

Diatreme Resources Limited

ABN 33 061 267 061

Notice of a General Meeting of Shareholders

**to be held at the Registered Office of the Company,
Level 2, 87 Wickham Terrace, Spring Hill, Qld,
Thursday 4 October 2007 at 10:00am**

The details of the resolutions contained in the Explanatory Notes accompanying this Notice of General Meeting should be read together with and form part of this Notice of General Meeting.

Business

RESOLUTIONS

To consider and if thought fit, resolve:

1. **ACQUISITION OF GARIMPEROS LIMITED BY WHOLLY OWNED SUBSIDIARY, XTREME RESOURCES LIMITED - APPROVAL UNDER ASX LISTING RULE 10.1**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purpose of ASX Listing Rule 10.1 Shareholders approve the Company's wholly owned subsidiary, Xtreme Resources Limited acquiring all of the shares in the capital of Garimperos Limited [ACN 099 493 928], as described in the Explanatory Notes accompanying and forming part of the Notice of General Meeting."

Expert's Report:

Shareholders should carefully consider the Independent Expert's Report prepared by BDO Kendalls for the purposes of the Shareholder approval required under ASX Listing Rule 10.1. The Independent Expert provides comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company.

Voting Exclusion Statement:

The Company will disregard any votes cast on Resolution 1 by:

- *a party to the transaction; or*
- *an associate of those persons.*

However, the Company need not disregard a vote on Resolution 1 if:

- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

2. ACQUISITION OF GARIMPEROS LIMITED BY WHOLLY OWNED SUBSIDIARY, XTREME RESOURCES LIMITED

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

“That subject to the passing of Resolution 1, members approve the issue of 20,000,000 shares in the capital of the Company’s subsidiary, Xtreme Resources Limited, (deemed fully paid at an issue price of 20 cents each) as consideration for the acquisition of all of the shares in the capital of Garimperos Limited [ACN 099 493 928], as described in the Explanatory Notes accompanying and forming part of the Notice of General Meeting.”

3. ACQUISITION OF GARIMPEROS LIMITED BY WHOLLY OWNED SUBSIDIARY, XTREME RESOURCES LIMITED - APPROVAL UNDER ASX LISTING RULE 10.11

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

“That subject to the passing of all prior resolutions, for the purposes of ASX Listing Rule 10.11 members approve the issue of shares in the capital of the Company’s subsidiary, Xtreme Resources Limited, (deemed fully paid at an issue price of 20 cents each) as consideration for the acquisition of shares in the capital of Garimperos Limited [ACN 099 493 928] held by the related parties described in the Explanatory Notes accompanying and forming part of the Notice of General Meeting.”

Voting Exclusion Statement:

The Company will disregard any votes cast on Resolution 3 by:

- *a person who is to receive securities in relation to the entity;*
- *an associate of those persons.*

However, the Company need not disregard a vote on Resolution 3 if:

- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

4. IN SPECIE DISTRIBUTION OF XTREME RESOURCES LIMITED SHARES (EQUAL REDUCTION OF CAPITAL)

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

“That, subject to the passing of all prior Resolutions, for the purposes of Section 256C(1) of the Corporations Act, and for all other purposes, the issued share capital of the Company be reduced by the Company making a pro-rata in specie distribution of approximately 28,310,909 ordinary fully paid shares in the capital of Xtreme Resources Limited (“Xtreme”) on the basis of distributing one Xtreme share for every four shares in the Company held at the record date of 11 October 2007 (rounding down fractional entitlements), on and subject to the terms described in the Explanatory Notes accompanying and forming part of the Notice of Meeting.”

5. EXTENSION OF THE EMPLOYEES AND OFFICERS OPTION PLAN 2006

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That for the purpose of ASX Listing Rule 7.2 exception 9, and all other purposes, Members approve a further 10,000,000 options being made available for allocation under the 'Employee and Officers Option Plan 2006' approved by Shareholders at the Annual General Meeting of the Company held on 31 May 2006".

Voting Exclusion Statement:

The Company will disregard any votes cast on Resolution 5 by:

- *a director of the entity; or*
- *an associate of those persons.*

However, the Company need not disregard a vote on Resolution 5 if:

- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form;*
- *it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

By Order of the Board of Directors,



Lawrence Litzow
Company Secretary

Dated 31 August 2007

Voting and Proxies

1. Voting

Diatreme Resources Limited (DRX) has determined in accordance with Regulation 7.11.37 of the Corporations Regulations 2001 that for the purposes of voting at the Meeting securities will be taken to be held by those persons recorded on the Company's share register as at 7:00pm (Brisbane time) on 2 October 2007. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

If you have any queries on how to cast your votes then telephone Lawrence Litzow on 0418 727 866 or David Hall on 07 3832 5666 during business hours.

2. Proxies

(a) Any member entitled to attend and vote is entitled to appoint not more than two proxies to attend and vote in his or her stead.

(b) If a shareholder appoints more than one proxy, the appointment of the proxy may specify the proportion or number of that shareholder's votes that each proxy may exercise. If the appointment does not specify the proportion or the number of the shareholder's votes each proxy may exercise, each proxy may exercise one half of the votes.

(c) Where a shareholder appoints more than one proxy neither proxy is entitled to vote on a show of hands.

(d) A proxy need not be a shareholder of DRX.

(e) To be effective, DRX must receive the completed Proxy Form and, if the form is signed by the shareholder's attorney, the authority under which the Proxy Form is signed (or a certified copy of the authority) by no later than 48 hours before the commencement of the meeting. Proxy Forms and other documentation may be lodged at the registered office of the Company or as follows:

By posting, delivery or facsimile:	Diatreme Resources Limited Share Registry C/- Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Facsimile: (02) 9287 0309
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By delivery:	Level 12, 680 George Street Sydney NSW 2000
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(f) Proxies given by corporate shareholders must be executed in accordance with their constitutions, or under the hand of a duly authorised officer or attorney.

(g) If a proxy is not directed how to vote on an item of business, the proxy may vote, or abstain from voting as he or she thinks fit.

(h) If a shareholder appoints the Chairman of the meeting as the shareholder's proxy and does not specify how the Chairman is to vote on an item of business, the Chairman will vote, as proxy for that shareholder for that item.

NOTE: APPOINTMENT OF PROXY FORM IS ENCLOSED

APPOINTMENT OF PROXY

If you would like to attend and vote at the General Meeting, please bring this form with you. This will assist in registering your attendance.

Please return your Proxy forms to:

Link Market Services Limited
Level 12, 680 George Street, Sydney NSW 2000
Locked Bag A14, Sydney South NSW 1235 Australia
Telephone: (02) 8280 7454
Facsimile: (02) 9287 0309
ASX Code: DRX
Website: www.linkmarketservices.com.au



X99999999999

I/We being a member(s) of Diatreme Resources Limited and entitled to attend and vote hereby appoint

A the **Chairman
of the Meeting**
(mark box)

☐

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following instructions (or if no directions have been given, as the proxy sees fit) at the General Meeting of the Company to be held at 10:00am on Thursday, 4 October 2007, at Registered Office of the Company, Level 2, 87 Wickham Terrace, Spring Hill, Qld 4000 and at any adjournment of that meeting.

Where more than one proxy is to be appointed or where voting intentions cannot be adequately expressed using this form an additional form of proxy is available on request from the share registry. Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

B To direct your proxy how to vote on any resolution please insert **X** in the appropriate box below.

Resolution 1

Approval under ASX listing rule 10.1 of acquisition of Garimperos Ltd by wholly owned subsidiary, Xtreme Resources Ltd

For	Against	Abstain*
☐	☐	☐

Resolution 4

In specie distribution of Xtreme Resources Ltd shares

For	Against	Abstain*
☐	☐	☐

Resolution 2

Approval for the issue of shares in Xtreme Resources Ltd for the acquisition of Garimperos Ltd

☐	☐	☐
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Resolution 5

Extension of the employees and officers option plan 2006

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Resolution 3

Approval under ASX listing rule 10.11 of acquisition of Garimperos Ltd by Xtreme Resources Ltd

☐	☐	☐
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IMPORTANT: FOR ITEMS 1, 3 AND 5 ABOVE

If the Chairman of the Meeting is appointed as your proxy, or may be appointed by default and you do **not** wish to direct your proxy how to vote as your proxy in respect of Items 1, 3 and 5 above, please place a mark in this box. By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even though he/she has an interest in the outcome of these Items and that votes cast by him/her for these Items, other than as proxyholder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Items 1, 3 and 5 and your votes will not be counted in calculating the required majority if a poll is called on these Items. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 1, 3 and 5.

C

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* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

D

SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED

Securityholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Securityholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Securityholder 3 (Individual)

Director

This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the securityholder's constitution and the *Corporations Act 2001* (Cwth).

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a securityholder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.linkmarketservices.com.au).

DRX PRX742

How to complete this Proxy Form

1 Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in section A. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in section A. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

3 Votes on Items of Business

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either securityholder may sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 10:00am on Tuesday, 2 October 2007, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the reply paid envelope or:

- by posting, delivery or facsimile to Diatreme Resources Limited's share registry as follows:
Diatreme Resources Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Facsimile: (02) 9287 0309
- delivering it to Level 12, 680 George Street, Sydney NSW 2000.

Explanatory Notes to the Notice of General Meeting Thursday 4 October 2007

Resolution 1: ACQUISITION OF GARIMPEROS LIMITED BY WHOLLY OWNED SUBSIDIARY, XTREME RESOURCES LIMITED - APROVAL UNDER ASX LISTING RULE 10.1

It is proposed that the Company's wholly owned subsidiary, Xtreme Resources Limited (Xtreme), acquire all the issued shares in the capital of Garimperos Limited (Garimperos), to compliment Xtreme's holdings and activities in North Queensland.

Garimperos Limited is composed of a mill and processing centre 12 km north of the town of Mt Garnet. It is a modern mill capable of 140,000 tonne per annum with ample water and three phase power supply. The mill is currently on care and maintenance, although it has recently resumed business as a tin buying and export facility and as a toll treatment facility for miners in the area. The mill is centrally placed in a large tin field that has recently been consolidated by Garimperos Limited and has large known tin prospects. Garimperos Limited is holding a granted mining lease and a large mine lease application under purchase option agreements of which it is currently completing.

Further information about Garimperos was previously released to ASX on 17 April 2007 and a copy of this announcement is attached (Annexure 2).

The agreement entered into with the shareholders of Garimperos is that Xtreme will issue 20,000,000 fully paid shares (issued at a deemed price of \$0.20 per share) in exchange for the whole of the issued share capital of Garimperos (19,185,000 shares) subject to approval being given by the shareholders of Diatreme.

In April 2007, Garimperos obtained an independent indicative valuation report on that company's undertakings in North Queensland. This confidential report was made available to the Boards of the Company and Xtreme to support a determination of a reasonable directors' valuation. The range of the indicative valuation was \$3.15 to \$4.15 million, without placing any direct value on the milling and concentration plant being acquired by Garimperos. The directors have adopted a value of \$4 million as being conservative.

BDO Kendalls have prepared an Independent Expert's Report which is attached to this notice. The report states that the price to be paid is "fair and reasonable".

Resolution 4 will deal with the proposal to distribute shares in Xtreme to shareholders of the Company, and the proposed acquisition of Garimperos will impact on the consideration of that resolution.

ASX listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, the following persons, without obtaining approval from the holders of the entity's ordinary securities:

- (a) a related party;
- (b) a subsidiary;
- (c) a substantial holder;
- (d) an associate of a person referred to in (a) to (c); or
- (e) a person whose relationship to the entity or a person referred to in (a) to (d) is such that, in ASX's opinion, the transaction should be approved by security holders.

An asset is deemed to be substantial if its value or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the ASX Listing Rules.

Some Directors of the Company hold shares in Garimperos and, as a consequence will be issued shares in Xtreme if shareholder approval for the proposed acquisition is granted. The relevant Director's interests in Garimperos and the indicative number of Xtreme shares that they will each receive if the transaction proceeds are set out in Table 1 below (refer to the "Notes" to the Table 1).

The Company has consulted with ASX and been advised that it needs to obtain approval from its Shareholders under the requirements of ASX Listing Rule 10.1 for the proposed acquisition of Garimperos.

Accordingly, Resolution 1 seeks Shareholder approval, for the purpose of ASX Listing Rule 10.1, for the Company to acquire all of the issued capital of Garimperos.

Independent Expert's Report

ASX Listing Rule 10.1 provides that shareholder approval sought for the purpose of ASX Listing Rule 10.1 must include a report on the proposed acquisition from an independent expert.

The Independent Expert's Report prepared by BDO Kendalls (**Annexure 3**) sets out a detailed examination of the transaction contemplated by Resolution 1 to enable Shareholders to assess its merits. The Independent Expert's Report concludes that the Transaction is **fair and reasonable** to the non-associated Shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

Resolution 2: ACQUISITION OF GARIMPEROS LIMITED BY WHOLLY OWNED SUBSIDIARY, XTREME RESOURCES LIMITED

Resolution 2 is proposed to seek approval for the issue of shares in Xtreme as consideration for the acquisition of Garimperos which is described above.

No cash funds will be raised by the issue of the shares pursuant to Resolution 2. The shares issued will be ordinary shares (deemed fully paid) issued at a deemed issue price of \$0.20. Subject to shareholder approval being obtained, the shares to be issued pursuant to Resolution 2 shall be issued no later than one (1) month after the date of this meeting. The shares are proposed to be issued to the recipients described in Table 1 below:

Table 1: Shares proposed to be issued

Vendor - Garimperos Limited (GAR) Shareholder	Number of GAR Shares	Number of Xtreme Shares
Ascend Asset Management Ltd	3,500,000	3,648,684
John Stacpoole (Note 1)	2,300,000	2,397,707
David Hugh Hall & Lynn Michele Hall <The Hall Family Super Fund> (Note 2)	2,100,000	2,189,210
Anthony John Fawdon & Rosemarie Monica Fawdon <The Fawdon Super Fund> (Note 3)	1,940,000	2,022,413
Martin Place Securities Nominees Pty Ltd	1,995,000	2,079,750
Weir River Consulting <Weir River Grazing Co Super Fund> (Note 4)	1,000,000	1,042,481
Super 1136 Pty Ltd	1,000,000	1,042,481
Terra Search Pty Ltd	600,000	625,489
Cairnglen Investments Pty Ltd	500,000	521,241
Relativity Pty Ltd <Superannuation Fund>	500,000	521,241
Kenneth James & Elizabeth Anne Harvey <Harvey No 2 Superannuation Fund>	400,000	416,992
Westglade Pty Ltd	300,000	312,744
Brohok Investment Co Pty Limited	250,000	260,620
Shimfield Pty Ltd	240,000	250,196
Donald McIntosh	200,000	208,496
Horton Family Super Pty Ltd <Horton's Super Fund>	200,000	208,496
Paul Fawdon	200,000	208,496
Henning Jeremia Coetzee & Angelique Coetzee	200,000	208,496
BFSF Pty Ltd	200,000	208,496
Geospec Pty Ltd	200,000	208,496
Neil Francis Stuart	200,000	208,496
Ivor Whitefield & Meryl Elsbeth Whitefield <Whitefield Super Fund>	150,000	156,373
Optex Exchange Pty Ltd <David Sutton Super Fund A/C>	150,000	156,373
Martin Place Securities Staff Superannuation Fund Pty Ltd <MPSSF Investment A/C>	100,000	104,248
Malynda Pty Ltd <Capolupo Superfund>	100,000	104,248

Table 1: continued

Mining 2000 Pty Ltd	100,000	104,248
Damien L Smith	100,000	104,248
Jeneil Keyes	100,000	104,248
Kim Ryrie	100,000	104,248
John Keyes	100,000	104,248
C J A Lifestyle Super Fund	60,000	62,549
Palatine Holdings Pty Ltd	50,000	52,124
Rodney Gordon Halpin and Judith Anne Meade	50,000	52,124
	19,185,000	20,000,000

Notes to Table 1

Note 1: John Stacpoole - Director of Xtreme Resources Limited

Note 2: David H Hall - Director of Diatreme Resources Limited and Xtreme Resources Limited

Note 3: Anthony J Fawdon - Director of Diatreme Resources Limited and Xtreme Resources Limited

Note 4: Indirect interest of Lawrence J Litzow - Director of Diatreme Resources Limited and Xtreme Resources Limited

Resolution 3: ACQUISITION OF GARIMPEROS LIMITED BY WHOLLY OWNED SUBSIDIARY, XTREME RESOURCES LIMITED - ASX LISTING RULE 10.11

Under ASX Listing Rule 10.11 an entity may issue or agree to issue securities to a related party (including Directors) if Shareholders approve the issue before the issue is made.

Resolution 3 has been proposed to obtain approval for the proposed issue of Xtreme shares to Directors of the Company (or their associates) as consideration for acquiring their shares in Garimperos.

The shares the subject of Resolution 3 are included in the shares that are to be issued in accordance with Resolution 2. The Directors that are to receive shares and the number of Xtreme shares that are to be issued to each Director, are as noted in Table 1 (see above).

If Shareholder approval is given, Xtreme will issue the Directors' shares on the same terms as other "non-related" shareholders who are disposing of their shares in Garimperos.

Resolution 4: IN SPECIE DISTRIBUTION OF XTREME RESOURCES LIMITED SHARES (EQUAL REDUCTION OF CAPITAL)

Subject to the passing of Resolutions 1-3, it is proposed that the benefits of Xtreme's ownership of gold exploration tenements and the acquisition of Garimperos and its assets and enterprises, be transferred to Shareholders by distributing to them most of the shares presently held by the Company in Xtreme.

The Company has previously announced a proposal under which Xtreme would issue a prospectus seeking to raise further funds as part of seeking to list on a recognized stock exchange. Further information about Xtreme has also been provided to shareholders in the Company's Annual Report for the year ended 31 December 2006. Xtreme is not currently listed on ASX or any other stock exchange and it would not be expected that a market for trading Xtreme shares readily would exist until and unless Xtreme successfully lists.

The in specie distribution will be made to holders of the Company's shares as at the record date, 11 October 2007. Each shareholder will receive one (1) Xtreme share for each four (4) Diatreme shares held (rounding down fractional entitlements). No amount is payable for the Xtreme shares, and Diatreme shareholders will continue to hold the same number of Diatreme shares as before the distribution. Option holders will not be entitled to participate unless they have validly exercised their options and received shares prior to the record date.

The precise number of Xtreme shares to be distributed will depend on the effect of rounding down fractional entitlements and whether any options are exercised before the record date. The Company currently holds the only issued share of Xtreme. Xtreme has resolved to issue Diatreme such number of shares as would be required to make the distribution upon those numbers being finalised. The number of Xtreme shares anticipated to be distributed, based on the currently issued shares of Diatreme and without rounding, is approximately 28,310,909 shares. Upon completion of the in specie distribution, it is estimated that Diatreme will retain approximately 1,689,091 residual Xtreme shares not distributed.

If shareholder approval is obtained for the in specie reduction, it will have the effect of reducing the Company's total and net assets, and reducing the Company's total equity by \$4 million, which is the dollar amount of the fair value of the Company's 100% ownership interest in Xtreme, and represents approximately \$0.05 per Diatreme share. A pro-forma balance sheet of the Company is annexed to and forms part of these Explanatory Notes (**Annexure 1**).

The rights and obligations attaching to Xtreme shares are set out in Xtreme's constitution, which contains provisions of the kind commonly applicable to unlisted Australian public companies. A copy can be obtained upon request from the Company.

Shareholders will need to consider their own taxation consequences of an in specie distribution of Xtreme shares by the Company as the Company is not in a position to provide individual tax advice.

Directors of the Company who hold direct or indirect interests in the Company's shares will be eligible to receive Xtreme shares under the in specie distribution. The number of Xtreme shares which would be received by each director or their associates is set out below. The following are in addition to the Xtreme shares which would be received as consideration for transferring shares in Garimperos, described in respect of Resolution 3, above.

Director	No of Xtreme Shares
Anthony J Fawdon	740,800
David H Hall	600,000
Lawrence J Litzow	872,030
George H White	0

The reduction of capital by way of an in specie distribution to Shareholders is an equal capital reduction under the Corporations Act.

Pursuant to Section 256C of the Corporations Act, an equal reduction must be approved by an ordinary resolution passed at a general meeting of the Company.

As provided in Section 256B of the Corporations Act, the Company may only reduce its share capital if the reduction:

- (a) is fair and reasonable to the Shareholders as a whole; and
- (b) does not materially prejudice the Company's ability to pay its creditors.

The Directors are of the view that the capital reduction proposed pursuant to the Resolution is fair and reasonable to Shareholders. The principal advantage of the equal reduction of capital to Shareholders is that Shareholders will retain a direct interest in Xtreme's ownership of gold exploration tenements and will be exposed to the acquisition of Garimperos and its assets and enterprises through their individual pro-rata shareholding in Xtreme shares. The Directors are not aware of any specific disadvantage to the equal reduction of capital though there is no guarantee that the Xtreme shares will maintain their value or increase in value. Furthermore, the Directors have no reason to believe that the reduction of capital will prejudice the Company's ability to pay its creditors.

When considering how to vote regard should be had to the information about Garimperos described above in respect of Resolution 1 (including the Independent Expert's Report), and to Garimperos information released to ASX on 17 April 2007 (see below) as it is proposed that Garimperos become a wholly owned subsidiary of Xtreme.

Copies of announcements to ASX on 4 January 2007, 17 April 2007, 27 April 2007 and 31 May 2007 regarding Xtreme, Garimperos, the proposed in specie distribution and the intention to seek a listing of Xtreme are attached to and form part of these Explanatory Notes (**Annexure 2**).

PROPOSED TIMETABLE

Date	Description
Friday 31 August 2007	Announcement of General Meeting of DRX shareholders
Friday 31 August 2007	Letter to Option holders regarding Meeting and providing exercise instructions
Monday 3 September 2007	Despatch Meeting Notice to Shareholders
Tuesday 2 October 2007	Last date for receipt of proxies
Thursday 4 October 2007	General Meeting of DRX shareholders
Friday 5 October 2007	DRX Securities quoted on "ex" in specie distribution basis
Thursday 11 October 2007	Record Date for DRX shareholders to be eligible to participate in the pro-rata in specie distribution (if approved at Meeting)
Friday 12 October 2007	Xtreme securities issued to DRX & Garimperos' shareholders
Friday 19 October 2007	Xtreme security statements despatched to shareholders

Resolution 5: EXTENSION OF THE EMPLOYEES AND OFFICERS OPTION PLAN 2006

At the Annual General Meeting held on 31 May 2006, the Company approved the establishment of an Employees and Officers Plan for the Company. The options available under the plan are exercisable at \$0.50 on or before 30 June 2011.

The company has issued to employees and officers the maximum number of 10,000,000 options under this plan since the Annual General Meeting held on 31 May 2006.

The Company now has many more employees because of its increased involvement with the search for heavy mineral sands in the Eucla Basin (and others places), and it is considered necessary and advisable to be able to offer incentives to employees in the form of options in the Company. Due to the current "mining boom" it has been extremely difficult to secure the services of quality geological staff and it is considered that incentives often need to be offered to obtain and retain such staff.

Resolution 5 is proposed to obtain approval for the issue of an additional 10,000,000 options under the Employee and Officer Option Plan (2006) under ASX Listing Rule 7.2 exception 9.

Each option for which approval is being sought will carry the right in favour of an option holder to subscribe for 1 ordinary share in the Company. The exercise price of each option will be \$0.50 and the options shall be exercisable (irrespective of the respective date of grant of the options) at any time from 6 months after the date of issue up to the expiry date of 5.00pm on 30 June 2011. The rules of the Employee and Officer Option Plan (2006) are reproduced in full in Annexure 4 to this Notice.

Under ASX Listing Rule 7.1 an entity must not issue, or agree to issue, more than fifteen percent (15%) of its capital without the approval of its Members. By obtaining approval under ASX Listing Rule 7.2 exception 9 options may be issued under the Employee and Officer Option Plan (2006) without the need to obtain approval pursuant to ASX Listing Rule 7.1 for a period of 3 years (subject to the provisions of the ASX Listing Rules). By obtaining Shareholder approval for the issue of options under the Employee and Officer Option Plan (2006) pursuant to Resolution 5, the Company retains the ability to issue up to fifteen per cent (15%) of its capital to take advantage of any capital raising opportunities.

The options issued subject to Resolution 5 may be classified by ASX as restricted securities and if so classified will not be able to be traded within up to the first two years after the end of the suspension of trading of the date of issue.

--oOo--

Annexure 1

PROFORMA BALANCE SHEETS OF DIATREME RESOURCES LIMITED (DRX) AND XTREME RESOURCES LIMITED (Xtreme) POST RESOLUTIONS PROPOSED

	DRX 30/06/07 Unaudited \$	DRX Post Resol. 1-3 Proforma \$	DRX Post Resol. 4 Proforma \$	Xtreme Post Resol. 1-4 Proforma \$
Current assets				
Cash and cash equivalents	3,935,121	4,713,284	3,905,790	807,494
Receivables	175,197	190,985	396,645	44,672
Other current assets	170,000	170,000	132,500	37,500
Total current assets	4,280,318	5,074,269	4,434,935	889,666
Non-current assets				
Investments	162,586	162,586	162,586	-
Property, plant and equipment	86,641	86,641	76,168	10,473
Exploration expenditure	9,021,946	13,351,946	4,848,065	8,503,881
Other	105,669	105,669	105,669	-
Total non-current assets	9,376,842	13,706,842	5,192,488	8,514,354
Total assets	13,657,160	18,781,111	9,627,423	9,404,020
Current liabilities				
Payables	199,164	951,883	175,168	776,715
Provisions	109,906	109,906	105,294	254,944
Total current liabilities	309,070	1,061,789	280,462	1,031,659
Net assets	13,348,090	17,719,322	9,346,961	8,372,361
Equity				
Contributed equity	16,366,337	16,366,337	13,700,931	4,230,000
Asset revaluation reserve	-	171,232	-	171,232
Option reserve	81,650	81,650	81,650	-
Accumulated profits/(losses)	(3,481,283)	(3,481,283)	(4,817,006)	3,971,129
Minority interest	12,966,704 381,386	13,137,936 4,581,386	8,965,575 381,386	8,372,361 -
Total equity	\$13,348,090	\$17,719,322	\$9,346,961	\$8,372,361

Annexure 2

COPIES OF DIATREME RESOURCES LIMITED ANNOUNCEMENTS TO ASX

Dated:

4 January 2007

17 April 2007

27 April 2007

31 May 2007



DIATREME RESOURCES LIMITED

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ASX Codes: DRX, DRXO

Company Announcement Office
Australian Stock Exchange Limited
Level 4, 20 Bridge Street
Sydney NSW 2000

4 January 2007

ADVANCEMENT OF GOLD PROJECTS THROUGH XTREME RESOURCES LIMITED

In line with Company objectives stated in July 2006, Diatreme Resources Limited (DRX) has commenced transfer of thirteen (13) gold exploration tenements into a separate wholly owned subsidiary, Xtreme Resources Limited (Xtreme). As part of the process, the Company also proposes to assign its interests in the Tick Hill Gold Project to Xtreme by way of a deed of assignment.

DRX is, at this time, compiling a prospectus for the purpose of applying for a listing of Xtreme on a recognized stock exchange.

In advancing the Company's gold exploration resources and projects, DRX is pleased this month to welcome Mr John Stacpoole as Xtreme's Exploration Manager. John holds a B.Sc. (Hons) in Economic Geology and joins the Company with over 16 years experience as a prospector/miner and exploration geologist/manager. He is currently undertaking study for a Graduate Diploma of Mine Engineering through the Ballarat School of Mines.

With broad based exploration and mining experience, John has previously worked with Platina Resources, Geospec, DRD Gold, Emperor Mines, Mt Coolon Gold Mines, Zinifex, Bemax and Consolidated Minerals.

The Queensland projects and tenements to be included within Xtreme's portfolio are listed below:

Burnett Gold Project	EPM 8402 Yarrol EPM 12834 Mt Steadman EPM 14524 Barrimoon EPM 15261 Mt Cannindah 2 EPM 15426 Gooroolba	Nymbool Gold Project	EPM 8994 Blacks Creek EPM 8998 Mt Garnet
		Georgetown Inlier Gold Project	EPM 11849 Langdon River EPM 12976 Ironhurst EPM 13126 Warrigal Creek
Burdekin Gold Project	EPM 12887 Pyramid EPM 14402 Tondarra EPM 14675 Teatree Creek	Tick Hill Gold Project	ML 7094 ML 7096 ML 7097

Definitions: "EPM" Exploration Permit for Minerals (Queensland)
"ML" Mining Lease (Queensland)

ANTHONY J FAWDON
Executive Chairman/CEO

Diatreme Resources Limited, as an Australian ASX listed company based in Brisbane, Queensland, operates as a diversified mineral explorer with advanced commodity holdings in zircon, copper and gold. The Company is currently exploring the southern Australia "Eucla Basin HMS Project", the Queensland "Clermont Copper Project" and a further seven Queensland gold projects. By conducting substantial exploration over its quality projects, the Company aims to bring successful projects to production status at the same time as increasing shareholder wealth.



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17 April 2007

IN SPECIE ISSUE OF SHARES AND PROPOSED ACQUISITION

The Board of Diatreme Resources Limited (DRX) wishes to advise the market that:

- (a) DRX proposes making an in specie distribution to DRX shareholders of approximately 20,510,800 fully paid ordinary shares in its 100% owned subsidiary Xtreme Resources Limited (Xtreme); and
- (b) the Board of Xtreme has reached agreement to acquire all the issued shares of Garimperos Limited (Garimperos), a company associated with some directors of DRX and a group of unrelated investors.

As previously announced in early January 2007, a prospectus for the purpose of applying for listing of Xtreme on a recognised stock exchange is being prepared.

The proposed in specie distribution and acquisition of Garimperos are both subject to approval by DRX shareholders which is proposed to be sought at DRX's Annual General Meeting (AGM) in late May 2007.

(a) In Specie Distribution

DRX proposes distributing all of its Xtreme shares on the basis of one Xtreme share pro rata for each four DRX shares currently held by DRX shareholders (rounding down fractional entitlements). The proposed record date for determining DRX shareholder entitlements to participate in the in specie distribution is 8 June 2007, subject to receipt of shareholder approvals for the proposal.

(b) Garimperos Limited Acquisition

The proposed acquisition of Garimperos will be by an issue of 20,000,000 Xtreme shares to the shareholders of Garimperos for 100% of the shares of Garimperos. As a result, Xtreme will acquire the cash funds of Garimperos (totalling approximately \$847,000 on 16 April 2007), together with the mining and exploration assets of Garimperos. Due diligence of Garimperos has been conducted and an independent valuation of the assets and resources of the Company has been received by the Boards of DRX and Xtreme. The proposed acquisition will be presented to shareholders of DRX for approval at the AGM in late May 2007.

Garimperos has rights to assets and option agreements in north Queensland, comprising:

- A 10 tonnes per hour (TPH) capacity milling and concentration plant (Mill), planned to be upgraded to 25 TPH,
- 10,000 tonnes of marginal grade tin ore stockpiled at the Mill, grading 0.1% tin
- Garimperos is targeting a pre-JORC reported (1985, 1999) target of 15 100 000 t at 0.5% tin. An indicated resource of 815 000 t at 0.66% tin and an inferred resource of 294 000 t at 0.5 % tin have been defined to date within the Summer Hill project area.

The Garimperos projects are expected to compliment Xtreme's Smith Creek Tin Prospect (inferred resource (Scoping Study 1996) of 260,000 tonnes grading 1% tin) and Nymbool Gold Prospect (inferred resource (1997) of 2.25 million tonnes grading 0.73 g/t gold), these being only 14km distant by tracks from the Mill.

A total of \$850,000 would be required to be paid and one million Garimperos shares issued to acquire ownership of the assets comprising the Garimperos projects. Xtreme would also be required to fund activities in respect of its existing projects and the Garimperos projects from funds proposed to be raised as part of the anticipated listing of Xtreme.

It is proposed, post the listing of Xtreme, to undertake intensive drilling of the identified tin resources to upgrade to reserve categories and at the same time refurbish the Mill complex with the aim of bringing the resources onstream to mining status.

The acquisition of Garimperos represents a significant addition of mining potential to the existing gold exploration projects currently held by Xtreme.

Further details will be provided with the forthcoming Notice of AGM and accompanying Explanatory Memorandum, and other market announcements as appropriate.

Upon completion of the proposed in specie distribution of Xtreme shares and the acquisition of Garimeros, DRX and Garimperos shareholders will have respectively received approximately 50.6% and 49.4% of the then issued shares of Xtreme.

Shareholders of both DRX and Xtreme will be entitled to a priority issue of shares in an IPO of Xtreme, should Xtreme apply for a listing on a recognized stock exchange.



Anthony J Fawdon
Executive Chairman/CEO

Company contact details:

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Email : manager@diatreme.com.au

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr John Stacpoole, an employee of the Company, who is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy. Mr Stacpoole 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Stacpoole consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

Diatreme Resources Limited, as an Australian ASX listed company based in Brisbane, Queensland, operates as a diversified mineral explorer with advanced commodity holdings in zircon, copper and gold. The Company is currently exploring the southern Australia "Eucla Basin HMS Project", the Queensland "Clermont Copper Project" and numerous Queensland gold projects. By conducting substantial exploration over its quality projects, the Company aims to bring successful projects to production status at the same time as increasing shareholder wealth.



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ASX Code: DRX

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Australian Stock Exchange Limited
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Sydney NSW 2000

27 April 2007

IN SPECIE ISSUE OF SHARES AND PROPOSED ACQUISITION UPDATE NOTICE

On 17 April 2007, the Board of Diatreme Resources Limited (DRX) advised the market regarding:

- A proposed in-specie distribution of shares in Xtreme Resources Limited (Xtreme) to DRX shareholders, and
- A proposal for Xtreme to acquire all the issued shares of Garimperos Limited.

Originally, it was proposed to provide further details of the proposals to shareholders with the Notice of 2007 Annual General Meeting (AGM) and accompanying Explanatory Memorandum, and to seek shareholder approval at that meeting. However, the Board advises that the two matters will now be the subject of a separate general meeting to be held subsequent to 31 May 2007, the Company's scheduled AGM date.

Because of the delay in presenting the proposals to shareholders the Company advises that:

- The dates associated with the in-specie distribution may change, including the proposed record date of 8 June 2007.
- The number of shares in Xtreme to be issued may exceed the originally proposed 20,510,800 due to the possibility of DRX options on issue being exercised before the record date.

Anthony J Fawdon
Executive Chairman/CEO

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ASX Code: DRX

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Sydney NSW 2000

31 May 2007

RE: XTREME RESOURCES LIMITED

The directors of the Company advise that the record date of 8 June 2007 for the proposed in-specie distribution of shares in XTREME RESOURCES LTD held by the Company, as advised in the announcement to ASX on 27 April 2007, is not now applicable.

The date of the proposed general meeting of shareholders to consider the distribution in specie has been deferred until a date in July 2007 (yet to be decided) and a new record date will be advised when the timetable for the proposed distribution is settled.

Anthony J Fawdon
Executive Chairman/CEO

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr John Stacpoole, an employee of the Company, who is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy. Mr Stacpoole 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Stacpoole consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

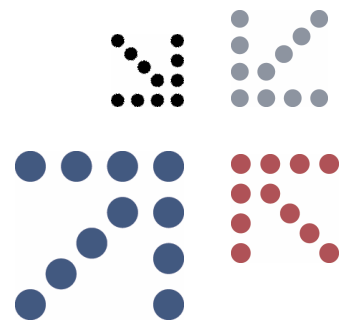
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Annexure 3

**INDEPENDENT EXPERT'S REPORT
PREPARED BY BDO KENDALLS**

Diatreme Resources Limited

Independent Expert's Report



August 2007

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FINANCIAL SERVICES GUIDE

The Financial Services Guide ("FSG") is provided to comply with the legal requirements imposed by the Corporations Act and includes important information regarding the general financial product advice contained in the Report. The FSG also includes general information about BDO Kendalls Corporate Finance (QLD) Ltd ("BDO KCFQ" or "we" or "us" or "our"), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO KCFQ holds an Australian Financial Services Licence to provide the following services:

- a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

The following Report sets out what is described as general financial product advice. The Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Kendalls Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged by Diatreme Resources Limited to provide general financial product advice in the form of a Report in relation to the financial product. Specifically, BDO KCFQ has been engaged to prepare an Independent Expert's Report in relation to the proposed acquisition of all the shares in Garimperos Limited, an entity related to Diatreme Resources Limited, by Xtreme Resources Limited, a subsidiary of Diatreme Resources Limited.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate that our fees for the preparation of this Report will be approximately \$35,000 plus GST and disbursements. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party.

Except for the fees referred to above, neither BDO KCFQ, nor any of its partners, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the Report.

Directors of BDO KCFQ may receive a share in the profits of BDO Kendalls (QLD), a related entity of BDO KCFQ. All our directors and employees of BDO KCFQ are entitled to receive a salary. Where a director of BDO KCFQ is a partner of BDO Kendalls (QLD) the person is entitled to some share in the profits of BDO Kendalls (QLD).

Associations and relationships

From time to time BDO KCFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. Neither BDO KCFQ nor its associated entities have been involved in any other assignments for Diatreme Resources Limited, Xtreme Resources Limited or Garimperos Limited over the last two years.

The signatory to this Report does not hold any shares in Diatreme Resources Limited and no such shares have ever been held by the signatory.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in our Report, where applicable. Research fees are not included in the fee details provided in the Report.

Complaints

We are members of the Finance Industry Complaints Service. Any complaint about our service should be in writing and sent to BDO Kendalls Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane Qld 4001. We will endeavour to resolve the complaint quickly and fairly.

If the complaint cannot be satisfied within 45 days of written notification, there is a right to complain to the Financial Industry Complaints Service ("FICS"). They can be contacted on 1800 335 405. This service is provided free of charge.

If the complaint involves ethical conduct a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ("ASIC") also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

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17 August 2007

The Shareholders
C/- The Directors
Diatreme Resources Limited
PO Box 10288
BRISBANE ADELAIDE STREET
QLD 4000

ABN: 54 010 185 725
AFS Licence No. 245513

Dear Shareholders

INDEPENDENT EXPERT'S REPORT

1.0 INTRODUCTION

BDO Kendalls Corporate Finance (QLD) Ltd ("BDO KCFQ") has been engaged by the directors of Diatreme Resources Limited ("the Directors") to prepare an Independent Expert's Report ("this Report") in relation to the proposed acquisition of all the shares in Garimperos Limited ("Garimperos") by Xtreme Resources Limited ("Xtreme"), a wholly owned subsidiary of Diatreme Resources Limited ("Diatreme" or "the Company") ("the Proposed Transaction").

On 17 April 2007, the Directors announced to the Australian Stock Exchange ("ASX") that the Board of Xtreme had reached an agreement, subject to the approval of Diatreme shareholders ("the Shareholders"), to acquire all issued shares in Garimperos, a company associated with a number of the Directors ("the Associated Directors") who are also shareholders in both Diatreme and Garimperos. The consideration for the Proposed Transaction will be an issue of 20 million shares in Xtreme ("Consideration Shares") to the shareholders of Garimperos.

Following the completion of the Proposed Transaction, the Directors propose to make a pro-rata in specie distribution of approximately 20,510,800 ordinary fully paid Xtreme shares to the Shareholders of Diatreme. This in specie distribution is expected to take place on a one for four basis, whereby the Shareholders will receive one Xtreme share for every four Diatreme shares they hold at the record date of 11 October 2007 ("In Specie Distribution").

Further, we are instructed that following the In Specie Distribution, the Directors propose to apply for a listing of the shares in Xtreme on the ASX ("the Xtreme IPO"). We are also instructed that Xtreme proposes to issue a prospectus to raise further funds and list on the ASX in due course.

This Report has been prepared solely for the non-associated Shareholders ("Non-Associated Shareholders") to provide them with information relating to the Proposed Transaction and should not be used by any other persons or for any other purpose. The Non-Associated Shareholders are those Shareholders of the Company that are not otherwise associated with the entity to be acquired if the Proposed Transaction proceeds.

In this Report, BDO KCFQ has expressed an opinion as to whether or not the Proposed Transaction is Fair and Reasonable. We have not been instructed to and do not provide any opinions in relation to the In Specie Distribution and the Xtreme IPO.

BDO KCFQ understands that this Report will be provided to the Shareholders to assist them to make an informed decision as to whether to vote in favour of or to vote against the Proposed Transaction. This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to the Shareholders in conjunction with this Report (including the Notice of Meeting and Explanatory Memorandum).

A Shareholder's decision to accept or reject the Proposed Transaction is likely to be influenced by the Shareholder's particular circumstances, for example, the Shareholder's taxation considerations. This Report does not address circumstances specific to individual Shareholders. Shareholders should obtain their own professional advice in that regard.

2.0 SUMMARY OF OPINION

2.1 Fairness

We have assessed the Fairness of the Proposed Transaction by the fair value of the consideration offered to the vendors of Garimperos with the fair value of the interest acquired in Garimperos.

It is our view that, the Proposed Transaction is **Fair to the Shareholders**.

2.2 Reasonableness

We have assessed the Reasonableness of the Proposed Transaction in terms of the advantages and disadvantages to the Shareholders of accepting the Proposed Transaction and the advantages and disadvantages to the Shareholders if the Proposed Transaction is not accepted.

It is our view that the Proposed Transaction is **Reasonable to the Shareholders**.

2.3 Other Considerations

Notwithstanding our opinions set out in Sections 2.1 and 2.2 directly above, it is important that each Shareholder consider all information provided to them, including the information in this Report before deciding whether to vote for or against the Proposed Transaction.

The acquisition of Garimperos, while expected by the Directors and management to be successful, does carry significant risks. Notwithstanding our opinion that the Proposed Transaction is Fair and Reasonable, in light of the current financial and operational position of Garimperos, the Proposed Transaction has risks to Xtreme as the acquisition of Garimperos cannot be guaranteed to be a successful or profitable venture for Xtreme.

If the acquisition of Garimperos does not prove to be a successful or profitable venture for Xtreme as expected by the Directors and consistent with the information which has been provided to us, there may be an unexpected drain on resources of Xtreme and Diatreme.

3.0 OUTLINE OF THE PROPOSED TRANSACTION

3.1 Details of the Proposed Transaction

A summary of the Proposed Transaction is provided below. The summary should not be treated as a complete description of the Proposed Transaction. For additional information, Shareholders should refer to the Notice of Meeting and Explanatory Memorandum.

On 17 April 2007, the Directors announced to the ASX that the Board of Xtreme has reached an agreement, subject to the approval of the Shareholders, to acquire all issued shares in Garimperos. Table 3.1 lists the Associated Shareholders and Directors, who are Directors and Shareholders of both Diatreme and Garimperos.

Table 3.1: Associated Shareholders and Directors

Garimperos Shareholder	Associated With	Director of Diatreme	Director of Xtreme	Director of Garimperos
1 Weir River Consulting <Weir River Grazing Co Super Fund>	Mr Laurie James Litzow	✓	✓	✓
2 Anthony John & Rosemarie Monica Fawdon <The Fawdon Super Fund>	Mr Anthony John Fawdon	✓	✓	✓
3 Mr John Stacpoole	Mr John Stacpoole	x	✓	✓
4 David Hugh & Lynn Michelle Hall <The Hall Family Super Fund>	Mr David Hugh Hall	✓	✓	✓

Source: Diatreme and Garimperos

The consideration for the Proposed Transaction will be the issue of 20 million shares in Xtreme to the shareholders of Garimperos.

Following the completion of the Proposed Transaction, the Directors propose to make a pro-rata In Specie Distribution of approximately 20,510,800 ordinary fully paid shares in Xtreme to the Shareholders on a one for four basis. The record date for this transaction will be 11 October 2007. The Company has proposed that the In Specie Distribution will be followed by the Xtreme IPO.

BDO KCFQ has been engaged to provide an opinion on the Fairness and Reasonableness of the Proposed Transaction. We have not been instructed to and do not provide any opinions in relation to the In Specie Distribution and the Xtreme IPO.

Both Xtreme and Garimperos own certain mining and exploration tenements. The Directors engaged Veronica Webster Pty Ltd ("Veronica Webster"), a geologist consulting company, to prepare technical valuations of the mining and exploration tenements owned by Xtreme and Garimperos ("Veronica Webster Reports"). The complete Veronica Webster Reports are attached as Appendix A and B to this Report and form part of the information package sent to the Shareholders. We have relied on the Veronica Webster Reports in arriving at our valuation opinion of Xtreme and Garimperos. Shareholders should read the Veronica Webster Reports in detail in conjunction with all other material provided by the Company in relation to the Proposed Transaction.

3.2 Terms and Conditions of the Proposed Transaction

The Proposed Transaction is conditional upon approval by the Shareholders. We recommend that each Shareholder refer to the documents provided to them, including the Notice of Meeting and Explanatory Memorandum, to obtain a more detailed understanding of the Proposed Transaction.

3.3 Rationale for the Proposed Transaction

The Company has explained that its rationale for the Proposed Transaction relates to the synergies it expects that a combined Xtreme and Garimperos can derive from the proximity of their tenements.

Xtreme holds exploration permits, whereas Garimperos has mining leases and the production capacity and infrastructure in place to commence processing. Garimperos is an explorer and producer, whereas Xtreme is an explorer. While Garimperos has a working mill/plant, it will require access to further quality resource and/or prospective sites to continue to process minerals at its full milling capacity. The Directors believe the close proximity of Xtreme's tin resource can provide Garimperos with this capability.

4.0 SCOPE OF REPORT AND METHODOLOGY FOR ASSESSMENT

4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet requirements set out in the Corporations Act (“the Act”) and the Australian Securities Exchange Listing Rules (“the ASX Listing Rules”). Specifically, where there is an acquisition or disposal of a substantial asset with a related party of an entity, ASX Listing Rule 10.10.2 requires the provision of an independent expert’s report to those shareholders of the entity, who are not associated with the transaction. The report must state whether the transaction is Fair and Reasonable to the non-associated shareholders of the entity.

The Directors have requested BDO KCFQ to prepare an Independent Expert’s Report relating to the Proposed Transaction as three Associated Directors of Diatreme are significant shareholders in both Diatreme and Garimperos. The Associated Directors are listed in Table 3.1. The Proposed Transaction relates to the acquisition of 100% of the shares in Garimperos by Xtreme, a wholly owned subsidiary of Diatreme, and represents the acquisition of a substantial asset from a related party.

4.2 Assessment Methodology

The Australian Securities and Investments Commission (“ASIC”) has issued Regulatory Guide 75, which provides some guidance in relation to independent expert’s reports. ASIC Regulatory Guide 75 primarily relates to the provision of independent experts’ reports in connection with takeover offers. In these circumstances, the expert is required to give an opinion as to whether the takeover offer is ‘Fair’ and ‘Reasonable’ to the shareholders.

ASIC Regulatory Guide 74 also provides some guidance on the way in which a proposal such as the Proposed Transaction should be assessed. ASIC Regulatory Guide 74 states that the report should explain the particulars of how the proposal was examined and evaluated as well as the results of the examination and evaluation. The report should provide an opinion by the expert stating whether or not, in the opinion of the expert, the proposal is Fair and Reasonable and therefore in the best interests of the shareholders.

To meet the ASIC requirements, an expert seeking to determine whether the Proposed Transaction is Fair and Reasonable should complete the steps set out below.

4.2.1 Step 1 – Fairness

A comparison is to be made of the fair value of the shares in Garimperos with the fair value of the consideration offered by Xtreme. This step can be classified as an assessment of the ‘Fairness’ of the Proposed Transaction.

4.2.2 *Step 2 – Reasonableness*

An examination is to be made of the other significant factors to which the Shareholders may give consideration, prior to approving the Proposed Transaction.

Specifically, this includes comparing the likely advantages and disadvantages of approving the Proposed Transaction, with the position of the Shareholders if the Proposed Transaction is not approved.

This step can be classified as an assessment of whether the Proposal is 'Reasonable'.

4.2.3 *Step 3 – Overall Opinion*

Upon completion of steps 1 and 2 above, it may be possible to conclude that the Proposed Transaction is Reasonable if there are valid reasons for approval of the Proposed Transaction, notwithstanding that the Proposed Transaction may not be regarded as Fair to the Shareholders. Generally speaking, a proposal is Reasonable if it is Fair. It may also be Reasonable, despite not being Fair, if after considering other significant factors the interests of the Shareholders are reasonably balanced.

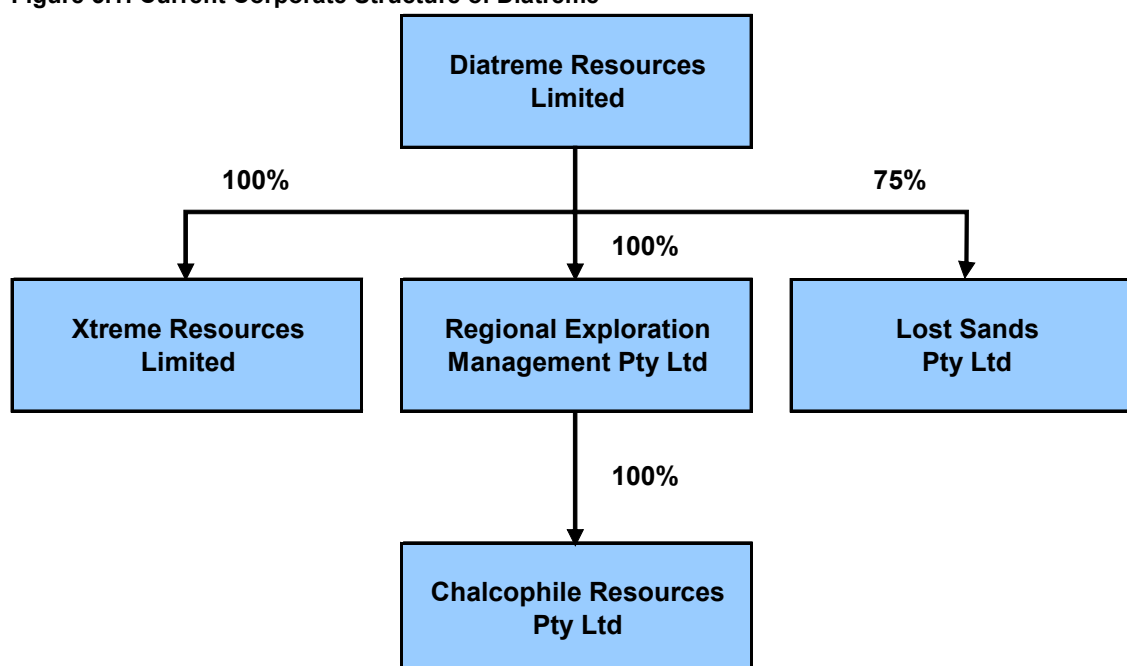
BDO KCFQ has completed each of those steps. While all issues need to be considered before drawing an overall conclusion, we have assessed the Fairness and Reasonableness issues separately for clarity.

5.0 BACKGROUND OF DIATREME¹

5.1 Structure and Operations of Diatreme

Diatreme is a public company listed on the ASX (ASX code: DRX) with a current market capitalisation of approximately \$39 million as at 6 August 2007. Diatreme operates as a diversified mineral explorer with advanced commodity holdings in copper and mineral sands. Diatreme predominately operates in Queensland, although more recent projects are underway in South Australia and Western Australia.

Figure 5.1: Current Corporate Structure of Diatreme



Source: Diatreme

The subsidiary companies owned by Diatreme hold interests in a number of granted mineral tenements and mineral tenement applications within Australia. We are instructed that the more significant exploratory interests owned directly by the Company include:

5.1.1 Eucla Basin Heavy Mineral Sands Project

The project is located in the Eucla Basin in Western Australia and South Australia and includes some 340 km of shore line prospective for heavy mineral sands (“HMS”). Previous drilling conducted by BHP Billiton Limited returned grades up to 2.85% HMS with zircon representing 47% of assemblage. In early April 2007, further drilling confirmed significant amounts of heavy mineral within the area. Mineralisation of drill holes was continuous and widespread and is considered viable for heavy media separation and concentration. A further 25,000 metres of drilling is scheduled for mid-2007 commencing initially at the Wanna and Shell Lakes tenements in Western Australia, before moving into untested areas in the South Australian sector.

¹ Information set out in section 5.1 has been provided by Diatreme. As instructed, we have not reviewed or audited that information.

5.1.2 Clermont Copper

Located in Central Queensland, this 769 square kilometre tenement was initially explored in 2006. Two extensive drilling programs targeting copper and gold prospects produced mixed results. One drilling program gave indications of significant copper and gold amounts, while the other program returned only weak traces of copper. Further drilling is scheduled for the area.

5.1.3 Bellfield Base Metal Project

This joint venture project located in North Queensland, of which Diatreme is the operator, aims to discover a major Mount Isa style copper-lead-zinc-silver deposit. Work to date has identified a base metal project area within similar rocks and in a similar structural setting to the giant Mount Isa deposit.

Under a Buy-In and Development Agreement dated April 2005, Minerals Corporation Limited ("MSC") has provided initial funding to accelerate the development and to equally co-fund the full development of any resource with Diatreme, if justified by initial exploration.

5.1.4 Diamond Exploration

Diatreme has made a decision to withdraw from all diamond exploration, which included all tenements under the Gwydir Diamond Project located in northern New South Wales. Six exploration licenses in New South Wales and one in Queensland were surrendered to provide for further funding to other prospective project areas.

5.2 Capital Structure of Diatreme

As at 28 June 2007, there were 96,427,634 shares on issue in Diatreme. Table 5.1 below provides details of the top 10 shareholders of Diatreme as at 28 June 2007.

Table 5.1: Top 10 Diatreme Shareholders as at 28 June 2007

	Shareholder	Number of Shares	Percentage of Total Shares
1	Doral Mineral Industries Limited	12,500,000	12.96%
2	Huntley Custodians Limited	5,571,673	5.78%
3	Terra Search Pty Ltd	3,232,326	3.35%
4	Lawrence James Litzow	3,125,526	3.24%
5	Ms Wenzhen Zhang	2,780,836	2.88%
6	Super 1136 Pty Ltd	2,390,000	2.48%
7	Mr Guo Ming Shi	2,316,823	2.40%
8	Mrs Yu-Chiao Huang	2,047,411	2.12%

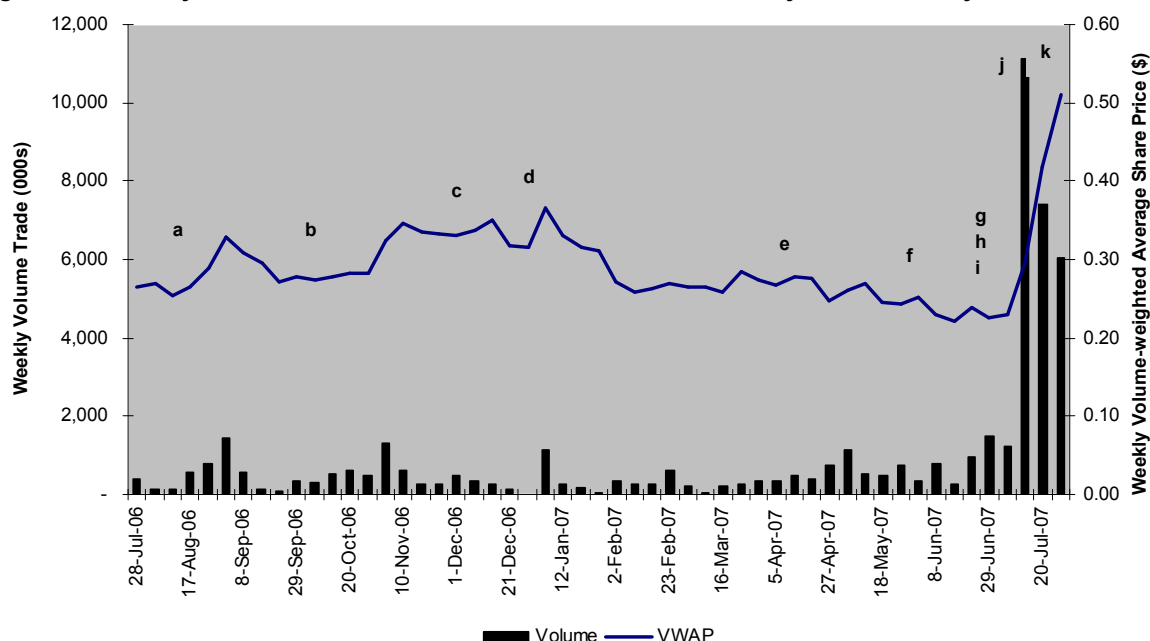
	Shareholder	Number of Shares	Percentage of Total Shares
9	Mr David Hugh Hall	2,026,432	2.10%
10	Anthony John Fawdon	1,997,997	2.07%
	Other Shareholders	58,438,610	60.60%
	Total	96,427,634	100.00%

Source: Diatreme

5.3 Share Market Performance of Diatreme

As mentioned previously, Diatreme's shares are listed on the ASX. Figure 5.2 below shows Diatreme's weekly volume-weighted average share price ("VWAP") and volume traded per week over the period 25 July 2006 to 27 July 2007.

Figure 5.1: Weekly VWAP and Volume Traded for Diatreme from 25 July 2006 to 27 July 2007



Source: Bloomberg

In addition to the share price and trading data, we have also provided additional information in this Report to assist readers to understand possible reasons for movements in Diatreme's share price and volume traded over the time period analysed. The references in Figure 5.2 above correspond to the references below:

Table 5.2: ASX Announcements

Reference	Date	Announcement Summary
(a)	31 August 2006	Eucla Basin heavy mineral sands project exploration update released. Exploration licences covering 6,520 sq km granted in South Australia and Western Australia. 3,000 km line of ground magnetic surveys planned and 15,000 metres of drilling scheduled to commence in the coming months, initially targeting the Wyola area. Exploration budget over \$1.0 million to end of 2006.
(b)	23 October 2006	Third quarter cash flow report released.
(c)	12 December 2006	Mixed drilling results released from the Clermont Copper project. Oakey Creek Copper Prospect intersected encouraging grades of copper mineralisation. Beefwoods Area Prospects failed to find significant copper mineralisation. West Copperfield Prospect resulted in a best intercept of 6 metres at 0.46% copper and 5.9 grams/ton silver.
(d)	4 January 2007	Diatreme announces that it has commenced transfer of thirteen gold exploration tenements into Xtreme.
(e)	17 April 2007	Diatreme announces that it is going to make an in specie distribution to Diatreme shareholders of shares in Xtreme. Diatreme also announces that Xtreme will acquire 100% of Garimperos.
(f)	31 May 2007	Diatreme announces that the record date of 8 June 2007 for the proposed in-specie distribution of shares in Xtreme, as advised in the announcement to the ASX on 27 April 2007, is no longer applicable.
(g)	2 July 2007	Diatreme is granted Exploration Permit Minerals over the Dooloo Creek Gold-Copper Prospect, 30 km north of Monto, southeast Queensland covering an area of approximately 28 sq km.
(h)	11 July 2007	Diatreme announces the discovery of very large heavy mineral (HM) prospect over a series of 18 drill intersections at Wanna Lakes Project in the Central Eucla Basin in Western Australia.
(i)	12 July 2007	Diatreme announces that it has lodged applications for 11 exploration licences in the Eucla Basin, within Western Australia, covering an area of approximately 6,600 sq km.
(j)	17 July 2007	The Company announces that it has made application for two further exploration licences covering approximately 1,350 sq km in the South Australian sector of the Eucla Basin HMS Project.
(k)	17 July 2007	A zircon-rich discovery made on Image's tenement boundary.
(l)	23 July 2007	The Company announces that it has made an application for 16 new exploration licences in South Australia covering approximately 14,800 sq km.

Source: ASX

In Table 5.3 below, we have set out Diatreme's VWAP for the 1 week, 1 month, 3 month and 6 months prior to 27 July 2007.

Table 5.3: Diatreme's VWAP Prior to 27 July 2007

Period Before 27 July 2007	VWAP Period	VWAP (\$)
1 Week	23 July 2007 to 27 July 2007	0.51
1 Month	25 June 2007 to 27 July 2007	0.37
3 Months	30 April 2007 to 27 July 2007	0.35
6 months	29 January 2007 to 27 July 2007	0.34

Source: Bloomberg

We note that the 1-week VWAP for the period 23 July 2007 to 27 July 2007 is nearly 40% higher than the average VWAP for the last 6 months. This is evidenced by the VWAP chart and price-sensitive announcements set out above.

5.3.1 Diatreme Share Options

Set out below is the number of options over unissued ordinary shares of Diatreme as at 1 August 2007:

Table 5.4: Options on Issues in Diatreme

Expiry Date	Exercise Price	Number of Options
ASX listed options		
31 October 2007	\$0.25	35,232,910
Unlisted options		
1 November 2007	\$0.50	3,000,000
30 June 2011	\$0.50	11,400,000
30 September 2008	\$0.30	4,711,070
31 July 2011	\$0.50	3,000,000

Source: Diatreme

Diatreme's share price closed at \$0.39 on 6 August 2007. In our view, the listed options expiring on 31 October 2007 and the unlisted options expiring on 30 September 2008 options are 'in-the-money'.

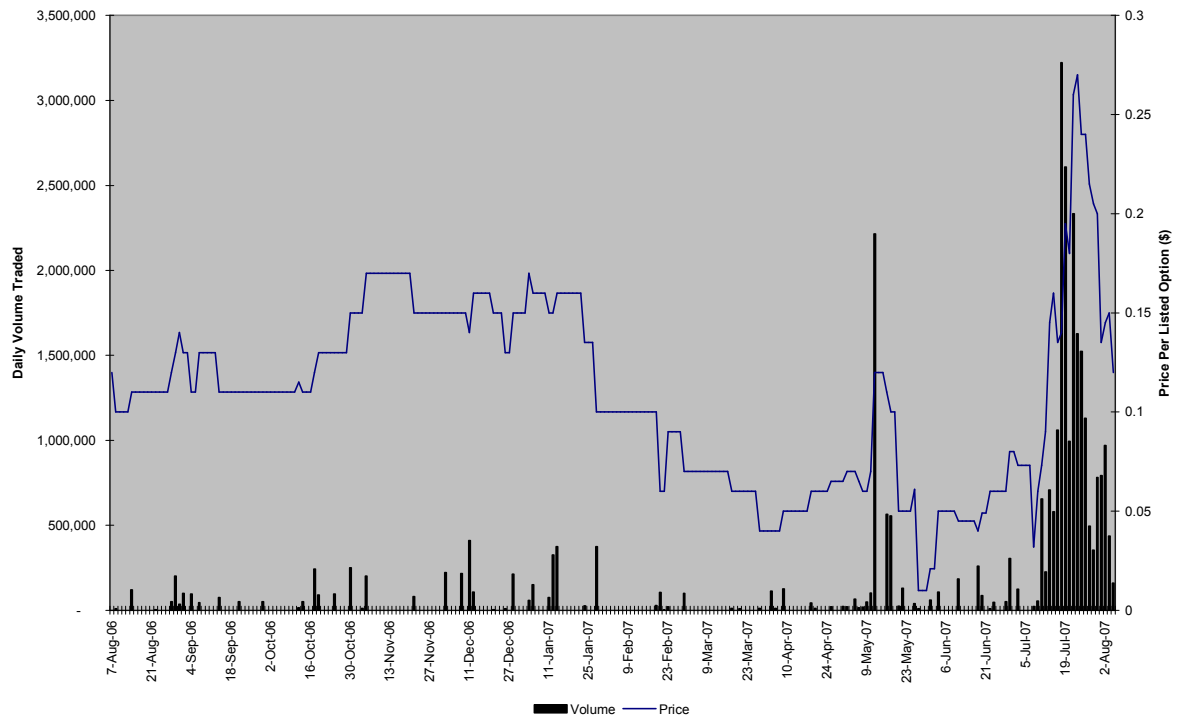
The exercise of the above options considered to be in the money will result in the issue of approximately 40 million new Diatreme shares, or 41% of the total shares currently on issue, at prices between 20% to 46% lower than the Diatreme share price as at 6 August 2007.

We have considered the effect of the exercise of these options. The receipt of funds by Diatreme and the further dilution of existing share capital as a consequence of the exercise of these options and issue of additional shares does not affect our opinion of the Proposed Transaction.

5.3.2 Trading Activity in Listed Diatreme Options

Figure 5.2 below depicts the trading activity in the listed Diatreme options.

Figure 5.2: Price and Daily Volume Traded for Diatreme Listed Options (DRXO) from 1 August 2006 to 6 August 2007



Source: www.tradingroom.com.au

6.0 BACKGROUND OF XTREME²

6.1 Structure and Operations of Xtreme

Xtreme is a wholly-owned subsidiary of Diatreme. Xtreme currently has 30 million fully paid ordinary shares on issue. Xtreme has a number of advanced gold and tin projects located in Queensland. These projects include the following:

6.1.1 Nymbool Gold Project

The Nymbool Gold Project is located near Mt Garnet in North Queensland. The Directors are disappointed with recent drilling results as only low grade gold mineralisation was recovered. Further geological mapping and sampling is planned to define the size, structure and gold grade of the 'feeder' zone, although the Company believes there is a reasonable probability of higher gold grades within the zone.

6.1.2 Burnett Gold Copper Project

This project, located within the Yarrol Province of South East Queensland, includes six exploration permits covering approximately 450 square kilometres. Xtreme's aim is to outline substantial additional higher grade resources adjacent to known gold resources and to advance exploration in a number of greenfield tenement areas.

6.1.3 Georgetown Inlier Gold Project

Exploration has mainly focused on two exploration permits that are considered to be prospective for sediment hosted gold style mineralisation and a detailed geological mapping and sampling program is planned. Although only minor exploration and sampling has been conducted at the Candlow Prospect, sampling at one site recovered 0.20 grams/ton of gold in a single rock chip grab sample.

6.1.4 Burdekin Gold Project

The Burdekin Gold Project is located within central Queensland. Xtreme had not conducted any further drilling during 2006, preferring to review previous drilling results and geological data to help establish future directions for exploration drilling within all tenements.

6.1.5 Tick Hole Gold

The Tick Hole Gold Project is located in North West Queensland. Xtreme did not conduct any further drilling during 2006, but reviewed previous drilling results and geophysical interpretations to help establish future directions for exploration.

² Information set out in section 6.1 has been provided by Diatreme. As instructed, we have not reviewed or audited that information.

6.2 Historical Financial Information of Xtreme

This section of this Report sets out the historical financial information of Xtreme. As the Proposed Transaction relates to a proposed acquisition of the shares in Garimperos by offering shares in Xtreme as consideration, we have included detailed financial information relating to Xtreme and Garimperos only. We have not included detailed financial information relating to Diatreme where financial information is displayed in this Report. This Report contains only summarised historical financial information. Additional notes and financial information contained in the full income statements and balance sheets are not replicated in this Report.

Xtreme's current auditors are Pitcher Partners. As instructed, BDO KCFQ has not performed any additional audit or review of any type on the historical financial information of Xtreme. We make no statement as to the accuracy of the information, however we have no reason to believe that the financial information is not complete and accurate. Xtreme was incorporated in June 2006 and has a financial year end of 31 December. The financial statements for the seven month period from incorporation to 31 December 2006 have been audited by Pitcher Partners.

6.2.1 Income Statements

The income statements of Xtreme for the seven month period ending 31 December 2006 and the six month period ended 30 June 2007 are summarised in Table 6.1 below.

Table 6.1: Summarised Xtreme Income Statements

	6 Months Ended 30 June 2007 Unaudited (\$)	7 Months Ended 31 December 2006 Audited (\$)
Sales revenue	-	-
Other revenue	642	119
Total Revenue	642	119
General & administrative costs	(23,357)	(61)
Independent geologists report	-	(6,214)
Profit /(loss) before income tax	(22,715)	(6,156)
Income tax expense	-	-
Profit/ (loss) after tax from continuing operations	(22,715)	(6,156)

Source: Xtreme 2006 Financial Report and unaudited management accounts for the six months ended 30 June 2007

6.2.2 Balance Sheets

The balance sheets of Xtreme as at 31 December 2006 and 30 June 2007 are summarised in Table 6.2 below.

Table 6.2: Summarised Xtreme Balance Sheets as at 30 June 2007 and 31 December 2006

	As at 30 June 2007 Unaudited (\$)	As at 31 December 2006 Audited (\$)
CURRENT ASSETS		
Cash	29,331	28,150
Security deposits	37,500	-
Receivables	-	1,641
Total Current Assets	69,342	29,791
NON-CURRENT ASSETS		
Exploration interests	4,173,880	10,205
Property, plant and equipment	10,474	-
Other non-current receivables	12,898	-
Total Non-Current Assets	4,197,252	10,205
TOTAL ASSETS	4,266,594	39,996
CURRENT LIABILITIES		
Payables	4,523	2,151
Total Current Liabilities	4,523	2,151
NON-CURRENT LIABILITIES		
Borrowings	260,942	44,000
Total Non-Current Liabilities	260,942	44,000
TOTAL LIABILITIES	265,465	46,151
NET ASSETS/(LIABILITIES)	4,001,129	(6,155)
EQUITY		
Contributed equity	30,000	1
Retained Profits/(Accumulated Losses)	(28,871)	(6,156)
Asset Revaluation Reserve	4,000,000	-
TOTAL EQUITY	4,001,129	(6,155)

Source: Xtreme 2006 Financial Report and unaudited management accounts as at 30 June 2007

We note that the Company has booked a revaluation of Xtreme's mining tenements (of approximately \$4 million, based on the tenement valuation by Veronica Webster), in the balance sheet of Xtreme as at 30 June 2007.

The non-current borrowings relate to funding from Diatreme.

During the 2007 financial year, Xtreme issued a further 29,999,999 shares to Diatreme, bringing the total number of issued shares to 30 million.

7.0 BACKGROUND OF GARIMPEROS

7.1 Structure and Operations of Garimperos

Garimperos is an unlisted public company based in Brisbane. Garimperos has a portfolio of tin resources. Garimperos has a number of projects in the Mt Garnet district of Far North Queensland. The Company is of the opinion that this is a region which contains some of Australia's largest resources of tin. Garimperos' portfolio includes nine tin prospects which, in total, contain inferred resources of approximately 15,100,000 tonnes of mineralisation grading between 0.15% and 1.0% tin³. We are informed that all prospects are within effective transportation distance of the Mount Veteran Mill (as described in Section 7.1.1 below).

7.1.1 *Mt Veteran Mill*

Located 12 km northeast of Mount Garnet⁴ and central to a group of large hard rock tin resources, the mill was built in the late 1980s. The mill has current milling capacity of 20 tonnes per hour. We are instructed that Garimperos aims to refurbish the mill to a capacity of 25 tonnes per hours and that there is approximately 10,000 tonnes of marginal grade tin ore stockpiled at the mill⁵.

7.1.2 *The Summer Hill and Tom Hood Project*

Garimperos is in the process of acquiring an interest in the above projects with a right to peg a large mining lease with nine projects within a three kilometre radius of the Mt Veteran Mill that contain inferred resources of approximately 15,100,000 tonnes of mineralisation grading between 0.15% and 1.0% tin. We have been advised that Garimperos has legal title to the above projects⁶, however that deferred payments for \$50,000 is due for payment in 30 April 2008 and \$80,000 is due for payment on 30 April 2009 to complete the acquisition⁷.

We are instructed that sampling have exposed the lodes in numerous places and previous bulk sampling and drilling has confirmed the existence of resources at the following prospects:

- ☐ Dalcouth (550,000 tons);
- ☐ Viking (2,000,000 tons);
- ☐ Summer Hill (6,000,000 tons);
- ☐ Divide (800,000 tons);
- ☐ Tom Hood (4,000,000 tons);
- ☐ Extended (250,000 tons);
- ☐ Mt Veteran (700,000 tons); and
- ☐ Mayday (600,000 tons)⁸.

³ Garimperos Tenement Valuation (prepared by Veronica Webster)

⁴ Queensland Department of Mines and Energy Mining Lease Report

⁵ Diatrene ASX Announcement on 17 April 2007

⁶ Queensland Department of Mines and Energy Mining Lease Report

⁷ Summer Hill Tenement Acquisition Agreement between Garimperos and Mr Ralph De Lacey

⁸ Garimperos Tenement Valuation (prepared by Veronica Webster)

We are instructed that a number of surface grab samples were conducted in 1984 and pre-JORC (Joint Ore Reserve Committee) code resources were defined and recorded. We are further instructed that the Directors of Xtreme and Garimperos as well as Independent Consultants have viewed the outcropping of mineralisation and historical data and concluded that the conversion of pre-JORC resources to JORC resources will only require drilling by competent persons (as defined by JORC). Garimperos aims to prepare these resources for open cut mining.

7.2 Capital Structure of Garimperos

As at 28 June 2007 there were a total of 19,185,000 shares on issue in Garimperos. Table 7.1 below provides details of the top 10 shareholders of Garimperos as at 28 June 2007.

Table 7.1: Top 10 Garimperos Shareholders as at 28 June 2007

	Shareholder	Number of Shares	Percentage of Total Shares
1	Ascend Asset Management Ltd	3,500,000	18.24%
2	John Stacpoole	2,300,000	11.99%
3	David Hugh & Lynn Michelle Hall <The Hall Family Super Fund>	2,100,000	10.95%
4	Anthony John & Rosemarie Monica Fawdon <The Fawdon Super Fund>	2,000,000	10.42%
5	Martin Place Securities Nominees Pty Ltd	1,995,000	10.40%
6	Weir River Consulting <Weir River Grazing Co Super Fund>	1,000,000	5.21%
7	Super 1136 Pty Ltd	1,000,000	5.21%
8	Terra Search Pty Ltd	600,000	3.13%
9	Cairnglen Investments Pty Ltd	500,000	2.61%
10	Relativity Pty Ltd <Superannuation Fund>	500,000	2.61%
	Other shareholders	3,690,000	19.23%
	Total	19,185,000	100.00%

Source: Diatreme

7.3 Historical Financial Information of Garimperos

This section of this Report sets out the historical financial information of Garimperos. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in the full income statements and balance sheets.

Garimperos' current auditors are PricewaterhouseCoopers ("PwC"). BDO KCFQ has not performed any audit or review of any type on the historical financial information of Garimperos. We make no statement as to the accuracy of the information, however we have no reason to believe that the financial information is not complete and accurate. The financial statements for the years ended 30 June 2005 and 30 June 2006 have been audited by PwC.

7.3.1 Income Statements

The income statements of Garimperos for the year ended 30 June 2005, 30 June 2006 and 30 June 2007 are summarised in Table 7.2 below.

Table 7.2: Summarised Garimperos Income Statements

	12 Months Ended 30 June 2007 Unaudited (\$)	12 Months Ended 30 June 2006 Audited (\$)	12 Months Ended 30 June 2005 Audited (\$)
Revenue from continuing operations	18,490	2,708	17,746
Total Revenue	18,490	2,708	17,746
Accounting fees	(3,012)	(1,830)	-
Bank fees	(179)	(158)	(184)
Capital raising costs	(17,675)	-	-
Commissions	(7,500)	-	-
Interest expense	-	-	(84)
Fees and permits	(5,450)	(9,936)	(4,880)
Travel expenses	(4,247)	(1,701)	-
Other	(3,412)	-	-
Profit / (loss) before income tax	(22,985)	(10,917)	12,598
Income tax expense	-	-	3,104
Profit / (loss) after tax from continuing operations	(22,985)	(10,917)	9,494
Dividend paid	(11,317)	-	-
Profit / (loss) attributable to members	(34,302)	(10,917)	9,484

Source: Garimperos 2006 Annual Report and unaudited management accounts for the 12 months ended 30 June 2007

We are instructed that the decrease in revenue in 2006 is attributed to the winding down of base metal management a particular project which was required by law to finish on 30 June 2007.

7.3.2 Balance Sheets

The balance sheets of Garimperos as at 30 June 2005, 30 June 2006, 30 June 2007 are summarised in Table 7.3 below.

Table 7.3: Summarised Garimperos Balance Sheets

	As at 30 June 2007 Unaudited (\$)	As at 30 June 2006 Audited (\$)	As at 30 June 2005 Audited (\$)
CURRENT ASSETS			
Cash and cash equivalents	582,744	882	13,682
Receivables	545	59	184
Total Current Assets	583,289	941	13,866
NON-CURRENT ASSETS			
Exploration interests	829,100	-	-
Total Non-Current Assets	829,100	-	-
TOTAL ASSETS	1,412,389	941	13,866
CURRENT LIABILITIES			
Payables	470,562	-	-
Non interest bearing liabilities	13,387	-	97
Provisions	-	-	1,911
Total Current Liabilities	483,949	-	2,008
NON-CURRENT LIABILITIES			
Total Non-Current Liabilities	-	-	-
TOTAL LIABILITIES	483,949	-	2,008
NET ASSETS/(LIABILITIES)	928,440	941	11,858
EQUITY			
Contributed equity	961,800	1	1
Retained Profits/(Accumulated Losses)	(33,360)	940	11,857
TOTAL EQUITY	928,440	941	11,858

Source: Garimperos 2006 Annual Report and unaudited management accounts as at 30 June 2007

We note that Garimperos has not brought to account the value of its mining tenements (as determined by Veronica Webster) in its balance sheet as at 30 June 2007.

8.0 INDUSTRY INFORMATION

8.1 Recent Performance of the Australian Mining Industry

Recent strong economic growth has led to higher demand for commodities, causing the prices of many minerals on world markets to rise markedly over the past twelve months. For example, for the year ended January 2007, spot prices on the London Metal Exchange rose by 20-30% for copper, lead and aluminium, 80% for zinc and more than doubled for nickel⁹.

The Australian mining industry has benefited from the unprecedented growth in commodity prices over the last few years. The industry is one of the largest contributors to Australia's export trade and is a vital part of the Australian economy. Export earnings from mineral resources rose to \$27.1 billion in the December 2006 quarter, another record which was 19% higher than the December 2005 quarter. This strong performance reflected the increased amount of volume being exported. Nickel, zinc, iron ore, alumina, lead copper and uranium have all experienced increased export earnings over the last year¹⁰.

Australian mineral exploration spending rose by 20.6% to a record \$1,240 million in 2006. Western Australia dominated with 47.6% of mineral exploration spending although South Australia, New South Wales, Victoria and Queensland all experienced record expenditure. Gold was the main target of exploration programs although its share of spending was eroded by growth in copper, iron ore, coal and uranium exploration¹¹.

Almost two thirds of Australia's major minerals and energy commodities recorded production increases in the December 2006 quarter. Substantial increases in the production of lead, tin mine, other petroleum refinery products and uranium oxide were recorded in 2006. Other significant increases occurred for mineral sands, refined silver, automotive diesel, nickel, titanium and liquified petroleum gas. Increases of 5-10% were also recorded for zircon, zinc and copper¹¹.

8.2 Forecasts for the Australian Mining Industry¹⁰

Currently, an issue facing the commodity sector is whether strong growth in world commodity demand will continue, leading to a continued increase in world prices in 2007 and beyond. According to ABARE, of particular importance to future commodity prices, is whether or not robust economic growth will continue in China. The impact of China's growing economic influence on world commodity markets has been significant, with China's demand for base metals, minerals and fuels a major reason for the current strong price rises seen on world markets. China's rapid industrialisation and the relocation of manufacturing to China from developed countries should see this influence on world commodity markets continue into the foreseeable future. Continued strong economic growth, industrialisation and urbanisation in China are expected to continue to put pressure on their domestic resources which has the potential to provide increased export opportunities for Australia's commodity industries.

⁹ ABARE Australian Commodities Report, March Quarter 2007

¹⁰ Australian Mineral Statistics, December Quarter 2006

¹¹ Australian Mineral Exploration: A Review of Exploration for the Year 2006, February 2007

Despite many commentators believing that commodity prices have entered the peak of their cycle, we note that the forecasts from ABARE regarding commodity export earnings remain positive. Under the assumption of continued relatively strong world economic growth, ABARE predicts higher commodity demand and export shipments in the short term. Export earnings from Australia's mineral resources sector are forecast to be around \$116.5 billion in 2007-2008 while exports earnings for metals and other minerals are expected to rise by 11% to \$75.3 billion. Over the medium term, export earnings from the mineral resources sector are expected to increase in real terms in 2008-2009, before gradually easing in 2011-2012. By 2011-2012, mineral resources exports are projected to be worth \$108 billion and metals and other minerals are projected to be worth \$67 billion (in 2007 dollars).

9.0 VALUATION METHODOLOGIES AND APPROACH

9.1 Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered the valuation methodologies recommended by ASIC Regulatory Guide 12 regarding valuation reports of independent experts. These methodologies include those mentioned directly below.

9.1.1 *Discounted Future Cash Flows ("DCF")*

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt and equity instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- ❑ An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- ❑ Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

9.1.2 *Capitalisation of Future Maintainable Earnings ("CME")*

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the rate is an alternative way of stating the expected return on an asset, allowing for a risk premium over the risk free rate.

The CME approach is generally most appropriate where an entity has consistent historical earnings and a defined forecast or budget.

9.1.3 Asset Based Valuations (“ABV”)

Asset based valuations are used to estimate the market value of an entity based on the realised value of its identifiable net assets. The ABV approach ignores the possibility that an entity’s value could exceed the realisable value of its net assets, however, when used in conjunction with other methods which determine the value of an entity to be greater than the realisable value of its net assets, it is also possible to arrive at a reliable estimate of the value of goodwill.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

9.1.4 Market Based Valuations (“MBV”)

Market based valuations relate to the valuation of an entity, where its shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

The MBV approach often allows for a useful reasonableness check to be performed on the other valuation methodologies.

9.2 Our Valuation Approach

We have completed a valuation of the shares in Xtreme and Garimperos, in order to compare the fair value of the shares in Garimperos with the fair value of the consideration offered by Xtreme.

9.2.1 Valuation of Xtreme

Our view of the most appropriate valuation methodology to adopt to complete a valuation of Xtreme in this Report is summarised in Table 9.1 below.

Table 9.1: Summary of Possible Valuation Methodologies to Apply to Xtreme

Valuation Methodology	Appropriate ?	Explanation
DCF Valuation	×	We were not provided with any forecast financial information or projections for Xtreme and as a result, we were not able to apply a DCF valuation methodology.
CME Valuation	×	Xtreme currently does not have maintainable earnings suitable for use in a CME valuation methodology.
Asset Based Valuation	✓	We are instructed that the only material assets of Xtreme are the mining tenements. Veronica Webster has prepared a valuation of the mining tenements. We have been instructed to rely upon the Veronica Webster Report in our valuation of Xtreme.
Market Based Valuation	×	The shares in Xtreme are not listed on any stock exchange and are not readily tradeable. A market based valuation methodology is not appropriate as there is no readily observable market for the trading of shares in Xtreme.

For reasons outlined in Table 9.1 above, it is our view that the most appropriate valuation methodology to apply to the shares in Xtreme is an Asset Based Valuation Methodology.

9.2.2 Valuation of the Garimperos

Our view of the most appropriate valuation methodology to apply to the Garimperos is summarised in Table 9.2 below.

Table 9.2: Summary of Possible Valuation Methodologies to Apply to Garimperos

Valuation Methodology	Appropriate ?	Explanation
DCF Valuation	×	We were not provided with any forecast financial information or projections for Garimperos and as a result, we were not able to apply a DCF valuation methodology.
CME Valuation	×	We are instructed that Garimperos is a holding company for exploration assets and does not have maintainable earnings suitable for use in a CME valuation methodology.
Asset Based Valuation	✓	We are instructed that the material assets of Garimperos consist of the mining tenements and the processing mill. Veronica Webster has prepared a valuation of the mining tenements. We have been instructed to rely upon the Veronica Webster Report in our valuation of the Garimperos.
Market Based Valuation	×	The shares in Garimperos are not listed on any stock exchange and are not readily tradeable. A market based valuation methodology is not appropriate as there is no readily observable market for the trading of shares in Garimperos.

For reasons outlined in Table 9.2 above, it is our view that the most appropriate valuation methodology to apply to Garimperos is an Asset Based Valuation Methodology.

10.0 VALUATION OF EACH XTREME SHARE

This section of this Report sets out our valuation of Xtreme, as follows:

- ❑ Section 10.1 provides details of the Veronica Webster valuation of Xtreme's mining tenements and the underlying assumptions; and
- ❑ Section 10.2 provides details of our calculation of the value of the shares in Xtreme adopting the Asset Based Valuation methodology.

10.1 Veronica Webster's Valuation of Xtreme's Mining Tenements

We are not geologists or specialist valuers of mining assets. We have relied on the services of a specialist appointed by the Company to determine the fair value of Xtreme's mining tenements.

In an initial report dated 17 January 2007 addressed to the Directors of Xtreme, Mr Les W Davis, Mineral Exploration Consultant ("Mr Davis"), of Veronica Webster Pty Ltd, provided his opinion on the fair value of Xtreme's mining tenements ('Xtreme Tenement Valuation'). This report is included as Appendix A to our Report. We have been instructed to rely on the valuation work of Mr Davis of Veronica Webster in completing our Independent Expert's Report.

In a letter dated 19 July 2007, addressed to the Directors, Mr Davis has provided the following further information and consents:

- ❑ That Veronica Webster's valuation of Xtreme's mining tenements has been prepared in accordance with the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Report ("The Valmin Code"); and
- ❑ That Veronica Webster has consented to BDO KCFQ utilising and referring to their valuation reports in this Report.

In a letter dated 3 August 2007, addressed to the Directors, Mr Davis has provided the following further information and consents:

- ❑ Veronica Webster's valuation (dated 17 January) of Xtreme's mining tenements is current as at 3 August 2007. In that letter, Mr Davis examined changes in commodity prices for gold and tin, the AUD/USD exchange rate and the Consumer Price Index ("CPI") between the initial valuation date, 17 January 2007 and 3 August 2007 and concludes that only small immaterial changes in valuation estimates can be expected. Mr Davis advises that the exploration status of the mineral properties have not changed.

As noted above, the Xtreme Tenement Valuation is subject to material movements in commodity prices, AUD/USD exchange rate and CPI. Our research shows the following:

Table 10.1: Commodity Prices

	Price As at 3 August 2007 (\$)	Price As at 17 January 2007 (\$)	Percentage Price Movement (%)
Tin (\$USD / tonne)	16,250	10,850	49.77
Gold (\$USD / oz)	670.50	626.50	7.02

Source: New York Mercantile Exchange and London Metals Exchange

Table 10.2: AUD/USD Exchange Rate

	As at 3 August 2007 (\$)	As at 17 January 2007 (\$)	Percentage Movement (%)
AUD / USD	0.8578	0.7836	9.47

Source: Reserve Bank of Australia

We note the movement between the December 2006 quarter (155.5) and the June 2007 quarter (157.5) CPI was 1.29%

We have been instructed by Veronica Webster that the abovementioned movements do not materially affect the Xtreme Tenement Valuation.

Table 10.3 below sets out a summary of the Xtreme Tenement Valuation prepared by Veronica Webster. We recommend that Shareholders read the Xtreme Tenement Valuation in full, attached as Appendix A to this Report.

Table 10.3: Xtreme Tenement Valuation

Xtreme Resources Ltd	Value Low (\$)	Value High (\$)	Value Preferred (\$)
Xtreme's mining tenements (covering: Burnett Gold Project, Nymbool Gold Project, Georgetown Inlier Gold Project, Burdekin Gold Project and Tick Hill Gold Project)	3,300,000	5,500,000	4,550,000
Total	3,300,000	5,500,000	4,550,000

Source: Veronica Webster

The Xtreme Tenement Valuation is based on assumptions including the following:

- For the Yarrol Gold Deposit, the valuation is indicative only and relies on the metallurgy, geotechnical information and financial aspects affecting the project to be favourable;

- The Yarrol established gold resource is valued using a modified discounted cash flow rate of return procedure to obtain a net present value ("NPV") for a mining project. This involves designing a mine plan and making the necessary estimates and assumptions to the mine and treat the mineralisation; and
- All exploration areas are valued by an 'Expected Value' method and the 'Multiples of Exploration Expenditure' method considered occasionally for comparison. For the mineral properties of Xtreme, Veronica Webster has assigned probabilities for discovering deposits for which an NPV or cash value has been estimated.

10.2 Asset Based Valuation of Xtreme

To determine the fair value of the net assets of Xtreme, in our opinion, it is appropriate to commence with the unaudited balance sheet as at 30 June 2007. The balance sheet is then adjusted for the valuations of individual assets and liability classes to better reflect the market value of Xtreme at the date of this Report. A summary of the unaudited balance sheet as at 30 June 2007, together with the appropriate adjustments is set out in Table 10.4 below.

Our work has identified other balance sheet assets and liabilities and we have been provided with information to explain the approximation of the net market worth of each asset or asset class. In light of this information, it is our view that a necessary adjustment to determine the fair value of Xtreme is an increase in the carrying value of the Exploration Interests to align the value of the Exploration Interests in the balance sheet with the preferred value attributed to those assets in the Xtreme Tenement Valuation (summarised in Table 10.3).

This adjustment is detailed in Table 10.4 below.

Table 10.4: Net assets of Xtreme

	As at 30 June 2007 Unaudited (\$)	Adjustment (Preferred) (\$)	Adjusted 30 June 2007 Preferred (\$)
CURRENT ASSETS			
Cash	29,331	-	29,331
Security deposits	37,500	-	37,500
Total Current Assets	69,342	-	69,342
NON-CURRENT ASSETS			
Exploration interests	4,173,880	376,120	4,550,000
Property, plant and equipment	10,474	-	-
Other non-current receivables	12,898	-	-
Total Non-Current Assets	4,197,252	376,120	4,550,000
TOTAL ASSETS	4,266,594	376,120	4,616,831
CURRENT LIABILITIES			
Payables	4,523	-	4,523
Total Current Liabilities	4,523	-	4,523

	As at 30 June 2007 Unaudited (\$)	Adjustment (Preferred) (\$)	Adjusted 30 June 2007 Preferred (\$)
NON-CURRENT LIABILITIES			
Borrowings	260,942	-	260,942
Total Non-Current Liabilities	260,942	-	260,942
TOTAL LIABILITIES	265,465	-	265,465
NET ASSETS/(LIABILITIES)	4,001,129	376,120	4,351,366

Source: Xtreme Limited and Xtreme Tenement Valuation (prepared by Veronica Webster)

The value of minority parcels of shares acquired in a company can be less than the value of all shares in a company. The difference between the two is often regarded as a discount for lack of control and reflects the additional amount an acquirer is willing to pay to control a company or the discount an acquirer demands for a minority parcel of shares.

In our opinion, based on the information provided to us, including the Veronica Webster report, the value of the **net assets of Xtreme** is approximately **\$4.4 million**.

Table 10.5 below sets out our view of net asset backing per share of Xtreme.

Table 10.5: Net Asset Backing per Xtreme Share

	Value Low (\$)	Value High (\$)	Value Preferred (\$)
Net Assets of Xtreme	3,127,249	5,327,249	4,351,366
Number of Shares on issue as at 28 June 2007	30,000,000	30,000,000	30,000,000
Net Asset Backing per Xtreme Share / BDO KCFQ Opinion of the value of each share in Xtreme	0.1042	0.1776	0.1450

Source: Xtreme and BDO KCFQ analysis

In our opinion, the value **each Xtreme share** is **\$0.1450**.

Our research suggests that discounts for lack of control fall within the range of 20% to 25% of the value of a controlling interest in a company. The application of a discount for lack of control would reduce the value of each Xtreme share. The higher the value of each Xtreme share adopted in this Report, the more conservative our analysis is in terms of the interests of the Shareholders. On this basis, we have not adjusted the above valuation for a discount for lack of control.

11.0 VALUATION OF GARIMPEROS

This section of this Report sets out our valuation of Garimperos, as follows:

- ❑ Section 11.1 provides details of the Veronica Webster valuation of Garimperos' mining tenements and the underlying assumptions; and
- ❑ Section 11.2 provides details of our calculation of the value of the shares in Garimperos adopting the Asset Based Valuation methodology.

11.1 Veronica Webster's Valuation of Garimperos' Mining Tenements

We are not geologists or valuers of mining assets. We have relied on the services of a specialist appointed by the Company to determine the fair value of Garimperos' mining tenements.

In an initial report dated 1 April 2007 addressed to the Directors of Garimperos, Mr Davis of Veronica Webster provided his opinion on the fair value of Garimperos' mining tenements ('Garimperos Tenement Valuation'). This report is included as Appendix B to our Report. We have been instructed to rely on the valuation work of Mr Davis of Veronica Webster in completing our Independent Expert's Report.

In a letter dated 19 July 2007, addressed to the Directors, Mr Davis has provided the following further information and consents:

- ❑ He has confirmed that the Veronica Webster valuation of Garimperos' mining tenements has been prepared in accordance with the The Valmin Code;
- ❑ Veronica Webster has consented to BDO KCFQ utilising and referring to their valuation reports in this Report.

In a letter dated 3 August 2007, addressed to the Directors, Mr Davis has provided the following further information and consents:

- ❑ Veronica Webster's valuation (dated 1 April) of Garimperos' mining tenements is current as at 3 August. In that letter, Mr Davis examined changes in commodity prices for tin, the AUD/USD exchange rate and the CPI between the initial valuation date, 1 April 2007 and 3 August 2007 and concludes that only small immaterial changes in valuation estimates can be expected. Mr Davis advises that the exploration of the mineral properties have not changed.

As noted above, Garimperos' Tenement Valuation is subject to material movements in commodity prices, AUD/USD exchange rate and CPI. Our research shows the following:

Table 11.1: Commodity Prices

	Price As at 3 Aug 2007 (\$)	Price As at 1 April 2007 (\$)	Percentage Price Movement (%)
Tin (\$USD / tonne)	16,250	13,675	18.83

Source: London Metals Exchange

Table 11.2: AUD/USD Exchange Rate

	As at 3 August 2007 (\$)	As at 2 April 2007 (\$)	Percentage Movement (%)
AUD/USD	0.8578	0.8139	5.39

Source: Reserve Bank of Australia

We note the movement between the March 2007 quarter (155.6) and the June 2007 quarter (157.5) CPI was 1.22%

We have been instructed by Veronica Webster that the abovementioned movements do not materially affect the Garimperos Tenement Valuation.

Table 11.3 below sets out a summary of the Garimperos Tenement Valuation prepared by Veronica Webster. We recommend that Shareholders read the Garimperos Tenement Valuation in full, attached as Appendix B to this Report.

Table 11.3: Garimperos Tenement Valuation

Garimperos	Value Low (\$)	Value High (\$)
Garimperos' mining tenements (covering: Mt Veteran and Summer Hill)	3,150,000	4,150,000
Total	3,150,000	4,150,000

Source: Veronica Webster

We are instructed that there is a mill located at the Mt Veteran site and that the above valuation range for Garimperos' mining tenements excludes a valuation of the mill. We are instructed that a detailed and specialist valuation of the mill has not been completed. We note, however that an indicative value of between \$4 million and \$5 million has been mentioned in the Garimperos Tenement Valuation.

In our view, there is insufficient detailed information available to conclude that \$4 million to \$5 million represents a reliable valuation of the mill.

The mill is recorded at a written down value of \$600,000 in the balance sheet of Garimperos as at 30 June 2007. In the absence of better information, we have adopted this value of the mill in our valuation of Garimperos.

The Garimperos Tenement Valuation is based on assumptions including the following:

- ❑ The Mt Veteran valuation is based on a 150,000 tonne/annum operation lasting a minimum of seven years, to which a modified DCF method has been applied; and
- ❑ Veronica Webster stresses that a detailed mining and financial model has not been derived from classified resources under the JORC Code. It is a likely scenario based on the outcomes of previous mining ventures and the current geological information.

11.2 Asset Based Valuation of Garimperos

To determine the fair value of the net assets of Garimperos, in our opinion, it is appropriate to commence with the unaudited balance sheet as at 30 June 2007. The balance sheet is then adjusted for the valuations of individual assets and liability classes to better reflect the market value of Garimperos at the date of this Report. A summary of the unaudited balance sheet as at 30 June 2007, together with the appropriate adjustments is set out in Table 11.4 below.

Our work has identified other balance sheet assets and liabilities and we have been provided with information to explain the approximation of the net market worth of each asset or asset class. In light of this information, it is our view that a necessary adjustment to determine the fair value of Garimperos is an increase in the carrying value (low and high end) of the Exploration Interests to align the value of the Exploration Interests in the balance sheet with the values attributed to those assets in the Garimperos Tenement Valuation (summarised in Table 11.3).

Table 11.4: Net assets of Garimperos

	As at 30 June 2007 Unaudited (\$)	Adjustment (Lower End) (\$)	Adjustment (Higher End) (\$)	Adjusted 30 June 2007 Low (\$)	Adjusted 30 June 2007 High (\$)
CURRENT ASSETS					
Cash and cash equivalents	582,744	-	-	582,744	582,744
Receivables	545	-	-	545	545
Total Current Assets	583,289	-	-	583,289	583,289
Exploration interests (includes a written down value of \$600,000 for the Mt Veteran mill)	829,100	2,920,900	3,920,900	3,750,000	4,750,000
Total Non-Current Assets	829,100	2,920,900	3,920,900	3,750,000	4,750,000
TOTAL ASSETS	1,412,389	2,920,900	3,920,900	4,333,289	5,333,289
CURRENT LIABILITIES					
Payables	470,562	-	-	470,562	470,562
Non interest bearing liabilities	13,387	-	-	13,387	13,387
Total Current Liabilities	483,949	-	-	483,949	483,949
NON-CURRENT LIABILITIES	-	-	-	-	-
Total Non-Current Liabilities	-	-	-	-	-
TOTAL LIABILITIES	483,949	-	-	483,949	483,949
NET ASSETS/(LIABILITIES)	928,440	2,920,900	3,920,900	3,849,340	4,849,340

Source: Garimperos Limited and Garimperos Tenement Valuation (prepared by Veronica Webster)

The value of minority parcels of shares acquired in a company can be less than the value of all shares in a company. The difference between the two is often regarded as a discount for lack of control and reflects the additional amount an acquirer is willing to pay to control a company or the discount an acquirer demands for a minority parcel of shares.

In our opinion, based on the information provided to us, including the Veroncia Webster report, the value of the **net assets of Garimperos** is within the range of **\$3.8 million and \$4.8 million**. As 100% of the equity of Garimperos is to be acquired in the Proposed Transaction, we have not discounted the value of Garimperos for a lack of control.

12.0 ASSESSMENT OF FAIRNESS

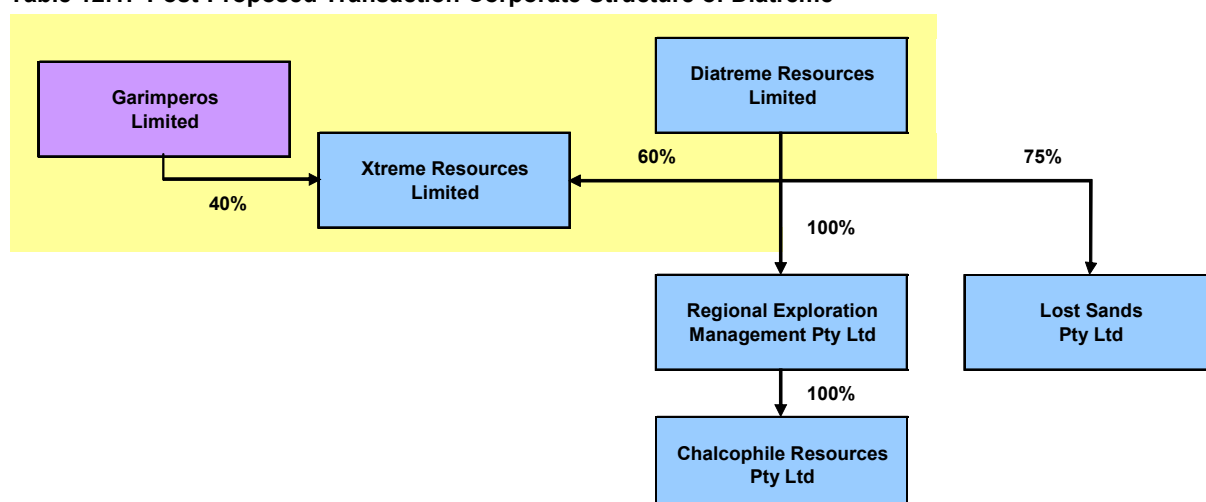
In our view, to assess whether the Proposed Transaction is Fair it is appropriate to:

- ❑ determine the value of the Consideration Shares being issued by Xtreme in relation to the Proposed Transaction (refer to Section 10);
- ❑ compare the value of the shares in Garimperos to the value of the Consideration Shares being offered in relation to the Proposed Transaction (refer to Section 11); and
- ❑ determine whether, as a whole, the Proposed Transaction is Fair to the Shareholders and Option holders of Diatreme.

12.1 Expected Corporate Structure of Diatreme following the Proposed Transaction

Table 12.1 below sets out the corporate structure of Diatreme, assuming the successful completion of the Proposed Transaction.

Table 12.1: Post-Proposed Transaction Corporate Structure of Diatreme



Source: Diatreme

Under the Proposed Transaction Xtreme will issue 20 million new fully paid ordinary shares to the current shareholders of Garimperos, bringing the total number of shares in issue in Xtreme to 50 million. The issue of 20 million Xtreme shares is in consideration for a 100% interest in Garimperos. Following the Proposed Transaction, Diatreme will retain a 60% interest in Xtreme, with the vendors of Garimperos owning the remaining 40% interest in Xtreme.

12.2 Value of the Consideration

Table 12.2 below sets out our view of the value of the Consideration Shares to be provided by Xtreme as consideration for the Proposed Transaction.

Table 12.2: Value of Consideration Shares

	Value Low (\$)	Value High (\$)	Value Preferred (\$)
BDO KCFQ opinion of the value of each share in Xtreme	0.1042	0.1776	0.1450
Number of Consideration Shares	20,000,000	20,000,000	20,000,000
BDO KCFQ Opinion of the Value of the Consideration Shares	2,084,000	3,552,000	2,900,000

Source: Xtreme and BDO KCFQ analysis

We are instructed that the Consideration Shares may be escrowed for a period of 12 months if the Xtreme IPO proceeds as planned. As the escrow condition is not a condition of the Proposed Transaction, we have not applied any discount to the value of the Consideration Shares.

In our view, the **value of the Consideration Shares** is in the range of **\$2,084,000 and \$3,552,000**, with a preferred value of **\$2,900,000**.

12.3 Comparison of the Consideration Shares to the Value of Garimperos

Table 12.3 sets out our comparison of the value of the Consideration Shares being offered by Xtreme in the Proposed Transaction to our valuation of the shares in Garimperos.

Table 12.3: Comparison of the Consideration Shares to the Value of Garimperos

	Value Low (\$)	Value High (\$)
BDO KCFQ Opinion of the Value of the Consideration Shares	2,900,000	2,900,000
BDO KCFQ Opinion of the Valuation of the Shares in Garimperos	3,849,340	4,849,340
Difference	949,340	1,949,340

Source: BDO KCF analysis

Table 12.3 shows that the fair value of the Garimperos exceeds the value of the Consideration Shares.

12.4 Our Assessment of Fairness of the Proposed Transaction

In the absence of a superior offer, it is our view that the Proposed Transaction is **Fair to the Shareholders of Diatreme**.

Notwithstanding the fact we have received insufficient information regarding the valuation of the Mt Veteran mill owned by Garimperos, in our opinion, the Proposed Transaction would still be Fair if we were provided with and were to rely on a sufficiently detailed valuation of the mill, as a sufficiently detailed valuation of the Mt Veteran mill would likely increase the valuation of Garimperos.

Shareholders should also refer to Section 2.3 of this Report regarding additional issues that they should consider when deciding whether or not to vote for or against the Proposed Transaction.

13.0 ASSESSMENT OF REASONABLENESS

This section of this Report provides a brief summary of the advantages and disadvantages that we have identified as being applicable to the Shareholders in the event that the Proposed Transaction is approved. Further, this section only identifies a summary of advantages and disadvantages relating to the Proposed Transaction and not those associated with the In Specie Distribution or the subsequent listing of Xtreme on the ASX.

13.1 Advantages to the Shareholders

If the Proposed Transaction is approved, in our opinion, the potential advantages to the Shareholders include those listed in Table 13.1 below.

Table 13.1: Advantages to the Shareholders of Approving the Proposed Transaction

Advantage	Description
Acquisition of new mining tenements with a potential upside	With the acquisition of Garimperos, Xtreme will acquire mining tenements for additional tin reserves.
Expected synergies	The Company's rationale for acquiring Garimperos is the synergies it expects that a combined Xtreme and Garimperos can derive from the proximity of their tenements. Garimperos holds exploration agreements over neighbouring mineral properties, which have complementary tin prospects, but more importantly, has a mill which can be used to process the resource in a state that is ready for sale. The management of Xtreme have informed us that to gain similar access to processing facilities, they would be required to spend over \$5 million to build mill infrastructure of a similar standard as the mill asset owned by Garimperos.
Consideration Shares for the Proposed Transaction	100% of the consideration for the Proposed Transaction is shares which may be escrowed for a period of 12 months. Generally speaking, a number of risks associated with the Proposed Transaction will be shared with the vendors of Garimperos.

13.2 Disadvantages to the Shareholders

If the Proposed Transaction is approved, in our opinion, the potential disadvantages to the Shareholders include those listed in Table 13.2 below.

Table 13.2: Disadvantages to the Shareholders of Approving the Proposed Transaction

Disadvantage	Description
Dilution of shareholding	Xtreme will issue 20 million new shares to fund the acquisition of Garimperos. This will dilute the holdings of the current shareholder (i.e. Diatreme) and in particular dilute the voting power of Diatreme.
Uncertainty of the future performance of Garimperos	There is a risk that Garimperos will not be able to transform into a company consistently generating suitable profits for shareholders or may not be able to appropriately develop their mining tenements.

Disadvantage	Description
Responsible for funding Garimperos' operations	Xtreme will be solely responsible for funding Garimperos during exploration phases. This may potentially place significant financial pressure and constraints on Xtreme.

13.3 Our Assessment of the Reasonableness of the Proposed Transaction

In our opinion, after consideration of all issues, including those set out above in this section, on balance, it is our view that, the advantages of the Proposed Transaction outweigh the disadvantages. In **the absence of a superior offer**, the Proposed Transaction is **Reasonable to the Shareholders of Diatreme**.

14.0 SOURCES OF INFORMATION

This Report is based on information from sources including the following:

- ❑ Diatreme's Notice of a General Meeting of Shareholders;
- ❑ Diatreme, Xtreme and Garimperos company searches as at 11 July 2007;
- ❑ 2007 IPO Due Diligence data room for Xtreme Resources Limited;
- ❑ Diatreme's Annual Reports for the years ended 30 June 2005 and 30 June 2006;
- ❑ Xtreme's financial report for the 7 months ended 31 December 2006 and management accounts for the 6 months ended 30 June 2007;
- ❑ Garimperos financial report for the year ended 30 June 2006 and management accounts for the year ended 30 June 2007;
- ❑ Valuation report prepared by Veronica Webster Pty Ltd for Xtreme dated 17 January 2007;
- ❑ Valuation report prepared by Veronica Webster Pty Ltd for Garimperos dated 1 April 2007;
- ❑ Tenement Acquisition Agreement for Summer Hill between Garimperos and Mr Ralph De Lacey;
- ❑ Summer Hill Mining Lease Report from the Queensland Department of Mines and Energy;
- ❑ Publicly available information including ASX announcements and financial information from subscription services; and
- ❑ Information provided to us during meetings and correspondence with the management and directors of Diatreme.

15.0 INDEMNITIES, REPRESENTATIONS AND WARRANTIES

15.1 Indemnities

In connection with our engagement to prepare an Independent Expert's Report, Diatreme agrees to indemnify and hold harmless BDO KCFQ, BDO Kendalls (QLD) or any of the partners, directors, agents or associates (together "BDO Persons"), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Diatreme will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Diatreme agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO KCFQ by Diatreme (including but not limited to the Directors and advisers of Diatreme) as part of our engagement.

15.2 Representations and Warranties

Diatreme recognises and confirms that, in preparing the Independent Expert's Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by Diatreme, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

Diatreme represents and warrants to BDO Persons that all information and documents (including any memorandum or statement) furnished by Diatreme (either directly or through its advisers) in connection with or for use in the preparation of this Independent Expert's Report will not, at the time so furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

16.0 DISCLAIMERS AND QUALIFICATIONS

BDO KCFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO KCFQ holds a Financial Services Licence issued by ASIC for giving expert reports pursuant to the Listing Rules of the ASX and the Corporations Act 2001.

Steven Sorbello has prepared this Report with the assistance of other staff members. Steven is a Director of BDO KCFQ and has extensive experience in corporate advice and the provision of business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

This Report has been prepared at the request of the Directors to provide the Shareholders of Diatreme with information to assist them to decide whether or not to accept or reject the Proposed Transaction. BDO KCFQ hereby consents to this Report being used for that purpose. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO KCFQ.

BDO KCFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO KCFQ has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

Any forecast information relating to Diatreme which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO KCFQ cannot provide any assurance that the forecast is representative of results or outcomes that will actually be achieved. BDO KCFQ disclaims any liability in respect of any forecast information.

With respect to taxation implications of the Proposed Transaction, it is strongly recommended that individual Shareholders obtain their own taxation advice, tailored to their own particular circumstances. Nothing regarding taxation contained within this Report constitutes legal or taxation advice to the Shareholders or any other party.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. The terms of the engagement are such that BDO KCFQ has no obligation to update this Report for events subsequent to the date of this Report.

BDO Kendalls Corporate Finance (QLD) Ltd



Steven Sorbello
Director

APPENDICES:

Appendix A – Xtreme Tenement Valuation prepared by Veronica Webster Pty Ltd

Appendix B – Garimperos Tenement Valuation prepared by Veronica Webster Pty Ltd

Appendix A

Xtreme Tenement Valuation

prepared by Veronica Webster Pty Ltd

The information in this report entitled "Independent Valuation of the Mineral Properties of Xtreme Resources Limited" and dated 3 August 2007 that relates to Exploration Results, Mineral Resources and Ore Reserves is based on information compiled by Mr Les W Davis, of Veronica Webster Pty. Limited. Mr Davis is both a Fellow of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists and has more than five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Davis consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

VERONICA WEBSTER PTY. LIMITED

(Incorporated in Queensland; ACN 010 299 224)
Consultants to the Mining Industry
Les W Davis - Minerals Exploration Consultant

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POSTAL ADDRESS: P O Box 619, Hamilton QLD 4007

03 August 2007

Directors
Xtreme Resources Limited
87 Wickham Terrace
BRISBANE Queensland 4006

Dear Sirs

RE: INDEPENDENT VALUATION OF THE MINERAL PROPERTIES OF XTREME RESOURCES LIMITED

1.0 INTRODUCTION

1.1 Outline of commission

The Directors of Xtreme Resources Limited ("XRL") commissioned Veronica Webster Pty Limited ("VWPL") to prepare an Independent Valuation ("Valuation" or "Valuation Report") for the mineral properties of XRL in Queensland. The Valuation Report is an update of a similar one prepared on 17 January 2007.

The Valuation Report will be included in the Independent Expert's Report by BDO Kendalls Corporate Finance Ltd in relation to the proposed acquisition by XRL, of a mining tenement from Garimperos Limited.

1.2 Information

Mr. L Davis of VWPL has prepared the Valuation Report. He was supplied exploration reports by XRL and has been instructed to rely on the information being accurate and complete. Mr Davis has relied at his own discretion on the observations and interpretations of previous explorers, exploration consultants and XRL geological staff. However, the views and conclusions expressed in this report are solely those of VWPL and L W Davis.

L Davis has visited the majority of mineral properties of XRL in 1994, 1998, 2002, 2004 and 2006. All the major prospects have been examined in the field except the Pyramid Project.

An appraisal of all the abovementioned information forms the basis of this report.

1.3 Disclaimer

For the Yarrol Gold Deposit, the valuation is indicative only and relies on the metallurgy, geotechnical information and financial aspects affecting the project to be favourable. Until these issues are investigated, a formal valuation cannot be carried out; then, an accredited mining engineer will be needed to verify the assumptions.

The valuation of exploration properties is valid but affected by changes in strategy and new exploration results.

2.0 VALUATION SUMMARY

2.1 Brief outline of exploration and mineral properties (tenements and mining assets) of XRL.

XRL has several advanced gold and copper projects exploration areas for gold and copper in Queensland. At the majority of these, preliminary field surveys are completed and drill programs have been prepared. The prospects scheduled for drilling are:

Project	Prospects
Burdekin Gold Project	Gettysberg and Sellheim Gold Prospects
Georgetown Inlier Gold Project	Langdon River, Ironhurst and Warrigal Creek Gold Prospects
Nymbool Gold Project	Nymbool Gold-Copper and Ambrose Gully Gold Prospects
Burnett Gold Copper Project	Yarrol, Mount Steadman and Mount Cannindah Gold Prospects
Tick Hill Gold Project	Tick Hill Mine and environs

Burdekin Gold Project

The prospects which hold most promise for a large gold discovery are the Sellheim and Gettysberg prospects in the Burdekin Gold Project. Both manifest epithermal style quartz veins and are hosted within sequences that are equivalent to those hosting the deposits Pajingo, Vera Nancy, Wirralie and Yandan located further west within the Drummond Basin. The prime exploration target is high-grade gold mineralisation of the low-sulphidation epithermal style.

A low-grade gold zone containing patchy higher-grade intersections has been discovered at Gettysberg. Initial activity will be directed at the Gettysberg and Sellheim prospects and priority will be given to drilling the postulated flat plunging gold zone at Gettysberg at greater depths than previous campaigns, to test for a high-grade core within the low tenor gold zone.

At Tondarra and Tea Tree Creek exploration application areas in the Burdekin Project, preliminary prospecting is scheduled for epithermal gold mineralisation and possibly other intrusive related gold systems associated with altered Triassic volcanic centres.

Georgetown Inlier Gold Project

At the Munitions Creek prospect at Langdon River, historically, the "Carlin style" of bulk low-grade gold has always been a speculative target at Munitions Creek and the recent exploration results offer encouragement for the theory. Gold bearing graphitic sediments have been discovered in two samples. XRL will continue exploration with this focus.

Early in 2006 Diatreme Resources Limited drilled four deep, angled holes (including a re-drill) at the Ironhurst Prospect. The holes intersected low-grade gold associated with broad intersections of anomalous zinc and silver grades. This style of mineralisation, can have gold rich zones located below zones of elevated zinc and silver values. XRL considers that the high zinc and silver assays at Ironhurst may lie above a significant gold zone and that deeper drilling into the breccia pipe may be productive. The proposed future exploration program for the area will include two deep holes – reaching a vertical depth in excess of 400 m.

The Warrigal Creek Gold Prospect is a target consisting of a complex of magnetic low features resembling the magnetic low anomaly over Mount Leyshon. The magnetic features are probably related to intrusives into Mesoproterozoic sediments. Drilling of the magnetic low features is proposed.

Nymbool Gold Project

XRL plans extra drilling at the Nymbool Gold Prospect and the Ambrose Gully Gold Prospect where bulk low-grade gold mineralisation has been discovered and low grade resources have been outlined.

At the Nymbool and Burnett Projects where the gold deposit styles are intrusive related and bulk-tonnage ore bodies are being sought, XRL envisages a target gold deposit or close grouping of deposits containing at least one million ounces of gold.

The Burnett Gold Project

The Burnett Gold Project contains prospects which are characterised by gold mineralisation of porphyry or intrusive-related styles. Small measured and indicated gold resources have been defined at the Yarrol Gold Prospect and the Mount Steadman Gold Prospect. In this district, another company has a successful operation at the Mount Rawdon Gold Mine. XRL intends to further drill test the Yarrol, Mount Steadman and Mount Cannindah gold prospects.

The Yarrol resources might be commercially viable under favourable metallurgical, geotechnical, and financial conditions and XRL will proceed to investigate these issues.

At Central Ridge Prospect an in-situ (geological) indicated resource of 273 000 tonnes grading 1.5 g/t gold was estimated using a bottom cut-off grade of 0.5 g/t gold and a top cut of 20.0 g/t gold. With no top cut the grade becomes 3.1 g/t gold.

At "Yarrol North" Prospect an indicated resource of 877 000 tonnes grading 1.5 g/t gold (cut-off grade of 0.5 g/t gold) was estimated. With a higher bottom cut-off (1.2 g/t gold) the resource becomes 431 000 tonnes grading 2.1 g/t gold.

In summary the combined mineral resources at Yarrol total between some 55 000 to 69 000 ounces of gold.

It is proposed to complete a program of deeper RC drilling on the Yarrol Gold Prospect to locate extensions to the known areas of gold Mineralisation. Attention will also be paid to the continuity of higher-grade zones.

At Mount Steadman, there are drill intersections of "ore-grade" material which are outside the present shallow defined resource and there is also potential for extensions to the Mineralisation along strike and at depth.

Exploration in the Mount Cannindah EPM areas is at a much less advanced stage.

Tick Hill Gold Project

Mining was discontinued at the Tick Hill gold deposit in 1995. The average grade of the mined gold Mineralisation at Tick Hill was 22.6 g/t gold and a repetition of such mineralisation is an attractive target even at considerable depth.

Exploration is aimed at looking for extensions to the mined ore body or repetitions of similar high-grade Mineralisation in the immediate mine area.

Programs and budgets

XRL has a satisfactory and clearly defined exploration and expenditure program, which is reasonable having regard to its stated objectives, and enough exploration has taken place in the last two years to maintain the tenements.

2.2 Methods of valuation

The Yarrol established gold resources is valued using modified discounted-cash-flow-rate-of-return ("DCFRROR") procedures (Appendix I), to obtain a net present value ("NPV") for a mining project. This involves designing a mine plan and making the necessary estimates and assumptions to mine and treat the mineralisation. L Davis has done this very crudely and the valuation by this method is indicative.

All exploration areas are valued by "Expected Value" methods and the "Multiples of exploration expenditure method is considered occasionally for comparison but has not been reported. With Expected Value, a NPV target is assumed. For the mineral properties of XRL, VWPL has assigned probabilities (the cumulative probability for the NPV, less the discounted exploration expenditure) for discovering deposits for which NPVs or cash values have been estimated. Methods are described in Appendix I.

2.3 Summary Valuation Table

Project	HIGH	LOW	PREFERRED
	\$ million	\$ million	\$ million
Pyramid	0.70	0.40	0.50
Yarrol Deposit (indicative only)	1.60	0.80	1.30
Yarrol exploration	0.50	0.35	0.45
Nymbool	0.30	0.40	0.35
Mount Steadman	0.30	0.40	0.35
Tick Hill	0.50	0.00	0.25
Langdon River	0.30	0.40	0.35
Ironhurst	0.30	0.10	0.20
Warrigal Creek	0.25	0.10	0.20
Tondarra	0.25	0.15	0.20
Gooralba	0.25	0.10	0.20
Cannindah	0.25	0.10	0.20
TOTAL	5.50	3.30	4.55

Table 1 Valuations of XRL Mineral Properties.

The valuations are only valid at the date of this Valuation Report and conditional on the granting of applications for new tenements and the granting of renewal applications for existing tenements.

All estimates are in Australian dollars and rounded to the nearest A\$0.05 million.

Descriptions of valuation methods are supplied in Appendix I.

3.0 COMPARISON WITH PREVIOUS VALUATIONS

VWPL valued some of the XRL mineral properties in 1994, 2000 and 2004 at times when the gold price was considerably less and when exploration investment was very poor. Generally, the current valuation is higher, reflecting both a better exploration/mining environment and the positive results of activity since the previous valuations. Direct comparison is often meaningless.

On 17 January 2007, VWPL prepared an Independent Valuation for the mineral properties of XRL. This valuation remains valid. Examination of changes in commodity prices for gold and tin, US\$/A\$ exchange rate, and the Consumer Price Index movement, between January 2007 and 03 August 2007 (when these parameters are combined) shows that only small material changes in valuation estimates can be expected. The exploration status of the mineral properties has not changed.

4.0 SOURCES OF INFORMATION

Abundant technical information of XRL is mainly unpublished. ASX reports contain the resource figures.

5.0 DECLARATION

5.1 Qualifications and Experience

This report has been prepared by Veronica Webster Pty Limited which has operated in Australia serving the mining industry since 1980.

Mr. L W Davis who is a duly authorised representative and director of VWPL has prepared the opinion report, which includes an assessment of fair market value of the mineral tenements of XRL. Mr Davis has had over 40 years experience in the minerals industry, is a registered Chartered Professional (Geology), and is affiliated with the Aus. I.M.M., and the A.I.G. He specialises in mineral resource/reserve estimations, advanced project assessment and exploration management.

Mr. Davis has had 40 years experience in the minerals industry, particularly exploration for precious metals and base metals, mining geology, ore resource/reserve estimation and property evaluation. He held senior positions with Electrolytic Zinc Co of Australasia Limited, Freeport Minerals Corporation of Australia, Tenneco Oil & Minerals and Amad NL before joining Veronica Webster Pty Limited in 1985. Mr. Davis is a registered Chartered Professional (Geology) and is affiliated with The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

His principle qualification is Bachelor of Science (Special Geology) Leics., UK. His professional affiliations are as follows:-

Fellow -	The Australasian Institute of Mining & Metallurgy	:103477
	Chartered Professional Geology CPGeo	
Fellow -	Australian Institute of Geoscientists	
Member	-Geological Society of Australia	

5.2 Independence

Veronica Webster Pty Limited and L W Davis have no conflict of interest in preparing this report. The report has been commissioned by XRL with payment to be made for services rendered solely on a standard time-fee basis. The companies and consultants preparing this

report have no association with XRL nor have they any financial interest in or entitlement to XRL or any associates of XRL.

5.3 Limitations and requirements

The views expressed in this report are solely those of Veronica Webster Pty Limited, and L W Davis. When conclusions and interpretations credited specifically to other parties are discussed within the report, then these are not necessarily the views of Veronica Webster Pty Limited or L W Davis.

L Davis observes Section 947B of the Corporations Act 2001. In accordance with Corporations Regulation 7.6.01 (1) (u) and Corporations Amendment Regulations 2003 (No. 7) 2003 No. 202, the Valuation Report is not financial product advice but is intended to provide expert opinion on matters relevant to the mineral properties of XRL. L Davis and VWPL are not operating under an Australian financial services licence and the advice in the Valuation is an opinion on matters other than financial products and does not include advice on a financial product.

All references to mineral resources are consistent with the most recent Australasian Code (and Guidelines to the Code) for Reporting of Identified Mineral Resources and Ore Reserves: Reports prepared by the Joint Committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (JORC).

In this Report, VWPL observes the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The Valmin Code), which is referred to by the Australian Securities Investment Commission ("ASIC") and as well, ASIC Practice Notes 43 and former National Companies Security Commission Release 149 are observed.

5.4 Consents

Veronica Webster Pty Limited has consented to the inclusion of the Valuation Report in the Independent Expert's Report by BDO Kendalls Corporate Finance Ltd in relation to the proposed acquisition by XRL, of a mining tenement from Garimperos Limited.

For and on behalf of

VERONICA WEBSTER PTY LIMITED

A handwritten signature in black ink, appearing to be 'L W Davis', written in a cursive style.

L W DAVIS

BSc (Special Geology), Leics. UK, FAusIMM, FAIG, CPGeo

APPENDIX I

VALUATION PROCEDURES

1.0 Valuation Methodology

Projects, which contain indicated or measured resources from which mining reserves can be defined may then be the subject of feasibility studies based on estimations for amounts, rates and the costs of production together with the revenue defined from sales. The discounted cash-flow-rate-of-return ("DCFRROR") method may then be applied to express the value of the project in terms of present day money, often called the Net Present Value ("NPV") using a variety of interest rates. For selected cases the return on invested funds or internal rate of return ("IRR") expressed as a percentage is estimated.

Valuation of exploration tenements, which have geological prospectiveness but no defined resources, is more subjective and therefore contentious. Methods which can be applied include, when appropriate, expected value probability, multiples of past relevant and future committed expenditure, joint venture terms and points rating methods.

A brief description and commentary on some inherent advantages and disadvantages of subjective valuation technique follows.

1.1 Expected Value of Discovery (probabilistic method)

In phased exploration, a programme of work is planned to increase the value of the property. At the completion of the programme, the results are assessed and a decision is made whether or not to engage in a further programme. This process continues, ideally until there arrives a point of withdrawal or commercial discovery. At any stage, the probability of continuing or withdrawing may be forecast and also the probability of discovering various sizes and styles of mineral deposits and their NPV. The probability factors are judged by and are the responsibility of the valuer.

A simple example of the procedure is as follows. The probability factors for continuing each stage of work are multiplied together, steps 1 to 5, and then multiplied by the value of the predicted discovery. In the example, the probability for any discovery has been estimated to have a probability of 0.013 (step 5). This is about one chance in 80. The value of the overall discovery is a notional NPV, which may be a product of several possible discoveries (A, B and C, in the example). In that case each possible discovery must be considered to be a percentage of the NPV.

Activity	Probability of proceeding	Cumulative probability
1 Early exploration (committed expenditure)	100% or 1.0	1
2 Follow up activity	70% or 0.7	0.7
3 Drill testing	30% or 0.3	0.21
4 Evaluation drilling	20% or 0.2	0.04
5 Feasibility study	30% or 0.3	0.013
A Discovery NPV = \$2.0 million	80% or 0.8	0.010
B Discovery NPV = \$5.0 million	19% or 0.19	0.002

C Discovery NPV = \$20 million	1% or 0.01	0.0001
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The chance of discovery of a deposit with a NPV of \$20 million has been estimated as one in 10,000 (probability 0.0001); the chance of a discovery of a deposit with a NPV of \$5 million has been estimated as one in 500 (probability 0.002); and the chance for a discovery of a deposit with a NPV of \$2 million has been estimated as one in a 100 (probability 0.01). The value of these individual chances are \$2,000, \$10,000 and \$20,000, respectively. When added the chance is \$32,000. Exploration expenditures should be accounted for.

The method is extremely sensitive to the selected probability factors and a number of cases need to be compared. It is a useful method when there is enough geological evidence to limit the potential size of the discovery giving credibility to the relative probability for the value of a potential discovery. Other methods cannot account directly for these aspects.

1.2 Multiples of Cost of Valid Work

The present value of previous work (past expenditure method) and committed work, when it is relevant to enhancing the value of the Project and therefore warranting an objective future programme is often the first considered method for exploration projects.

Expenditure that has been assessed as relevant generally is multiplied by a factor of between 0.5 and 3.0 (the prospectivity enhancement multiplier or "PEM") to value the property at a particular stage of development. This range of PEM is common in Australia. (For higher- and lower-cost countries the factors would be different). Factors of less than 0.5 may be selected, depending on the considered potential. In our opinion factors of above 2.0 should not be used, unless strong indications of potential for economic mineralisation have been identified. This usually means that there are encouraging intersections and perhaps estimated resources.

It is common to include committed expenditure as part of that already incurred.

High levels of past expenditure are indicative usually of historical prospectiveness but at some point in time further exploration will not be justifiable. Future discoveries in properties with modest expenditure levels will be undervalued by the method. Often, when applying the method of "multiple cost of valid work" there is potential bias towards higher valuations for older projects.

1.3 Points Rating System

In this method, points are awarded for various forms of geological prospectiveness, presence of mineralisation, anomalism and structures. In addition factors are applied to account for the current financial, commodity and stock market climate. Other methods do this indirectly. This method instills a regimen so that these parameters and issues must be considered specifically and it is a useful method for comparative purposes.

1.4 Joint Venture Terms, Capitalisation of Earnings, Yardstick and Real Estate Approaches

Joint Venture Terms

The minimum commitment by a joint venture partner establishes a minimum base value for the property. In most joint ventures the incomer agrees to expend a certain sum over a specified time period to earn equity, for example:

\$2 million over a four year period to earn 60% interest

This arrangement can be used to value the property by time-discounting the money and suggesting the probability for the deal to be completed, thus:

\$2 million x 0.88 (time discount) x 0.4-0.8 (probability range) x 60%

= \$0.42 - \$0.84 million

The method does not place any upside potential on the asset. It often gives a good value estimate for situations where the vendor is under some pressure to dispose of the asset.

Yardstick Values

This method assigns a value per ounce of gold, which has been estimated to be contained on the Base Project. This must vary greatly to account for the resource or reserve classification and the assumed costs for extraction and treatment. The availability and ownership of useful plant and facilities will alter cases radically.

A range of from \$10 per ounce - for inferred underground resources - to \$40 per ounce - for open pit probable reserves - has been recognised by some valuers.

Appendix B

Garimperos Tenement Valuation prepared by Veronica Webster Pty Ltd

The information in this report entitled "Independent Valuation of the Mineral Properties of Garimperos Limited in North Queensland" and dated 3 August 2007 that relates to Exploration Results, Mineral Resources and Ore Reserves is based on information compiled by Mr Les W Davis, of Veronica Webster Pty. Limited. Mr Davis is both a Fellow of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists and has more than five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Davis consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

VERONICA WEBSTER PTY. LIMITED

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03 August 2007

Directors
Garimperos Limited
87 Wickham Terrace
BRISBANE Queensland 4006

Dear Sirs

RE: INDEPENDENT VALUATION OF THE MINERAL PROPERTIES OF GARIMPEROS LIMITED IN NORTH QUEENSLAND

1.0 INTRODUCTION

1.1 Outline of commission

The Directors of Garimperos Limited ("Garimperos") commissioned Veronica Webster Pty Limited ("VWPL") to prepare an indicative Independent Valuation ("Valuation" or "Valuation Report") for the mineral properties of Garimperos in Queensland. The Valuation Report is an update of a similar one prepared on 01 April 2007.

The mineral properties, all of which are warranted to be in good standing are:

Mt Veteran Mining Lease ("ML") No 4349 – The Mt Veteran Option Agreement with Darcy Owen dated 5 February 2007, includes the tin concentration plant and smelter, dams and camp situated on the mining lease.

Summer Hill Mining Lease Application ("MLA") – The Summer Hill Option Agreement with Ralph De Lacy dated 28th of March 2007 over an 855 ha area containing nine tin prospects.

The Valuation Report will be included in the Independent Expert's Report by BDO Kendalls Corporate Finance Ltd in relation to the proposed acquisition by Xtreme Resources Limited ("XRL"), of a mining tenement from Garimperos Limited.

1.2 Information

Mr. L Davis of VWPL has prepared the Valuation Report. He was supplied exploration data by Garimperos and has been instructed to rely on the information being accurate and complete. Mr Davis has relied at his own discretion on the observations and interpretations of previous explorers, exploration consultants and Garimperos geological staff. However, the views and conclusions expressed in this report are solely those of VWPL, L W Davis and associate Mr P N Scott.

VWPL engaged Mr P N Scott, mining engineer, of P S Associates Pty Limited to assist in the valuation of the Mt Veteran property. L Davis and P Scott visited the mineral properties of

Garimperos in March 2007 and inspected the tin lodes and treatment plants of the Mount Veteran Mining Lease No 4349 "Summer Hills".

An appraisal of all the abovementioned information forms the basis of this report. The Valuation Report may be updated and formalised at a later date.

1.3 Disclaimer

For the Mt Veteran Project-Summer Hill tin deposits is indicative only and relies on the metallurgy, geotechnical information and financial aspects affecting the project to be favourable. Until these issues are investigated more thoroughly, a formal valuation cannot be carried out; then, an accredited mining engineer and possibly a metallurgist will be needed to verify the assumptions. The project is an advanced exploration scenario.

2.0 VALUATION SUMMARY

Garimperos has two projects in the Mt Garnet district of Far North Queensland: Mt Veteran.

The region will always be one of Australia's strategic tin supplies and the resources of tin are unquestionably great. Mining will proceed as prices allow. The district has a history of small tonnage operations based on very rich mineralisation.

2.1 Mt Veteran – Summer Hill tin lodes

Garimperos have an option to purchase the project outright. The project contains a 20 tonne-per-hour treatment plant which needs about \$1 million to make it fully operational and upgrade. Nearby tin resources are available and but have to be proved with further exploration. The valuation is based on a 150 000 tonne-per-annum ("tpa") operation, lasting a minimum of seven years. Modified discounted-cash-flow ("DCF") methods have been employed from which net-present-value ("NPV") are estimated.

2.1.1 ML 4349 and contained Treatment Plant.

Garimperos have an option to purchase the 17 ha mining lease that contains a 20 tonne per hour Processing Mill and a Smelter, 300 megalitres of dam capacity, three phase power and camp and offices. VWPL has been instructed to rely on the previous (1999) on "going operation" valuation by Ellis Hughes of \$1 088 000. In April 2007, R & L Atkinson estimated a current indicative "replacement value" of \$5 000 000 to \$6 000 000.

2.2 Summary Valuation Table

Project - Prospect	HIGH	LOW	PREFERRED
	\$ million	\$ million	\$ million
Mt Veteran (100% equity)			
Summer Hill tin deposits	6.7	1.8	3.1 to 4.1
Treatment Plant	6	1.1	
Black Sparkle*	0.1	0.0	0.05
TOTAL	Not applicable**	Not applicable**	3.15 to 4.15

Table 1 Valuation of Garimperos Mineral Properties.

***Black Sparkle is protected by an ML outside EPM (Application) 14016**

**** Refer to Section 3.1.3**

The valuations are only valid at the date of this Valuation Report and conditional on the granting of applications for new tenements and the granting of renewal applications for existing tenements.

All estimates are in Australian dollars and rounded to the nearest A\$0.05 million.

Descriptions of valuation methods are supplied in Appendix I.

3.0 DESCRIPTION OF PROJECTS

This is only a brief outline of exploration and mineral properties (tenements and mining assets) of Garimperos.

3.1 Mt Veteran

3.1.1 Option Agreement

Garimperos payment requirements to the vendor are as follows:

1. \$100 – on signing of letter setting out details (dated 5 February 2007) – *completed*
2. Option Fee - \$10 000 - on signing of option agreement (dated 2 March 2007). Makes up part of the Purchase Consideration –*Completed*
3. Further Option Fee - \$100 000 - within 90 days of signing option agreement following a decision to proceed. Makes up part of the Purchase Consideration.
4. Purchase Consideration - \$490 000 – within one year of signing option agreement on making a decision to exercise the option (total Purchase Consideration is \$600 000). Additionally, 1 million ordinary shares in Garimperos or a company associated with Garimperos will be issued to Darcy Owen as part of the Purchase consideration.

Summer Hill Acquisition Agreement with Ralph De Lacey dated approximately 14 March 2007 in respect to part area of EPM (Application) 14185. Garimperos has the right to apply for a mining lease within a limited defined area of EPM 14185 which takes in the Summer Hill ridge and all the hardrock tin shows on the ridge. Garimperos is also receiving, by way of purchase, a geological and mining database of information relevant to the area. Garimperos is required to pay \$250 000 to the vendor over a staged period of time.

3.1.2 Summer Hill tin lodes

No systematic exploration of the whole potential of the Summer Hill tin field has been carried out but rather ad hoc searching for high-grade patches to fulfil the immediate requirements of the treatment facilities for cash-flow generation.

In 1985, Greg Kater and Associates Pty Ltd ("Kater") estimated the tonnes for the principle lodes in the vicinity of the treatment plant.

Dalcouth	500 000
Summer Hill	6 000 000
Tom Hood	4 000 000
Mt Veteran	700 000
Viking	2 000 000
Divide	800 000
Extended	250 000
May Day	600 000
TOTAL	15 100 000

Kater classified these tonnes as inferred and stated:-

“Recent bulk testing and past mining experience indicates head grade tenor varies between 0.15% and 1% tin overall, whilst observation of numerous exposures indicates patches of higher grades (several percentages) of tin can be easily selected for quality control of head grade.

Based on the large quantity of mineralised Lode available, there is a high probability that at least 500,000 to 1,000,000 tonnes could be produced, using careful quality control and blending, to maintain a head grade of 0.6% to 0.7% Sn.

On current exposure and development, there is sufficient resource to easily achieve this head grade by quality control at a rate of 30,000 to 60,000 tonnes per year for at least 10 years.”

In the opinion of VWPL other workers have confirmed Kater’s findings. In the last 30 years small parcels of measured and indicated resources have been estimated and some of these have been exploited. In 1988, John Sainsbury Associates estimated an indicated 815 000 grading 0.66% tin and 290 000 tonnes inferred at a grade of 0.5% tin.

VWPL believes that if Garimperos explores systematically (trenching and drilling) with a budget of \$300 000 per annum then it is possible to discover resources sufficient to provide a feed of 150 000 tonnes grading 0.7% tin, each year for several years. The valuation is accordingly based on a 150 000 tpa operation.

3.1.3 Treatment Plant and Equipment - value

Garimperos have provided VWPL with independent valuations of the Mt Veteran treatment plant and associated infrastructure. These valuations were conducted by personnel who are certified valuers of plant and machinery of this nature. The value given of \$1.1 million represents the current sale value of the plant and equipment at the site, on the basis that as sold it was removed from the site. This value was considered in the process of establishing a "low case" valuation for the plant. As a comparison, in 1994 the Jumna Treatment Plant and Equipment were appraised by Gray Eisdell Martin. Jumna mill was limited to nine tonnes-per-hour by grinding circuits. Briefly, the “Total Going Concern Value was \$1,438,000 and the Total Auction Value \$893,800”.

In April 2007, Atkinson selected a value of \$6 million for the high case which represents the cost of replacing the facility. VWPL (Mr P Scott) believes that to replace this existing plant and infrastructure with new would cost in the region of \$4 million to \$5 million and this basically agrees with the valuation by Atkinson.

The valuation of the Mt Veteran tin property provided by VWPL in all cases assumes that the current infrastructure is utilised, and upgraded. As such, only an estimated value of this infrastructure after project completion and environmental rehabilitation, is considered. This value is not comparable to the current “going concern” and sale values provided.

3.1.4 Project Valuation

VWPL stresses that a detailed mining and financial model has not been derived from classified resources under the JORC Code: it is a likely scenario based on the outcomes of previous mining ventures and the current geological information. The target tonnes of contained tin are considered probable but the exact distribution of tonnage and tenor of mineralisation has to be established by evaluation drilling and trenching. The project is an advanced exploration scenario.

3.1.4.1 Assumptions

The following case studies (with sensitivities) were examined:

Capital in pre-production year of \$2 000 000.

Mined grade – 0.5 to 0.7% Sn

Metal prices observed: July 2007 plus 15-month-forward price (also nominal US\$10 000 at the \$A/US\$ exchange rate of 0.75

Reserve - 1 000 000 tonnes ore mined in seven years; 150 000 per year.

Pre-start capital costs of \$2.0 million.

Exploration costs of \$300 000 in the first year and \$150 000 per annum.

Mine recovery of 95%.

Tin plant recovery of 70%.

Tin concentrate grade of 60%.

Mining cost per tonne \$3.25: opencut mining to 30 m.

Treatment cost per tonne \$18.

Rehabilitation of nil to \$50 000.

The resultant NPVs from a variety of scenarios ranged from \$2.0 million to \$12.6 million and our preferred range of NPV value of between \$3.1 million and \$4.1 million takes into account a high level of risk for changes in tin prices and the grade of mineralisation treated. At current economic conditions our valuation is a fair and reasonable estimate. The financial exposure to treatment plant upgrade and exploration, amounting to \$2 300 000, is an acceptable risk. Should either of the sensitivities of price and grade become very favourable then the project will escalate in value considerably. However, should the tin price fall below US\$10 000 (at the \$A/US\$ exchange rate of 0.75), then the project is only breakeven at between 0.6% and 0.65% tin reserve grade. When the operation commences, it should be possible to determine the optimum economic grades to mine with respect to the prevailing tin price.

3.2 Black Sparkle or Mt Misery (ML20224 Black Sparkle)

The Black Sparkle is a small ML with a 186 990 tonne resource of 4.1% antimony and 0.36 g/t gold. The highest grades are 11 % antimony and 2.6 g/t gold. The body is shallow with drill intercepts at 12 m below surface. The average true width is 5.74 m. The measured resource (estimated by Allegiance Mining NL in 1996) is 30 990 tonnes grading 4.68% antimony and the inferred is 156 000 tonnes grading 4% antimony.

Garimperos will research the possibility of producing a saleable product using a modified Mount Veteran plant.

4.0 COMPARISON WITH PREVIOUS VALUATIONS

In 1984, Terrence Willstead and Associates valued Mount Veteran Minerals Pty Limited at about \$4 million which included \$3 million (replacement value) for the plant and equipment (included earthworks, dams and reservoirs) and \$590 000 for the MLs (includes tin resources assumed as 100 000 tonnes grading 0.5% tin).

On 01 April 2007, VWPL prepared an Independent Valuation for the mineral properties of Garimperos Limited in north Queensland. This valuation remains valid. Examination of changes in commodity prices for gold and tin, US\$/A\$ exchange rate, and the Consumer Price Index movement, between April 2007 and 03 August 2007 (when these parameters are combined) shows that only small material changes in valuation estimates can be expected. The exploration status of the mineral properties has not changed.

4.0 SOURCES OF INFORMATION

Abundant technical information of Garimperos is mainly unpublished.

5.0 DECLARATION

5.1 Qualifications and Experience

This report has been prepared by Veronica Webster Pty Limited which has operated in Australia serving the mining industry since 1980.

Mr. L W Davis who is a duly authorised representative and director of VWPL has prepared the opinion report, which includes an assessment of fair market value of the mineral tenements of Garimperos. Mr Davis has had over 40 years experience in the minerals industry, is a registered Chartered Professional (Geology), and is affiliated with the Aus. I.M.M., and the A.I.G. He specialises in mineral resource/reserve estimations, advanced project assessment and exploration management.

Mr. Davis has had 40 years experience in the minerals industry, particularly exploration for precious metals and base metals, mining geology, ore resource/reserve estimation and property evaluation. He held senior positions with Electrolytic Zinc Co of Australasia Limited, Freeport Minerals Corporation of Australia, Tenneco Oil & Minerals and Amad NL before joining Veronica Webster Pty Limited in 1985. Mr. Davis is a registered Chartered Professional (Geology) and is affiliated with The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

His principle qualification is Bachelor of Science (Special Geology) Leics., UK. His professional affiliations are as follows:-

Fellow -	The Australasian Institute of Mining & Metallurgy :103477
Chartered Professional Geology CPGeo	
Fellow -	Australian Institute of Geoscientists
Member	-Geological Society of Australia

Mr P N Scott of PS Associates Pty Limited assisted in the Valuation Report. Mr Scott has over 26 years experience in the minerals industry, particularly mining for precious metals and base metals; has held senior positions with Otter Gold Mines Group, Normandy Group, Aztec Mining and a number of overseas mining companies. His responsibilities have frequently included the evaluation and subsequent development of open pit and underground ore bodies.

Mr Scott holds an honours degree in mining engineering from the Royal School of Mines London (UK), is an Associate of the Royal School of Mines (UK), is a Fellow of the Australian Institute of Mining and Metallurgy, a member of the Institute of Materials (UK), and is a Chartered Engineer (UK).

Mr Scott holds first class mine manager certificates for both the Northern Territory and Western Australia for the management of open pit and underground metalliferous mines.

5.2 Independence

Veronica Webster Pty Limited L W Davis and P N Scott have no conflict of interest in preparing this report. The report has been commissioned by Garimperos with payment to be made for services rendered solely on a standard time-fee basis. The companies and consultants preparing this report have no association with Garimperos nor have they any financial interest in or entitlement to Garimperos or any associates of Garimperos.

5.3 Limitations and requirements

The views expressed in this report are solely those of Veronica Webster Pty Limited, and L W Davis. When conclusions and interpretations credited specifically to other parties are discussed within the report, then these are not necessarily the views of Veronica Webster Pty Limited or L W Davis.

L Davis observes Section 947B of the Corporations Act 2001. In accordance with Corporations Regulation 7.6.01 (1) (u) and Corporations Amendment Regulations 2003 (No. 7) 2003 No. 202, the Valuation Report is not financial product advice but is intended to provide expert opinion on matters relevant to the mineral properties of Garimperos. L Davis and VWPL are not operating under an Australian financial services licence and the advice in the Valuation is an opinion on matters other than financial products and does not include advice on a financial product.

All references to mineral resources are consistent with the most recent Australasian Code (and Guidelines to the Code) for Reporting of Identified Mineral Resources and Ore Reserves: Reports prepared by the Joint Committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (JORC).

In this Report, VWPL observes the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The Valmin Code), which is referred to by the Australian Securities Investment Commission ("ASIC") and as well, ASIC Practice Notes 43 and former National Companies Security Commission Release 149 are observed.

5.4 Consents

Veronica Webster Pty Limited has consented to the inclusion of the Valuation Report in the Independent Expert's Report by BDO Kendalls Corporate Finance Ltd in relation to the proposed acquisition by Xtreme Resources Limited, a wholly owned subsidiary of Diatreme Resources Limited, of a mining tenement from Garimperos Limited.

For and on behalf of

VERONICA WEBSTER PTY LIMITED

A handwritten signature in black ink, appearing to be 'L W Davis', written in a cursive style.

L W DAVIS
BSc (Special Geology), Leics. UK, FAusIMM, FAIG, CPGeo

APPENDIX I

VALUATION PROCEDURES

1.0 Valuation Methodology

Projects, which contain indicated or measured resources from which mining reserves can be defined may then be the subject of feasibility studies based on estimations for amounts, rates and the costs of production together with the revenue defined from sales. The discounted cash-flow-rate-of-return ("DCFRROR") method may then be applied to express the value of the project in terms of present day money, often called the Net Present Value ("NPV") using a variety of interest rates. For selected cases the return on invested funds or internal rate of return ("IRR") expressed as a percentage is estimated.

Valuation of exploration tenements, which have geological prospectiveness but no defined resources, is more subjective and therefore contentious. Methods which can be applied include, when appropriate, expected value probability, multiples of past relevant and future committed expenditure, joint venture terms and points rating methods.

A brief description and commentary on some inherent advantages and disadvantages of subjective valuation technique follows.

1.1 Expected Value of Discovery (probabilistic method)

In phased exploration, a programme of work is planned to increase the value of the property. At the completion of the programme, the results are assessed and a decision is made whether or not to engage in a further programme. This process continues, ideally until there arrives a point of withdrawal or commercial discovery. At any stage, the probability of continuing or withdrawing may be forecast and also the probability of discovering various sizes and styles of mineral deposits and their NPV. The probability factors are judged by and are the responsibility of the valuer.

A simple example of the procedure is as follows. The probability factors for continuing each stage of work are multiplied together, steps 1 to 5, and then multiplied by the value of the predicted discovery. In the example, the probability for any discovery has been estimated to have a probability of 0.013 (step 5). This is about one chance in 80. The value of the overall discovery is a notional NPV, which may be a product of several possible discoveries (A, B and C, in the example). In that case each possible discovery must be considered to be a percentage of the NPV.

Activity	Probability of proceeding	Cumulative probability
1 Early exploration (committed expenditure)	100% or 1.0	1
2 Follow up activity	70% or 0.7	0.7
3 Drill testing	30% or 0.3	0.21
4 Evaluation drilling	20% or 0.2	0.04
5 Feasibility study	30% or 0.3	0.013
A Discovery NPV = \$2.0 million	80% or 0.8	0.010
B Discovery NPV = \$5.0 million	19% or 0.19	0.002

C Discovery NPV = \$20 million	1% or 0.01	0.0001
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The chance of discovery of a deposit with a NPV of \$20 million has been estimated as one in 10 000 (probability 0.0001); the chance of a discovery of a deposit with a NPV of \$5 million has been estimated as one in 500 (probability 0.002); and the chance for a discovery of a deposit with a NPV of \$2 million has been estimated as one in a 100 (probability 0.01). The value of these individual chances is \$2,000, \$10 000 and \$20 000, respectively. When added the chance is \$32,000. Exploration expenditures should be accounted for.

The method is extremely sensitive to the selected probability factors and a number of cases need to be compared. It is a useful method when there is enough geological evidence to limit the potential size of the discovery giving credibility to the relative probability for the value of a potential discovery. Other methods cannot account directly for these aspects.

1.2 Multiples of Cost of Valid Work

The present value of previous work (past expenditure method) and committed work, when it is relevant to enhancing the value of the Project and therefore warranting an objective future programme is often the first considered method for exploration projects.

Expenditure that has been assessed as relevant generally is multiplied by a factor of between 0.5 and 3.0 (the prospectivity enhancement multiplier or "PEM") to value the property at a particular stage of development. This range of PEM is common in Australia. (For higher- and lower-cost countries the factors would be different). Factors of less than 0.5 may be selected, depending on the considered potential. In our opinion factors of above 2.0 should not be used, unless strong indications of potential for economic mineralisation have been identified. This usually means that there are encouraging intersections and perhaps estimated resources.

It is common to include committed expenditure as part of that already incurred.

High levels of past expenditure are indicative usually of historical prospectiveness but at some point in time further exploration will not be readily justifiable. Future discoveries in properties with modest expenditure levels will be undervalued by the method. Often, when applying the method of "multiple cost of valid work" there is potential bias towards higher valuations for older projects.

1.3 Points Rating System

In this method, points are awarded for various forms of geological prospectiveness, presence of mineralisation, anomalism and structures. In addition factors are applied to account for the current financial, commodity and stock market climate. Other methods do this indirectly. This method instills a regimen so that these parameters and issues must be considered specifically and it is a useful method for comparative purposes.

1.4 Joint Venture Terms, Capitalisation of Earnings, Yardstick and Real Estate Approaches

Joint Venture Terms

The minimum commitment by a joint venture partner establishes a minimum base value for the property. In most joint ventures the incomer agrees to expend a certain sum over a specified time period to earn equity, for example:

\$2 million over a four year period to earn 60% interest

This arrangement can be used to value the property by time-discounting the money and suggesting the probability for the deal to be completed, thus:

\$2 million x 0.88 (time discount) x 0.4-0.8 (probability range) x 60%

= \$0.42 - \$0.84 million

The method does not place any upside potential on the asset. It often gives a good value estimate for situations where the vendor is under some pressure to dispose of the asset.

Yardstick Values

This method assigns a value per ounce of gold, which has been estimated to be contained on the Base Project. This must vary greatly to account for the resource or reserve classification and the assumed costs for extraction and treatment. The availability and ownership of useful plant and facilities will alter cases radically.

A range of from \$10 per ounce - for inferred underground resources - to \$40 per ounce - for open pit probable reserves - was recognised by some valuers, circa late 1990s.

ANNEXURE 4

DIATREME RESOURCES LIMITED

ABN 33 061 267 061

EMPLOYEES AND OFFICERS OPTION PLAN 2006

1 PURPOSE OF THE PLAN

- 1.1 The Board of Directors of the Company proposes to introduce a directors, employees and consultants option plan, to be called the Diatreme Resources Limited Employees and Officers Option Plan 2006 ("Option Plan") for the purpose of:
- (a) providing Eligible Persons with an additional incentive to work to improve the performance of the Company;
 - (b) attracting and retaining Eligible Persons essential for the continued growth and development of the Company;
 - (c) to promote and foster loyalty and support amongst Eligible Persons for the benefit of the Company; and
 - (d) to enhance the relationship between the Company and Eligible Persons for the long term mutual benefit of all parties.

2 COMMENCEMENT

Subject to approval by shareholders of the Company by passing a resolution at a general meeting authorising the establishment of the Option Plan, and to due compliance with the Corporations Act, the Option Plan shall take effect from such date subsequent to the general meeting as is resolved by the Board of Directors.

3 INTERPRETATION

- 3.1 In these Rules, unless the context otherwise requires:

"Associated Body Corporate" means a body corporate (whether incorporated in Australia or elsewhere) in which the Company holds a relevant interest (as defined in the Corporations Act and as if the body corporate was incorporated in Australia) of at least 30%;

"ASX" means Australian Stock Exchange Limited;

"Company" means Diatreme Resources Limited ABN 33 061 267 061;

"Board of Directors" means the Board of Directors of the Company from time to time acting by resolution made in accordance with the Corporations Act and the Constitution of the Company;

"Director" means a director from time to time of the Company;

"Eligible Person" means a person who is:

- (i) an employee of;
- (ii) a Director or other officer of; or
- (iii) a consultant to,

the Company or an Associated Body Corporate and, in the case of employees and consultants, includes bodies corporate;

"Listing Rules" means the Listing Rules from time to time of the ASX or other applicable stock exchange;

"Official List" means the official list of the ASX or other applicable stock exchange;

"Option" means an option issued under this Option Plan to subscribe for a Share;

"Option Plan" means the Diatreme Resources Ltd Employee and Officers Option Plan 2006 as contained in these Rules;

"Option holder" means a person who holds Unexercised Options;

"Rules" means these rules as amended from time to time;

"Share" means an ordinary fully paid share in the capital of the Company; and

"Unexercised Options" means Options issued under this Option Plan from time to time which have not lapsed under this Option Plan and have not been exercised under this Option Plan.

3.2 In these Rules, unless the context otherwise requires, the singular shall include the plural and vice versa.

4 MAXIMUM NUMBER OF OPTIONS TO BE ISSUED UNDER THE OPTION PLAN

The number of Unexercised Options issued from time to time pursuant to the Option Plan shall not exceed 20,000,000.

5 OPTION PERIODS

5.1 Options issued under the Option Plan cannot be exercised within six months from date of issue.

5.2 Options issued under the Option Plan shall be exercisable (irrespective of the respective date of grant of the Options) at any time from six months after date of issue up to the expiry date of 5:00pm (Brisbane time) on 30 June 2011.

6 EXERCISE PRICE

The exercise price of an Option issued under the Option Plan is \$0.50 (50 cents).

7 ENTITLEMENTS

Subject to the Listing Rules (if applicable), the Board shall determine the number of Options (if any) to be allocated to an Eligible Person.

8 APPLICATION

8.1 If the Board of Directors determines that Options are to be allocated to any Eligible Person under the Option Plan, that Eligible Person shall be invited to apply in his or her name or in the name of his or her nominee (provided that such nominee is approved by the Board of Directors in its absolute discretion) for all or part of the Options allocated to that Eligible Person under the Option Plan. A reference in these Rules to the nominee of an eligible person is a reference to such nominee as approved by the Board and to whom an invitation to apply in the name of that nominee is made by the Board under this subclause 8.1.

8.2 The Board of Directors retains the right to withdraw an invitation at any time prior to receiving an application from the Eligible Person to whom the invitation was made, or that Eligible Person's nominee.

9 ACCEPTANCE

- 9.1 The Company shall be obliged to accept any application made pursuant to Rule 8, provided that the application accords, in all respects, with these Rules and is for such number of Options, or part thereof, to which the Eligible Person the subject of the invitation is entitled. Upon acceptance of a duly complying application the Company, within ten business days, shall deliver an Option Certificate in respect of the Options granted to the Eligible Person.
- 9.2 Each Eligible Person (and, if applicable, his or her nominee) will be taken to agree to be bound by these Rules upon the acceptance of the offer from the Board of Directors to take up Options under this Option Plan.

10 OPTION CONDITIONS

- 10.1 No monies will be payable for the grant of the Options.
- 10.2 Each Option shall carry the right in favour of an Option holder to subscribe for one Share.
- 10.3 Options cannot be exercised within six months from date of issue of the Options.
- 10.4 The Options expire at 5:00pm (Brisbane time) on 30 June 2011.
- 10.5 The Share issued on exercise of an Option shall be issued at the exercise price calculated in accordance with Rule 6 of this Option Plan.
- 10.6 The issue price of a Share the subject of an Option shall be payable in full on exercise of the Option by the Eligible Person (or, if applicable, his or her nominee).
- 10.7 Subject to these Rules, the Options shall be capable of assignment.
- 10.8 The instrument of assignment shall be duly stamped and shall be lodged at the registered office of the Company together with such other information as the Company may reasonably require with respect to the assignment, and the Company shall enter the name of the assignee in a register of Options as the holder of the relevant Options.
- 10.9 The Company shall not be bound to recognise the assignment until a copy of the duly executed instrument of assignment is lodged with the Company.
- 10.10 Options shall not be listed for official quotation on the ASX or other stock exchange.
- 10.11 Options shall be exercisable by the delivery to the registered office of the Company of a notice in writing stating the intention of the Option holder to exercise all or a specified number of Options, accompanied by the relevant Option Certificate and a cheque made payable to the Company for the subscription price for the Shares.
- 10.12 An exercise of only some Options shall not affect the rights of the Option holder under the balance of the Options held by him or her as appropriate.
- 10.13 The Company shall issue the resultant Share and deliver notification of share holdings within five (5) business days of the exercise of an Option.
- 10.14 Shares issued pursuant to an exercise of Options shall rank from the date of issue, equally with existing Shares of the Company in all respects.
- 10.15 If at the relevant time the ordinary shares of the Company are admitted to quotation by the ASX or other stock exchange, the Company shall in accordance with the Listing Rules make application to have Shares issued pursuant to an exercise of Options listed for official quotation by the ASX or other applicable stock exchange.
- 10.16 The Option holder will be permitted to participate in any new pro-rata issue of securities of the Company subject to the prior exercise of the Options, in which case the Option holder will be notified by the Company of the proposed pro-rata issue at least ten (10) business days before the books closing date (to determine entitlements to the issue) and afforded that period to exercise the Options.

10.17 In the event of any reconstructions (including consolidation, subdivision, reduction or return) of the issued capital of the Company:

- (a) if at the time of the reconstruction any securities of the Company are admitted to quotation by the ASX or other stock exchange, the Options will be reorganised in accordance with the Listing Rules applying at the time of the reorganisation; or
- (b) if at the time of the reconstruction no securities of the Company are admitted to quotation by the ASX or other stock exchange, the Options will be reorganised in the same proportion as the underlying ordinary shares (in such a way as not to cause a change in the total exercise price for a post reconstruction holding of options, disregarding the effect of any fractions or rounding).

10.18 The Options will not give any right to participate in dividends until Shares are issued pursuant to the exercise of the relevant Options.

10.19 If at the relevant time any securities of the Company are admitted to quotation by the ASX or other stock exchange, Options cannot be granted to Directors or associates of the Company unless prior approval of shareholders is obtained in accordance with the Listing Rules.

11 RESTRICTIONS ON ALTERATIONS TO THE OPTION PLAN

The Option Plan may only be amended with the prior approval by resolution of the shareholders of the Company in general meeting. In addition, if at the relevant time any securities of the Company are admitted to quotation by the ASX or other stock exchange, Option Plan may only be amended in accordance with the applicable Listing Rules.

12 RIGHTS OF EMPLOYEES

The Option Plan shall not form part of any contract of employment between the Company and any of its employees and shall not confer directly or indirectly on any employee any legal or equitable rights whatsoever against the Company. Without limiting the generality of the following, nothing in these Rules:

- (a) confers on any Eligible Person the right to receive any Options;
- (b) confers on any person the right to continue as an employee;
- (c) affects any rights which the Company may have to terminate the employment of any employee; or
- (d) may be used to increase damages in any action brought against the Company in respect of such termination.

13 TERMINATION OF RIGHT TO EXERCISE OPTION

13.1 Subject to Rule 13.2, an Option holder's right to exercise Options under this Option Plan shall terminate within one month of the Option holder ceasing to be an Eligible Person (or, if the Option holder is a nominee of an Eligible Person, the Eligible Person who nominated the nominee ceasing to be an Eligible Person) provided that:

- (a) where an Eligible Person dies and at the date of his or her death that Eligible Person (and his or her nominees) held any Unexercised Options, such Options may be exercised by the legal personal representatives of the Option holder (or, if applicable, his or her nominees) within 12 months of the date of the Eligible Person's death; or
- (b) where an Eligible Person ceases to be an Eligible Person by reason of the cessation of employment for whatever reason, other than the circumstances referred to in Rule 13.1(d) and on the date the Eligible Person ceases to be an Eligible Person, the Eligible Person (and his or her nominees) held any Unexercised Options, such Options may be exercised at any time within 90 days or such other period, being not less than 90 days, as determined by the Board of Directors (in its absolute discretion) immediately following the date upon which the Eligible Person so ceased to be an Eligible Person; or
- (c) where an Eligible Person ceases to be an Eligible Person by reason of:

- A. the retirement of the Eligible Person at or after attaining the age of 60 years;

B. retirement of the Eligible Person before age 75 years with the consent of the Board of Directors;
or

C. ill health of, or accident affecting, the Eligible Person,

and on the date the Eligible Person ceases to be an Eligible Person, the Eligible Person (and his or her nominees) held any Unexercised Options, such Options may be exercised at any time before the expiry of 6 months from the date upon which the Eligible Person ceased to be an Eligible Person; or

(d) where an Eligible Person ceases to be an Eligible Person by reason of the Company terminating the Eligible Person's contract of service in circumstances where the Eligible Person is found to be guilty of gross misconduct, gross negligence, wilful disobedience or any other cause or matter which entitles the Company to dismiss the Eligible Person without notice and on the date the Eligible Person ceases to be an Eligible Person, the Eligible Person (and his or her nominees) held any Unexercised Options, such Options shall immediately and automatically lapse and the right of the Eligible Person (and his or her nominees) to exercise those Unexercised Options shall terminate immediately upon dismissal of the Eligible Person; or

(e) where Options have been assigned in accordance with the terms of this Option Plan and an event has occurred in respect of the original Option holder (or, in the event that the original Option holder was a nominee of an Eligible Person, then that Eligible Person) of the nature referred to in Rule 13.1(a), (b), (c) or (d), the person then the Option holder at that time shall only be entitled to exercise the Unexercised Options within the same time limits specified in Rule 13.1(a), (b), (c) or (d), but otherwise the Unexercised Options shall lapse.

13.2 Subject to compliance with the Listing Rules (particularly but not only Listing Rule 6.23 or its equivalent (if applicable), if at the relevant time any securities of the Company are admitted to quotation by the ASX or other stock exchange), the Board of Directors may, in its discretion, extend the time periods in, or waive the application of any provision of, Rule 13.1 of these Rules.

14 POWERS OF THE DIRECTORS

The Option Plan shall be administered by the Board of Directors who shall have the power to:

- (a) determine procedures from time to time for administration of the Option Plan consistent with these Rules;
- (b) subject to Rule 10 and (if applicable) the Listing Rules, amend or modify these Rules; and
- (c) resolve conclusively all questions of fact or interpretation arising in connection with the Option Plan.

15 TERMINATION OR SUSPENSION OF OPTION PLAN

15.1 The Option Plan may at any time be terminated by the Board of Directors but such termination shall not affect the rights of Option holders granted prior to such termination.

15.2 The Board of Directors may suspend the operation of the Option Plan for any period it considers desirable, but such suspension will not affect of holders of Options granted prior to such suspension.

16 LISTING RULES

If at any relevant time any securities of the Company are admitted to quotation by the ASX or other stock exchange, these Rules shall be interpreted and applied in accordance with and subject to all applicable Listing Rules.

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