,231	52,746,307
Equity			
Issued capital	8	93,637,615	93,637,615
Reserves	9	836,841	559,089
Accumulated losses		(42,588,225)	(41,450,397)
Total equity		51,886,231	52,746,307

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 2023**

	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	-	162,287	-	162,287
Exercise of vested performance rights (Note 9)	5,493	(5,493)	-	-
Reverse portion relating to expired unvested performance rights (Note 9)	-	(13,750)	-	(13,750)
At 30 June 2022	91,397,546	368,295	(47,889,321)	43,876,520

	Issued capital	Share based payments reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
At 1 January 2023	93,637,615	559,089	(41,450,397)	52,746,307
Total comprehensive income:				
Loss for the half-year	-	-	(1,137,828)	(1,137,828)
Transactions with owners in their capacity as owners:				
Options and performance rights issued (Note 9)	-	277,752	-	277,752
At 30 June 2023	93,637,615	836,841	(42,588,225)	51,886,231

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 2023

	30 June 2023 \$	30 June 2022 \$
Cash flows from operating activities		
Receipts in the course of operations	7,890	7,714
Payments to suppliers and employees	(838,583)	(1,002,565)
Interest received	184,733	9
Finance costs	(39,186)	(41,897)
Net cash outflow from operating activities	(685,146)	(1,036,739)
Cash flows from investing activities		
Payments for plant & equipment	(68,702)	(323,493)
Payments for exploration and evaluation assets	(20,569)	(3,311,907)
Payments for security deposit	(9,100)	-
Net cash outflow from investing activities	(98,371)	(3,635,400)
Cash flows from financing activities		
Proceeds from issue of shares	-	14,453,596
Payment of share issue costs	-	(26,414)
Repayments of lease liabilities	(31,820)	(28,055)
Net cash (outflow) inflow from financing activities	(31,820)	14,399,127
Net (decrease) increase in cash and cash equivalents	(815,337)	9,726,988
Cash and cash equivalents at the beginning of the half-year	13,640,939	6,500,017
Cash and cash equivalents at the end of the half-year	12,825,602	16,227,005

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 2023 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 2023 (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 2022 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 29 August 2023.

Judgements and Estimates

The accounting policies include the capitalisation of exploration and evaluation expenditure which as at 30 June 2023 amounts to \$15,352,471 (31 December 2022: \$15,363,583). 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 and 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 2023 of \$1,137,828 and a net cash outflow from operations of \$685,146. At 30 June 2023, the Group had \$12,825,602 in cash and cash equivalents (December 2022: \$13,640,939). In addition, the joint venture had \$7,401,875 in cash at 30 June 2023.

During the year ended 31 December 2022, Diatreme and Sibelco Silica Pty Ltd (Sibelco) entered into a binding agreement for the formation of a Joint Venture (J/V), Cape Silica Holdings Pty Ltd (CSHPL) to develop Diatreme's silica sand projects. Sibelco's investment in the Joint Venture will occur in two tranches, for a total subscription amount of \$35,000,000.

The first tranche of \$11,000,000 by Sibelco to obtain 9.99% ownership in the J/V was completed on 1 December 2022. It is expected that the second tranche of \$24,000,000, together with the first tranche to obtain 26.8%, will be completed by December 2023.

Considering the above factors, 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. They believe the Group has the ability to continue as a going concern and pay its debts as and when they fall due, undertake exploration and subsequent exploitation of the Group's tenements, securing product offtake agreements for the Projects, and/or sale of non-core assets.

Notes to the Financial Statements

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. INVESTMENT IN JOINT VENTURE

	30 Jun 2023	31 Dec 2022
	\$	\$
Opening balance	25,117,484	25,117,484
Share of profit in joint venture	116,346	-
	25,233,830	25,117,484

6. EXPLORATION AND EVALUATION ASSETS

	30 Jun 2023	31 Dec 2022
	\$	\$
Exploration and evaluation assets – at cost	15,352,471	15,363,583
Opening balance	15,363,583	26,094,898
Costs capitalised	9,660	6,173,900
Derecognition of assets - deconsolidation	-	(16,905,215)
Costs written off during the period	(20,772)	-
	15,352,471	15,363,583

7. BORROWINGS

	30 Jun 2023	31 Dec 2022
	\$	\$
Unsecured loan	1,528,125	1,509,375
Total borrowings	1,528,125	1,509,375
Current liability	1,528,125	-
Non-current liability	-	1,509,375

The loan has an interest rate of 7.5% per annum and matures on 30 May 2024.

Notes to the Financial Statements

8. ISSUED CAPITAL

	30 Jun 2023 Number of shares	31 Dec 2022 Number of shares	30 Jun 2023 \$	31 Dec 2022 \$
Ordinary shares - fully paid	3,729,759,126	3,729,759,126	93,637,615	93,637,615

There have not been any movements in ordinary share capital during the reporting period.

9. SHARE-BASED PAYMENTS RESERVE

	30 Jun 2023 \$	31 Dec 2022 \$
Opening balance	559,089	225,251
Options expense	277,752	461,025
Performance rights expense	-	4,987
Transfer to share capital on vesting of Performance rights	-	(5,493)
Reverse amounts relating to expired options and performance rights	-	(126,681)
	836,841	559,089

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

Type	Holder(s)	Services provided
Options to directors	Directors	Employment – corporate governance
Options to other KMP	CEO and CFO & Company Secretary (CFO)	Employment – incentive with vesting conditions

Grant Date	Holder(s)	Type	Number of instruments at 1 Jan 2023	Granted in current period	Vested and shares issued	Lapsed in current period	Closing balance as at 30 June 2023	Weighted average exercise price
27 May 2021	Directors	Options	30,000,000	-	-	-	30,000,000	0.031
26 May 2022	Directors	Options	10,000,000	-	-	-	10,000,000	0.031
25 July 2022	CEO and CFO	Options	20,000,000	-	-	-	20,000,000	0.040

10. CONTINGENCIES

There are no contingent liabilities (31 December 2022: nil) as at the reporting date.

11. 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:

Notes to the Financial Statements

	30 Jun 2023	31 Dec 2022
	\$	\$
Payable within 1 year	208,250	62,860
Payable between one and five years	859,734	853,277
	<u>1,067,984</u>	<u>916,137</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 2023 cash security bonds totalling \$25,000 were held by the relevant governing authorities to ensure compliance with granted tenement conditions (Dec 2022: \$25,000).

12. EVENTS SUBSEQUENT TO REPORTING DATE

In July Diatreme signed a Memorandum of Understanding (MOU) with Flat Glass Group Co Ltd (FLAT) to negotiate and potentially facilitate long-term binding offtake arrangements for the supply of photovoltaic grade, high purity low iron silica from Diatreme's Northern Silica Project (NSP) for FLAT's glass manufacturing operations in China.

On 20 July Diatreme announced the appointment Ms Kara Keys as a Non-Executive Director

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 2023 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
Non-executive Chairman
Brisbane, 29 August 2023

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 2023, 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 2023 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 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 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 2023 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

Matthew Monaghan
Director

Brisbane, 29 August 2023