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16 June 2005

Mr Simon O'Brien
Companies Advisor
Australian Stock Exchange Limited
Level 6 Riverside Centre
123 Eagle Street
Brisbane Qld 4000

Dear Simon

IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board ("AASB") is adopting International Financial Reporting Standards ("IFRS") for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS. The adoption of Australian equivalents to IFRS will be first reflected in the company's and consolidated entity's financial statements for the half-year ending 30 June 2005 and the year ending 31 December 2005.

Management of the company has investigated the transition from current Australian Accounting Standards to Australian equivalents of IFRS. Set out below are the key areas identified to date where accounting policies may change and have an impact on the financial report of the company or the consolidated entity.

Exploration and Evaluation Costs

AASB 6 Exploration and Evaluation of Mineral Resources permits 'areas of interests' accounting to continue for exploration and evaluation costs. Whilst impairment testing is required, the factors to be considered align closely with the current treatment adopted in capitalising exploration and evaluation costs. It is not considered that this will have a significant impact on the company or consolidated entity.

Income Tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, where items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

The test for the recognition of deferred tax assets, such as future income tax benefits, will be based on whether the realisation of the benefit is "probable" rather than whether realisation of the benefit can be regarded as being assured beyond any reasonable doubt or virtually certain. The company does not currently recognise a future income tax benefit for tax losses as these are not considered virtually certain. Adoption of AASB 112 may result in recognition of deferred tax assets earlier than under the current standard, although it is unlikely that the benefit of tax losses will be capable of being assessed as probable on adoption of Australian equivalents to IFRS.

Equity-based Compensation Benefits

Under AASB 2 Shared-based Payments, equity-based compensation to directors and employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy under which no expense is recognised for equity-based compensation. The company and consolidated entity has not issued equity-based instruments to remunerate directors and employees in respect of services received.

Yours faithfully
DIATREME RESOURCES LIMITED

DAVID H HALL
Director