2012 Annual Report

Diatreme Resources Limited

ABN 33 061 267 061

2012

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Australian Securities Exchange Ltd
Code: DRX Shares
Code: DRXO Options

CORPORATE DIRECTORY

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ABN 33 061 267 061
and subsidiaries:
- Lost Sands Pty Ltd
- Regional Exploration Management Pty Ltd
- Chalcophile Resources Pty Ltd

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Chairman's Review 2012

Your Company has been progressing on a steady course with its projects over the 2012 year, despite the serious doldrums of a stagnated market that has impacted the exploration sector. To some degree the poor market conditions are still being experienced, although there are signs of late that the exploration sector has bottomed and that confidence is starting to be restored.

In April 2012, Diatreme commenced a definitive feasibility study (DFS) over the Cyclone Zircon Project in the Eucla Basin, Western Australia, following strong positive results from a pre-feasibility study (PFS). A composite bulk sample of 12 tonnes was collected for ore characterisation, process design and product for marketing purposes generated. Infill resource drilling and initial flora / fauna surveys for the proposed access road from minesite to the Trans Continental railway were completed. Optimisation studies for the proposed mining parameters are in progress. DFS work continues despite current market conditions not being ideal. However, until the Company's financial capability improves, the larger parcels of work cannot be progressed.

Follow-up exploration on the Company's heavy mineral sand projects along the Ooldea Range in South Australia has been conducted, with drilling identifying new heavy mineral sand mineralisation at the Irish Well Prospect, in a low grade strand system. Further work is required to fully assess the economic potential of this discovery.

Diatreme secured an exploration licence application over a 50km long prospective dune system, with an anomalous radiometric signature (suggestive of zircon), in the southern Canning Basin of Western Australia. In so doing, the Company pre-empted a "pegging rush" triggered by the Thunderbird heavy mineral discovery in the northern Canning Basin, which eventually saw the entire 300km strand system pegged out by other mineral sand companies. Diatreme also secured an exploration licence application for heavy minerals at Elliston, along the southeast margin of the Eucla Basin in South Australia.

In early 2012, your Company was pleased to announce an MOU with Antofagasta Minerals Australia Pty Ltd (Antofagasta) over the Clermont Copper Project. Antofagasta is a subsidiary of Antofagasta plc, a Chilean miner producing 700kt of copper and 2Moz gold as by-product per year and are highly experienced porphyry copper experts, having many projects scattered globally. During the year Diatreme's geological teams have carried out exploration on behalf of Antofagasta, including geological mapping, re-logging of existing drill core and compilation of the large project information database. This work was designed to establish drill targets for porphyry copper mineralisation in which four prospects were identified - Gollan, Red Dog, Elektra and Savannah. Initial drilling was conducted in early 2013, and this returned results consistent with the exploration model, although no significant intersections of copper mineralisation were reported.

Company Board

Back row (L to R): Neil McIntyre, George White, David Hall

Front row (L to R): Andrew Tsang, Tony Fawdon (Chairman), William Wang

A joint venture agreement was negotiated with Braemar Iron Pty Ltd and signed off in early 2013 to explore for iron ore over the Anabama Project in South Australia. Braemar can initially earn a 51% interest in the iron ore potential by spending $500,000 over two years. Braemar can increase their interest to 70% by spending a total of $1.0M over four years.

Diatreme's efforts have been concentrated on progressing the Cyclone Zircon Project DFS, seeking to establish successful joint venture arrangements on several metalliferous projects and establishing new exploration projects within the Company's portfolio through low cost internal assessment and data reviews. The lifeblood of an explorer continues to depend upon the experience of its team members, their ability to shed shoe leather on ground and to bring hammer to bear on rocks encountered. Diatreme is well placed to meet this challenge.

Corporate Review

COMPANY BACKGROUND

Diatreme Resources Limited (Diatreme) was incorporated in 1993. As an Australian based, ASX listed, diversified mineral explorer with significant Australian projects targeting heavy mineral sands, copper, base metals and gold. The Company currently explores across three states; Western Australia, South Australia and Queensland.

CORPORATE PHILOSOPHY

Diatreme seeks to increase Shareholder value through:

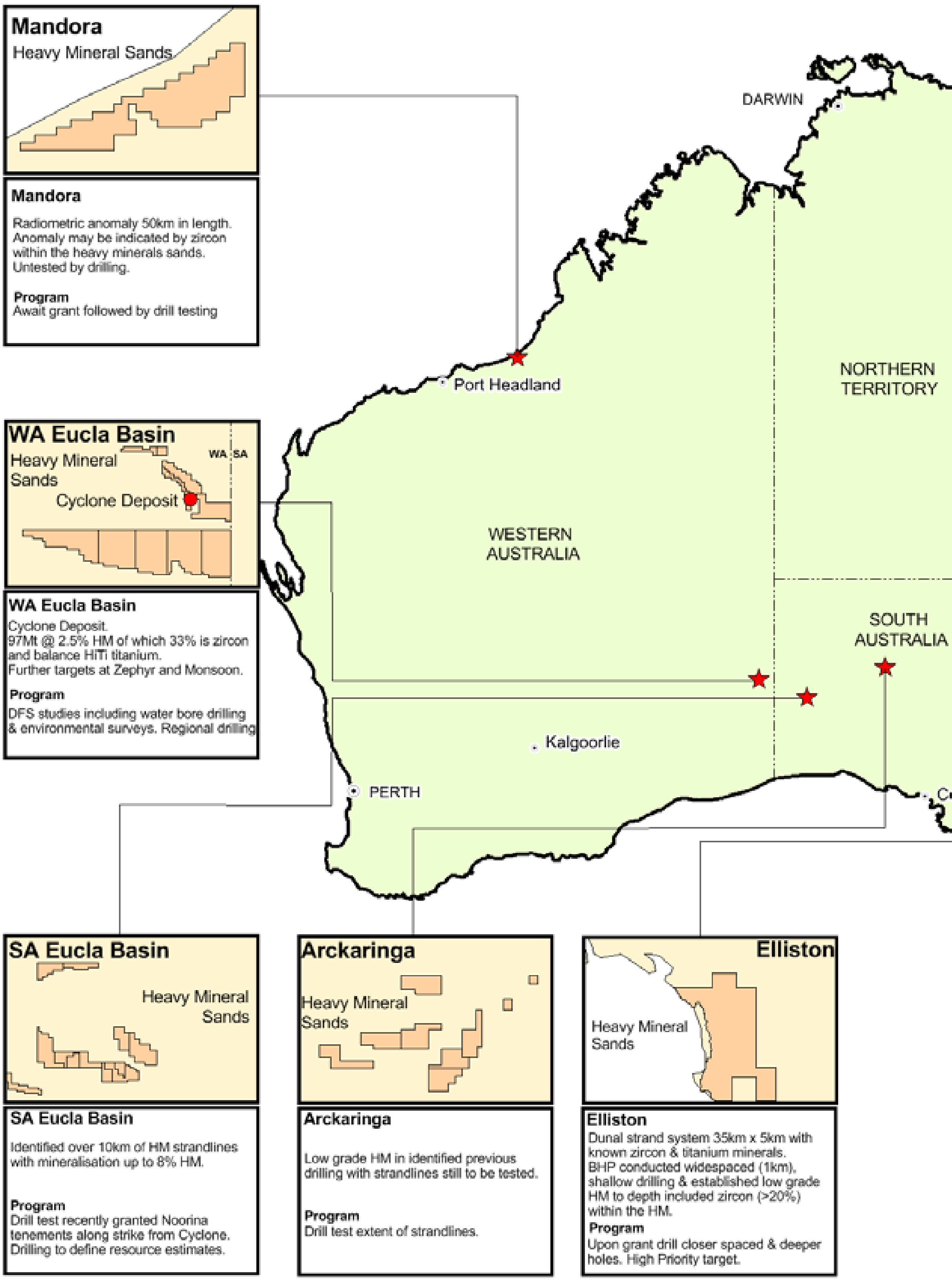
- advancement of the Cyclone Zircon Project Definitive Feasibility Study leading ultimately to mining.
- procurement of, and exploration over, highly targeted exploration holdings within established or newly emerging mineral belts.

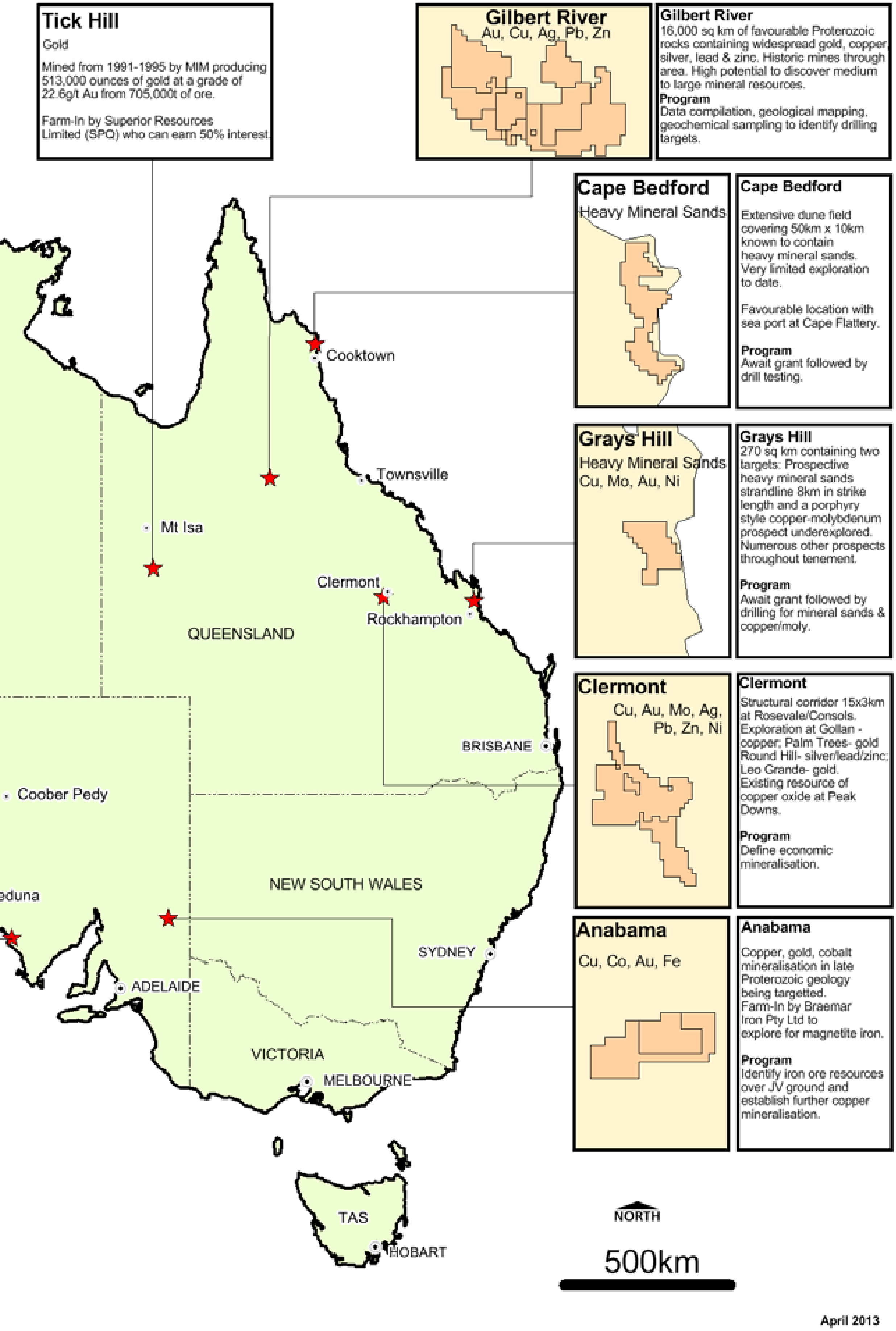
The Company aims to:

- Complete the Cyclone Zircon Project Definitive Feasibility Study.
- Advance its flagship Clermont Copper Project through both individual and joint venture participation.
- Conduct exploration over its numerous, but less advanced, heavy mineral sand, copper, base metal and gold projects in seeking to identify new mineral resources.
- Continue to organically generate and grow projects in-house, maintaining a healthy flow of new prospects, the the lifeblood of an exploration company.

DIATREME RESOURCES LIMITED

MINERAL PROJECT LOCATIONS & SUMMARY




Tick Hill
Gold
Mined from 1991-1995 by MIM producing 513,000 ounces of gold at a grade of 22.6g/t Au from 705,000t of ore.
Farm-In by Superior Resources Limited (SPQ) who can earn 50% interest.
Gilbert River
Au, Cu, Ag, Pb, Zn
Gilbert River
16,000 sq km of favourable Proterozoic rocks containing widespread gold, copper, silver, lead & zinc. Historic mines through area. High potential to discover medium to large mineral resources.
Program
Data compilation, geological mapping, geochemical sampling to identify drilling targets.
Cape Bedford
Heavy Mineral Sands
Cape Bedford
Extensive dune field covering 50km x 10km known to contain heavy mineral sands. Very limited exploration to date.
Favourable location with sea port at Cape Flattery.
Program
Await grant followed by drill testing.
Grays Hill
Heavy Mineral Sands
Cu, Mo, Au, Ni
Grays Hill
270 sq km containing two targets: Prospective heavy mineral sands strandline 8km in strike length and a porphyry style copper-molybdenum prospect underexplored. Numerous other prospects throughout tenement.
Program
Await grant followed by drilling for mineral sands & copper/moly.
Clermont
Cu, Au, Mo, Ag, Pb, Zn, Ni
Clermont
Structural corridor 15x3km at Rosevale/Consols. Exploration at Gollan - copper; Palm Trees- gold Round Hill- silver/lead/zinc; Leo Grande- gold. Existing resource of copper oxide at Peak Downs.
Program
Define economic mineralisation.
Anabama
Cu, Co, Au, Fe
Anabama
Copper, gold, cobalt mineralisation in late Proterozoic geology being targetted. Farm-In by Braemar Iron Pty Ltd to explore for magnetite iron.
Program
Identify iron ore resources over JV ground and establish further copper mineralisation.
Cooktown
Townsville
Mt Isa
Clermont
Rockhampton
QUEENSLAND
BRISBANE
Coober Pedy
NEW SOUTH WALES
eduna
SYDNEY
ADELAIDE
VICTORIA
MELBOURNE
TAS
HOBART
NORTH
500km
April 2013

Operations Report

INTRODUCTION

During 2012, Diatreme Resources Limited (Diatreme) advanced its dual portfolios of mineral sand and metaliferous projects within Australia, albeit through challenging conditions including fluctuating metal prices, government delays in the granting of new tenements and a general decline in exploration funding availability. However, the Company maintained its focus on progressing the 100% owned Cyclone Zircon Project in Western Australia, as evidenced by significant milestones being achieved in the first half of the year and evaluation of the proposed access/haul road from minesite to rail in the second half.

Reconnaissance and brownfield mineral sand exploration continued, but with on-ground activities hampered by tenement grant delays. New tenements have been applied for at Serpentine near Cyclone, Yeppoon, Mandora and Elliston providing future potential heavy mineral sand sources.

The Clermont Copper Project is advancing at a steady state, particularly under the farm-in arrangements with Antofagasta Minerals Australia Pty Ltd wherein the porphyry copper potential of the project is being explored.

A Heads of Agreement has been announced with Braemar Iron Pty Ltd for that company to conduct exploration for iron-ore mineralisation over Diatreme's Anabama Project, located within an emerging iron-ore province within South Australia. The Company maintains its own rights to continue to explore for base metals within the project.

The Gilbert River Project in north Queensland continued expansion with the inclusion of a number of new tenements. Reviews of the large quantity of historic exploration results are assisting Diatreme to target specific gold and base metal prospects for future work.

MINERAL SAND PROJECTS

EUCLA BASIN PROJECT – WESTERN AUSTRALIA

Location: approximately 720km northeast of Kalgoorlie.

Cyclone Zircon Project

The Cyclone Zircon Project is located within the Great Victoria Desert approximately 300km north of Eucla and 230km north of the Transcontinental Railway within the traditional lands of the Spinifex People (Figure 1).

Early in 2012, significant milestones were achieved as follow:

January:	Release of an upgraded resource estimate (JORC) statement.
February:	Release of a maiden ore reserve estimate (JORC) statement.
March:	Release of positive Prefeasibility Study (PFS) and decision to proceed to a Definitive Feasibility Study (DFS).

Extensive metallurgical testwork for the PFS was conducted by Mineral Technologies producing the following key outcomes:

- The wet concentrator testwork produced a high grade HM concentrate (97.8% HM) utilizing conventional mineral sand separation technology.
- The estimated distribution of zircon from the bulk sample to the wet concentrator process HM concentrate was 95.3%.
- The estimated distribution of zircon from the HM concentrate to the mineral separation plant final Zircon product was 85.0%.

- A mineral separation process has been designed to produce Zircon and two titanium products, HiTi87 (86.6% TiO_2) and HiTi67 (67.3% TiO_2).
- The testwork confirmed that conventional technology can be used in the mineral processing at Cyclone.

The primary objectives of independent laboratory testwork covering the metallurgical studies and mineral processing designs undertaken as part of the PFS (ASX release 30/01/12, including technical details) were to:

- Produce a high grade Heavy Mineral (HM) concentrate through a wet concentrator process.
- Maximise the recovery of Zircon, the major valuable mineral component of the Cyclone Project.
- Develop process flowsheets to be used in engineering designs for the wet and dry HM processing plants.

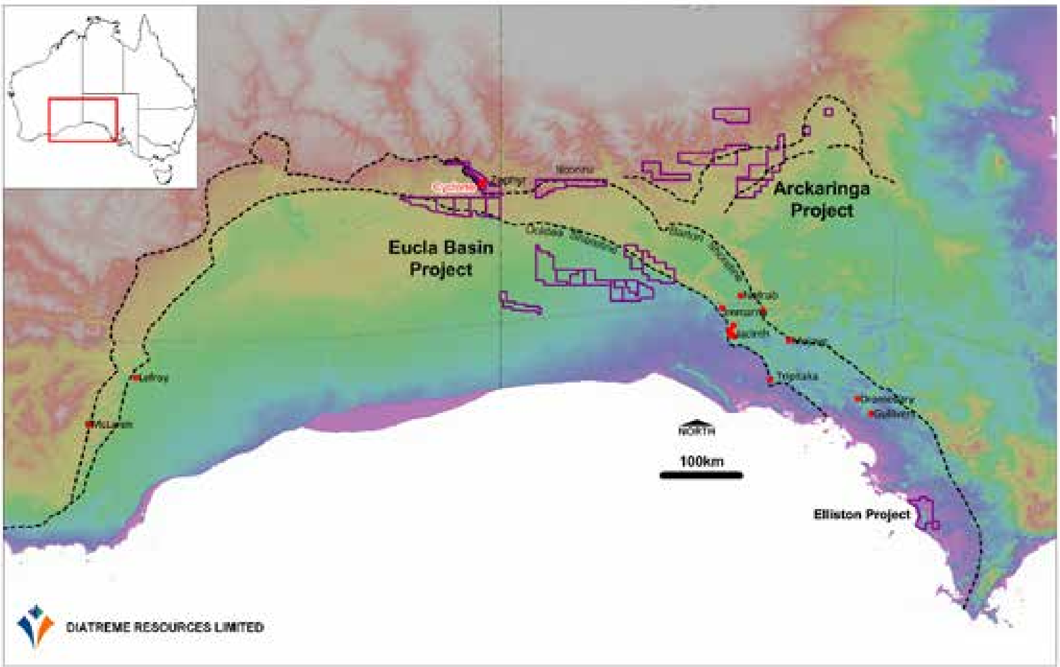


Figure 1: Project locations – Eucla Basin, Arkaringa and Elliston

In March 2012 the positive PFS results for the project boosted the prospects for Cyclone as Western Australia’s biggest new zircon deposit and DRX released the results in an ASX release on 20/03/12. The PFS indicated the potential for the project to mine 10 million tpa of ore for 10 years. Expected annual production would be 147,000 tpa of HM concentrate yielding an average of 65,000 tpa zircon, 46,000 tpa HiTi67 and 10,000 tpa HiTi87. The PFS results are underpinned by strong fundamentals for the three proposed mine products.

Cyclone Zircon Project – drilling for potential water supplies

The PFS forecast the project would generate annual sales revenue of $191 million with an operating cash flow of $78 million per annum and would contribute $35 million per annum to government tax and royalties. Financial modelling for the PFS indicated a base case net present value of $194 million and an internal rate of return of 32%, with a payback period of 2.1 years. Recent softening of forecasts for long term mineral prices will be included in updated financial modelling for the DFS. Internal and independent market analyses have indicated that all three products will be readily saleable and demand competitive prices in international markets.

Good progress was made on the DFS during 2012, however, the significant funding required to complete the study is yet to be secured and accordingly, certain sections of the study have been delayed.

The main DFS activities to be completed include:

- drilling to define the water supply for the mine and village and detailed design of the water supply system
- metallurgical testwork, process design and mineral recovery analysis for the MSP
- cultural and environmental studies for the access and haul road, design and approval
- cultural and environmental studies for approval of the mining operation including all site activities
- finalising a mining agreement with the Pila Nguru People
- approval of the mining lease and miscellaneous licences for site facilities and services
- detailed planning for site services and infrastructure including power station, airstrip and accommodation village
- finalising MSP location and arrangements with the selected port authority for mineral export
- development of a logistics plan covering mineral transport and supplies for the mine by road and rail
- upgrades to mineralogy data, the mineral resource estimate, the ore reserve estimate and the mine plan including the tailings plan
- operations planning including work rosters and fly-in fly-out details
- contracts where appropriate for project implementation and product sales

The Cyclone Deposit has now been drilled at an average line spacing of 125m for the West Strand and 140m for the East Strand, and a number of 25m spaced holes were recently drilled to provide improved edge definition of high grade strandline mineralisation. The Cyclone JORC Resource estimate including full technical details released in January 2012 comprised 136Mt at 2.3% heavy minerals at a 1% HM cut-off grade, containing 3.1Mt heavy minerals. More than 80% of the resource is classified as “Measured” Table 1.

Following completion of pit designs as part of the PFS, the Probable Ore Reserve including full technical details released in February 2012, has been estimated as 97Mt at 2.5% heavy minerals, including 0.79% Zircon in ground, containing 2.4Mt heavy minerals including 770kt of Zircon table 1. This represented a 70% conversion rate from resource to reserve. The pit design includes 109Mt of overburden and a total life of mine material movement of 206Mt with a strip ratio of 1.1:1. The strip ratio is considerably lower in the early years of the mine operation. The operation will use conventional dry mining methods and the low strip ratio, low clay content, and free dig nature of the ore allows design of an efficient mining and wet processing operation at Cyclone.

Estimation of the Ore Reserve was completed following an extensive resource drilling program, metallurgical testwork program, process flowsheet development, open pit design, and consideration of capital and operating cost estimates. Additional infill drilling and bulk sample testwork covering the first two years of the operation was undertaken during 2012. Two additional bulk samples representing later years of the mine have also been prepared and will be tested for variability during 2013. The design parameters for the open pit were developed based on simultaneous assessment of a number of economic and mining factors.

A summary of the Ore Reserves and Mineral Resources are set out in **Table 1** below.

TABLE 1: CYLONE RESOURCE & RESERVE ESTIMATE

MINERAL RESOURCE													
Resource Category	HM cut-off %	Material Mt	HM %	HM Mt	Slime %	OS %	Head Grade						Zircon Kt
							Zircon %	Rutile %	Leuc %	HiTi %	Alt Ilm %	Si TiOx %	
MEASURED	1.0	107	2.4	2.63	4.1	5.6	0.77	0.08	0.17	0.52	0.26	0.55	830
INDICATED	1.0	29	1.6	0.47	3.6	6.1	0.44	0.06	0.06	0.50	0.11	0.31	130
TOTAL	**1.0**	**136**	**2.3**	**3.10**	**4.0**	**5.7**	**0.70**	**0.08**	**0.14**	**0.51**	**0.23**	**0.50**	**950**
Mineral Assemblage							**31%**	**3%**	**6%**	**23%**	**10%**	**22%**	
ORE RESERVE													
Reserve Category	Zircon cut-off %	Material Mt	HM %	HM Mt	Slime %	OS %	Head Grade						Zircon Kt
							Zircon %	Rutile %	Leuc %	HiTi %	Alt Ilm %	Si TiOx %	
PROBABLE	0.4	97	2.5	2.41	4.0	5.1	0.79	0.08	0.17	0.52	0.26	0.56	770
TOTAL	**0.4**	**97**	**2.5**	**2.41**	**4.0**	**5.1**	**0.79**	**0.08**	**0.17**	**0.52**	**0.26**	**0.56**	**770**
Mineral Assemblage							**32%**	**3%**	**7%**	**21%**	**10%**	**23%**	

Table Notes

- *Rounding may generate differences in last decimal place*
- *A constant SG of 1.7 has been used to derive material tonnes*
- *Slime refers to material <53um*
- *OS refers to oversize material >2mm*
- *Mineral Assemblage derived from QEMSCAN® analysis*
- *Leucoxene (Leuc) – Ti-oxides containing 85 – 95% TiO2, HiTi - Ti-oxides containing 70 - 85% TiO2, Altered Ilmenite (Alt Ilm) - Ti-oxides containing <70% TiO2, Si-bearing Ti-Oxide (Si TiOx) – Ti-oxides containing >10% silica rich Ti minerals.*
- *Resources are inclusive of Reserves*

In technical terms, the Cyclone Deposit exhibits many positive features including:

- Low slimes content (clay content of ore).
- Moderate to coarse grained ore and minerals.
- High zircon content.
- Product radioactivity well below industry safety requirements enhancing their value.

Three applications for Miscellaneous Licences have been lodged over areas required for test water bore drilling programs. Hydrogeological studies have recommended that the water supply for the project is sourced from a deep aquifer in the Officer Basin, a large sedimentary basin underlying the project area with known high yielding sandstone aquifers.

A Level 1 environmental studies report on three road options for connecting the proposed Cyclone mine site to the Transcontinental Railway (Figure 2) was completed and submitted to the Department of Environment and Conservation (DEC). This environmental report is part of the process to determine an agreed access route of lowest potential impact. The preferred route will subsequently be studied in greater detail, both environmentally and culturally, prior to lodgment of an application for a Miscellaneous Licence that can be used for construction of the mine site access and haul road. Following submission to DEC of the Level 1 environmental studies report, Diatreme sought advice from DEC on future environmental studies that would support a Miscellaneous Licence application for the preferred route. The Pila Nguru People provided Cultural Heritage guidance for the Level 1 environmental report and will be closely involved in future detailed studies of the preferred route.

Discussions with the Department of Environment and Conservation (DEC) and the Environment Protection Agency (EPA) have continued regarding road options from Cyclone to existing rail sidings on the Tanscontinental railway. The project has been referred to the EPA for formal assessment under the Environmental Protection Act and the EPA has confirmed the level of assessment is a Public Environmental Review. This is a significant step for the project as the Level 1 report recommended the transport route from Cyclone to Forrest as the route with least environmental impact.

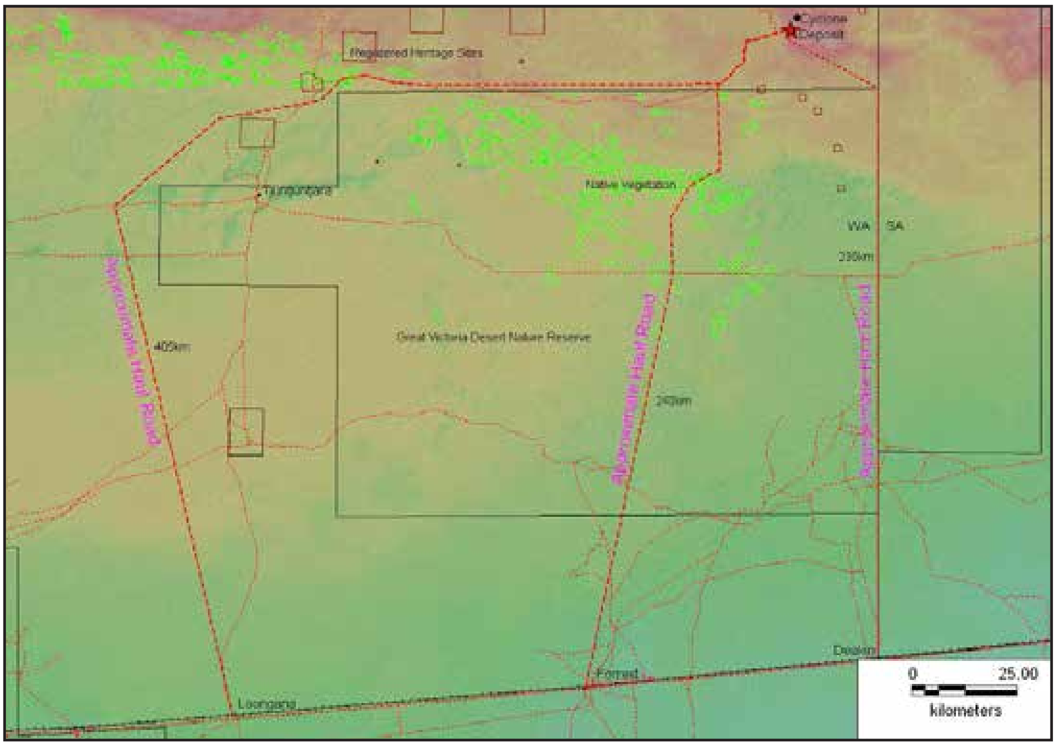


Figure 2: Cyclone minesite to Transcontinental railway Access/Haul Road options considered in Level 1 environmental studies

HM concentrate is proposed to be trucked 240 kilometres from Cyclone to Forrest where it would be loaded onto a train and transported by rail to an appropriate seaport. The concentrate would be transported and stored in containers at the seaport before being loaded into vessels for bulk shipping to an overseas mineral separation plant, possibly in China.

Metallurgical testwork by Mineral Technologies on a 12 tonne bulk sample representing the first two years of the planned operation at Cyclone has continued to make good progress on an extended schedule due to restricted funding. Metallurgical characterisation of four separate geological zones making up the sample was conducted before compositing the four zones for Wet Concentrator Plant (WCP) processing testwork. The WCP processing work has been completed and an interim report demonstrated similar valuable heavy mineral recoveries to the PFS.

The process circuit design for the WCP has been finalised. The heavy mineral concentrate (HMC) produced during the WCP testwork is undergoing MSP processing for optimisation of the process design, mineral recovery and final product quality. An improved method for assaying heavy mineral samples from Cyclone is being developed as part of the DFS metallurgical testwork program. Two additional bulk samples from areas with different mineral assemblages have been prepared for variability testing and finalisation of the flowsheet.

Regional Exploration

Over 2,000m and 70 aircore holes were completed over the regional tenements with the aim of locating further heavy mineral sand resources. Apart from additional drilling completed over the Zephyr Deposit (2km northeast of Cyclone), reconnaissance drilling did not identify significant mineralisation, resulting in large tracts of ground being relinquished north and northwest of Cyclone.

EUCLA BASIN PROJECT – SOUTH AUSTRALIA

Location: approximately 400km northwest of Ceduna.

Noorina

Two new exploration licences, EL 5045 (Noorina 1) and EL 5046 (Noorina 2), were granted to the Company in late 2012. The tenements, which lie 80km to the east of the Cyclone Deposit, cover approximately 1,340km2 and extend for a strike length of 100km along the ancient Barton shoreline, which hosts the Cyclone deposit. With cultural heritage surveys completed and drill access lines in place, an aircore drilling program with the Company's own rig is planned for 2013.

With Iluka Resources having completed extensive, but unsuccessful, drilling to the south of the project area, the Company's tenements are deemed highly prospective for heavy mineral sands due to their geological position in the sequence.

Ooldea Range

Work conducted by the Company over a number of field seasons has methodically tested for heavy mineral sands along the 200km extent of the Ooldea Range. As a result, prospectivity for locating significant accumulations of mineral sands has been reduced to limited areas within EL 3615 and 3616. Mineralisation has been discovered within EL3616 along three parallel strandlines known as the Irish Well Prospect. Heavy minerals are generally low in grade and relatively deep. However, there is potential for higher grades to be developed within the prospect. Further assessment is required.

ARCKARINGA PROJECT – SOUTH AUSTRALIA

Location: centred approximately 250km northwest of Coober Pedy.

Following relinquishment of a number of exploration licences within the eastern sector of the project area in 2011, a further five licence applications (ELs 5146 to 5150) have now been granted to Diatreme within the western sector. Exploration will continue along stratigraphic units favorable for the development of beach sands containing heavy mineral.

MANDORA PROJECT – WESTERN AUSTRALIA

Location: approximately 250km northeast of Port Headland.

Exploration licence application (E45/4022) covers 471km2 and is located on the western limits of the Great Sandy Desert (Figure 2). The local marine sediments are believed to be Quaternary in age, deposited on a coastal plain. A prominent radiometric anomaly, 50km in length, is located within the project area (Figure 3) and may be due to the existence of zircon within the heavy mineral bearing sands beneath the coastal plain. Once the tenement is granted, the area will be subject to drill testing with the aim of locating a significant heavy mineral sand deposit.

Mandora Project - Landscape

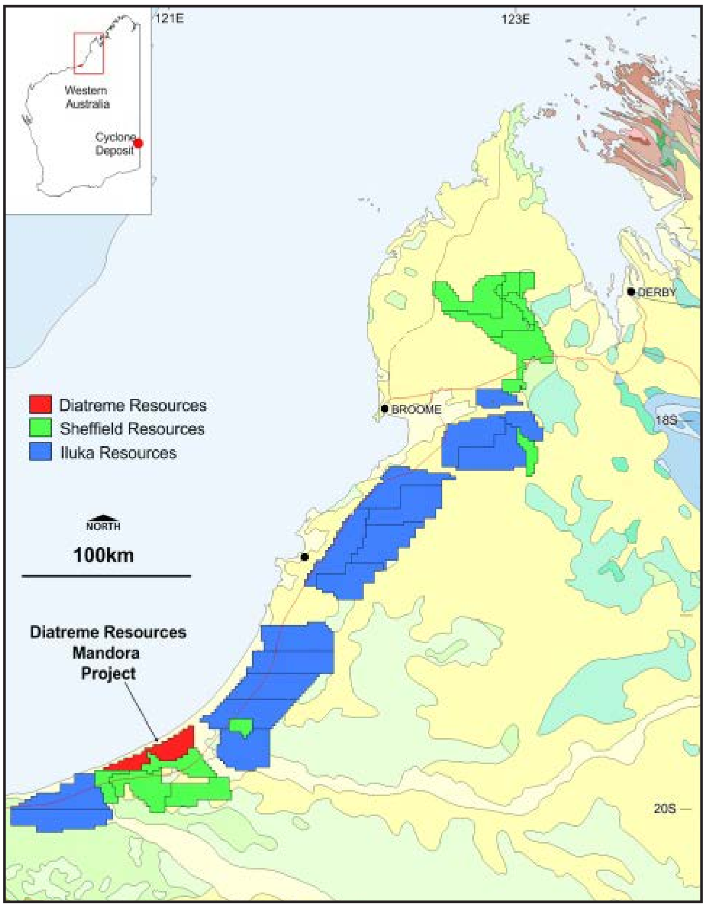


Figure 2: Mandora Project Location Map

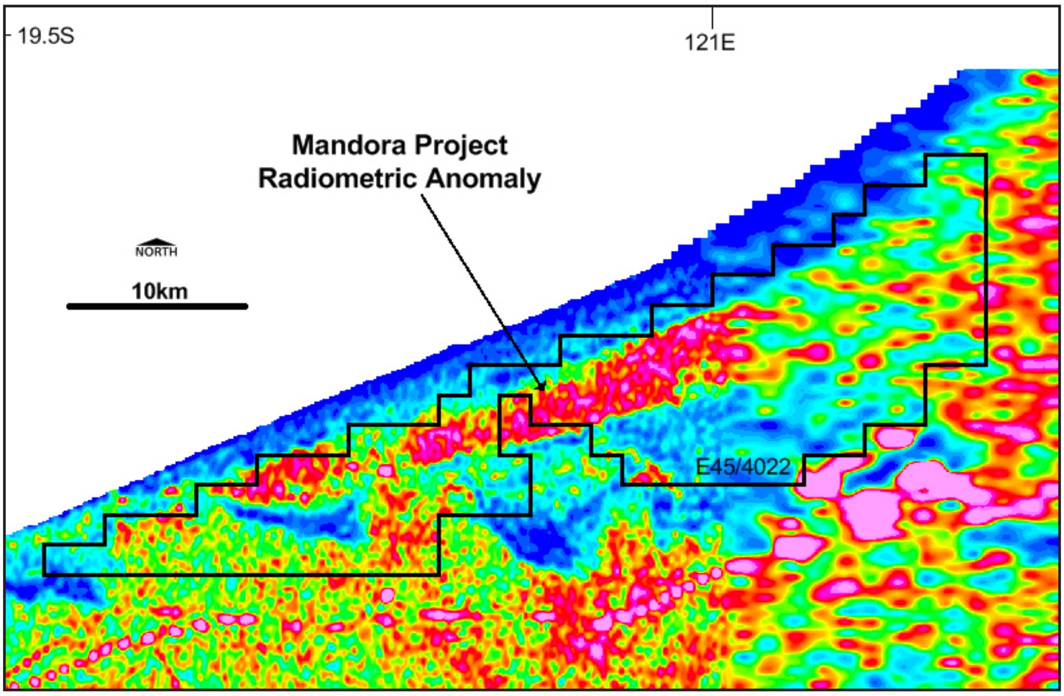


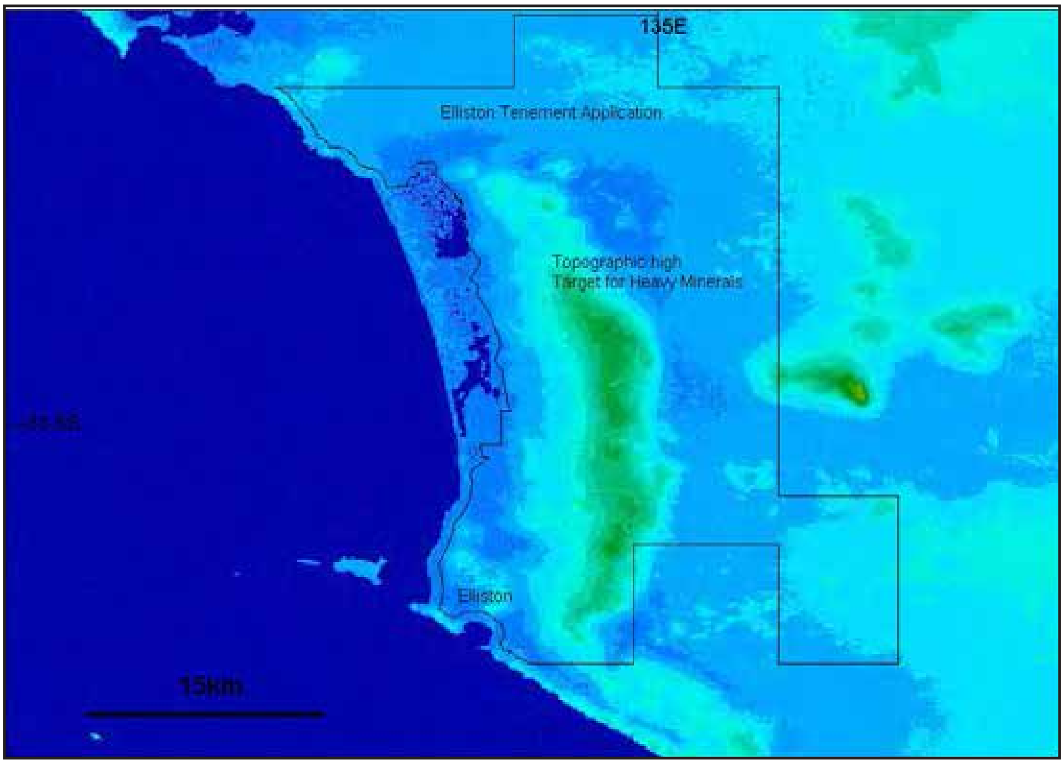
Figure 3: Mandora Project – Radiometric anomaly

ELLISTON PROJECT – SOUTH AUSTRALIA

Location: approximately 190km southeast of Ceduna.

The Elliston Project comprises an exploration licence application (ELA 2012/327) covering 994km2 in the far southeast of the Eucla Basin (see Figure 4).

The Company's primary area of interest is in the zircon potential within the 35km long, 5km wide, topographic high which is known to contain heavy minerals from work completed by BHP in 1990. BHP were searching for rutile but their exploration indicated high zircon contents within a number of drill holes which require follow up drilling. This tenement is deemed highly prospective and will require drill testing.



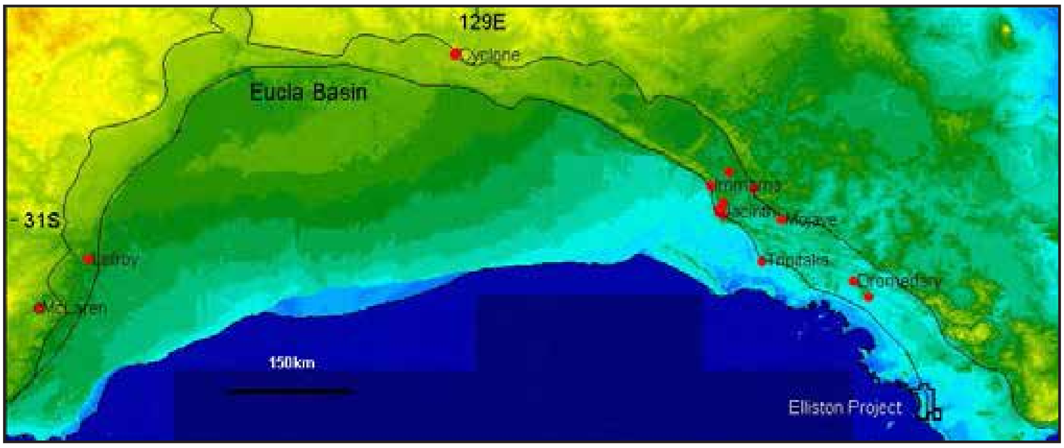


Figure 4: Elliston Project tenement application in the southeastern section of the Eucla Basin overlaid on DEM background showing the topographic high target for mineral sands.

CAPE BEDFORD PROJECT - QUEENSLAND

Location: approximately 40km north of Cooktown.

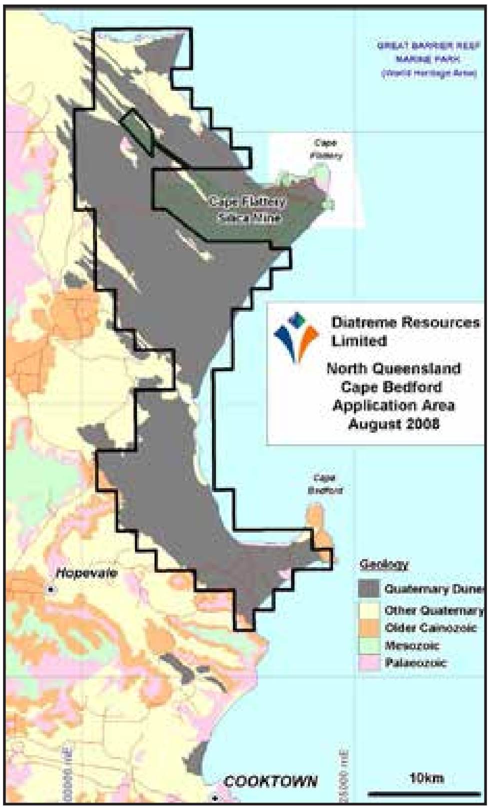


Figure 5: Cape Bedford Project EPM(A) 17795

The Cape Bedford project area (Figure 5) is dominated by an extensive Quaternary sand sheet measuring 10km by 50km. The dunes have an average height of 50m (some over 100m high) and are known to contain heavy minerals from limited previous exploration. Site visits to the area also confirm the presence of heavy minerals within the area.

Grant of the tenement is awaiting consent from the area's traditional owners, following which Diatreme can commence detailed exploration. An existing sea port exists at the nearby Cape Flattery Silica sand mining operation.

Cape Bedford Project - HM shedding from coastal dune system.

Cape Bedford Project – coastal sand dune systems

GRAYS HILL MINERAL SANDS - QUEENSLAND

Location: approximately 45km northeast of Rockhampton.

Exploration Permit for Minerals (EPM) 25117, covering 272km2, has been applied for over an area which is prospective for heavy mineral sands mineralisation and has known occurrences of porphyry copper/molybdenum mineralisation (refer Metalliferous Section of report).

The project area lies to the south of known heavy mineral sand deposits and was previously subject to exploration during the 1960's, 70's and 80's for copper and molybdenum. Little, if any, exploration has been undertaken in the region since 1985.

A prominent basement lineament (which may have once been a shoreline) sits at +20m above the current sea level for a length of approximately 8km in a north south direction and 6km inland from the present coastline. The zone is deemed prospective for the development of heavy mineral sand concentrations and requires drill testing once the tenement is granted.

METALLIFEROUS PROJECTS

CLERMONT PROJECT - QUEENSLAND

Location: centred approximately 20km west of Clermont.

The Company has been methodically exploring within the highly mineralised Clermont Project area (Figure 6) for many years. Over that time it has identified:

- Porphyry style copper, gold and molybdenum mineralisation.
- Mesothermal gold (vein) mineralisation.
- Regional VTEM and Banded Iron Formation (BIF) targets.
- Altered greenstones displaying nickel mineralisation

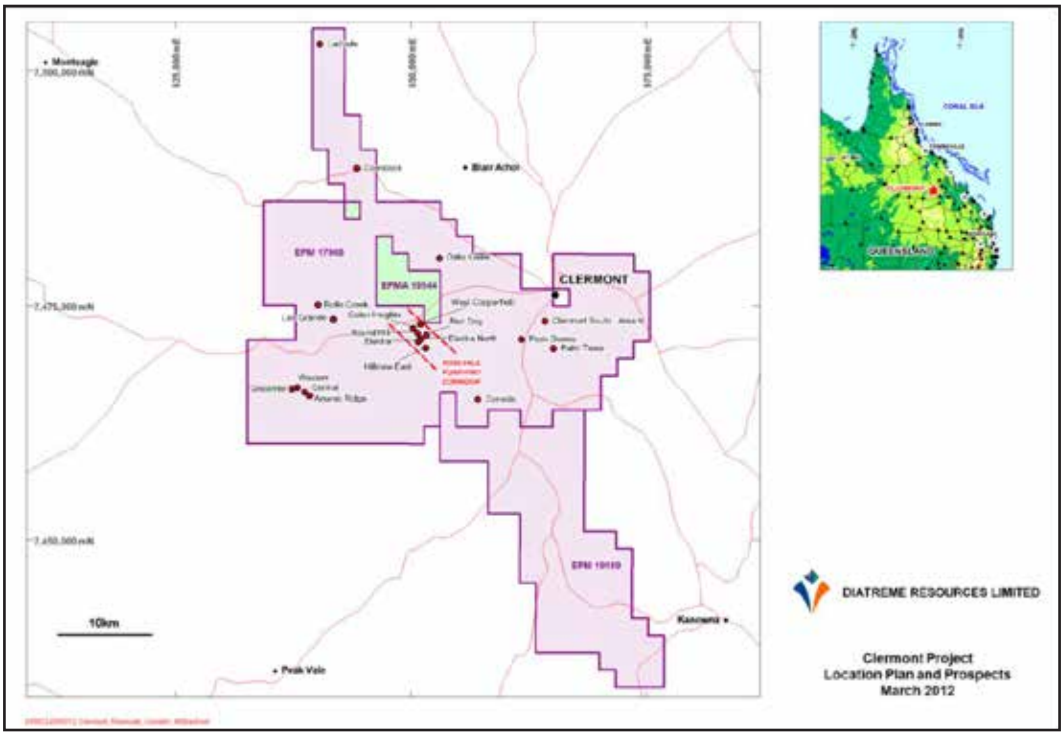


Figure 6: Clermont Project Location Map showing prospects

Rosevale Project

Early in 2012, the Company entered into a Memorandum of Understanding (MOU) with Antofagasta Minerals Australia Pty Ltd (Antofagasta) in respect to a proposed farm-in over the Clermont Project, comprising three exploration permits (EPM17968 Clermont; EPM19189 Parapet and EPMA19544 Expedition Creek) and specifically targeting the Rosevale Project (Rosevale) for porphyry style copper mineralisation.

Discovered by the Company in 2008, Rosevale was identified as having potential for large buried porphyry copper - gold - molybdenum mineralised systems. Significant exploration has been conducted since initial discovery, including geological mapping and sampling, ground geophysics and over 6,000m of diamond drilling. This effort was successful in discovering mineralisation at a number of individual prospects within Rosevale, and many prospects require further drill testing.

Under the MOU, Antofagasta has expended US$400,000 during the initial six month assessment phase, mainly over Rosevale. This work, managed and conducted by the Company's own exploration team, has included geological outcrop mapping, relogging of all existing diamond drill core and reprocessing and assessment of the existing project database. The initial phase was designed to define subsurface targets for further evaluation through drilling, and to improve upon the geological understanding of the project tenements as a whole, from an exploration and resource perspective.

Antofagasta and the Company renegotiated certain terms and commitments as part of the execution of the Farm-In Agreement in January 2013 as follow:

- Demarcate areas of the tenements deemed prospective for copper mineralisation as "the defined area of interest".
- Antofagasta to earn a 51% interest in the defined area of interest by funding US$8 million in exploration expenditures over a four (4) year period.
- Antofagasta has the right to withdraw from the defined area of interest without earning any interest after spending up to US$1.5 million within the first year, subject to a minimum expenditure commitment of US$700,000. After meeting the US$700,000 commitment, Antofagasta may continue to spend, but can withdraw at any time without earning any interest.
- On earning its 51% interest in the defined area of interest, Antofagasta has the option to earn, at its sole expense, an additional 9% interest (total 60%) by delivering a JORC-compliant inferred resource and completing a scoping study on at least one mineral deposit.
- The vested interests in the defined area of interest of the parties upon completion of a JORC-compliant inferred resource and scoping study would be Antofagasta 60% and DRX 40%.
- Forward expenditure at this stage would be prorata, with industry standard dilution practices being applied.
- Should Antofagasta decide to withdraw from the project after vesting at 51%, DRX will retain management control of the defined area of interest and will dilute Antofagasta's interest in accordance with industry standard practice.
- If either party dilute to less than a 10% interest, then the diluted party shall relinquish its equity position and revert to a 1.5% net smelter return royalty.
- DRX will be the operator in the Farm-in Phase of the project.
- Under certain circumstances, DRX will have the right to reacquire a 100% interest in the defined area of interest by reimbursement to Antofagasta of 150% of all defined area of interest related exploration costs incurred during the farm-in period.

The US$700,000 exploration budget has now been applied (March 2013) with completion of a reverse circulation (RC) and diamond drilling over three prospects - Gollan, Red Dog and Elektra. At the Gollan Prospect, affinities with the Cadia Ridgeway (NSW) host rock alteration styles have been identified. Results of the early drilling are still being assessed.

With significant improvements in metal prices over the past few years, the Company is addressing future directions for its historic Peak Downs Copper Mine area situated 6km south of Clermont. A small but significant oxide copper resource is present, with a number of historical resource estimations having been determined in the past. The Company is looking at determining a mineable reserve based upon developing a workable open pit to capture the thickest and highest grade portions of the existing oxide copper mineralisation. A reasonable expectation exists for a mineable reserve to have a very low strip ratio, due to the shallowly dipping nature of the host schists and the lateral dispersion effects of supergene mineralisation.

A program of metallurgical testwork is required to determine metallurgical characteristics of the mineralisation and to allow more detailed modelling of probable heap leach and solvent extraction parameters.

Consols and Savannah Prospects

Clermont Project – Night diamond core drilling

The Consols and Savannah Prospects, situated within 10km of Rosevale, exhibit a very large alteration system, also with affinities to the Cadia Ridgeway system currently being mined in NSW by Newcrest. Detailed geological mapping at the Consols and Savannah prospect areas has demonstrated that the epidote alteration and veining at the Consols Prospect extends east for 3.3km and is about 1.25km across in a north-south direction. A second zone of epidote alteration occurs at Savannah, south of Consols, and is over 2km long by 800m across.

Alteration is consistent with hydrothermal activity above and around hidden intrusive bodies, and the mineralisation at Consols and Savannah is consistent with mineralised fluids mobilised from such intrusives into structurally controlled sites in the higher parts of the hydrothermal system. It follows that these two alteration areas are significant targets for further exploration.

ANABAMA PROJECT – SOUTH AUSTRALIA

Location: approximately 280km northeast of Adelaide.

Copper, gold and cobalt mineralisation covering an area of 3km x 200m and open ended, exists at the historic Anabama Mine, in South Australia. Over a number of years, DRX has conducted exploration to delineate the Anabama Prospect along with a number of known VTEM survey defined targets that requiring deep drill testing.

The magnetite potential of the Braemar Iron Formation within the project area is shaping up as an important target for investigation and is considered to be the next upcoming major iron ore province within Australia to see development. A number of significant discoveries of magnetite iron deposits (Figure 7) have already been discovered in the area.

The formation, located between Broken Hill (NSW) and Peterborough (SA), is thought to exist over 30km of strike length within the project area. To this end, DRX, through its wholly owned subsidiary, Chalcophile Resources Pty Ltd (Chalcophile) concluded a Heads of Agreement (HOA) with Braemar Iron Pty Ltd (Braemar) in January 2013 for Braemar to explore the southern tenement areas for iron deposits.

Under the joint venture operations of Braemar, it is initially expected that detailed aerial magnetic surveys will be employed to assist targeting areas for follow-up ground reconnaissance and drilling.

Braemar has the right to acquire up to 70% of the right, title and interest in the Anabama Iron Project ("Iron Project"), within the Anabama Project tenements, by contributing funding and conducting exploration work in furtherance of the Iron Project on the following terms:

- Braemar is appointed as the initial operator of the Iron Project.
- Phase 1 commitment: Chalcophile grants Braemar the right to earn 51% of the right, title and interest in the Iron Project in consideration for Braemar contributing funding of $500,000 and conducting exploration work in furtherance of the Iron Project within 24 months from the date of the HOA.
- Phase 2 commitment: Subject to the completion of Phase 1, Chalcophile grants Braemar the right to earn a further 19% of the right, title and interest in the Iron Project in consideration for Braemar contributing funding of a further $500,000 and conducting exploration work in furtherance of the Iron Project during the 12 month period after the end of Phase 1. Any expenditure in excess of $500,000 during Phase 1 shall be credited against the $500,000 exploration work commitment for Phase 2.
- At all times throughout Phase 1 and Phase 2, Chalcophile will retain all of the right, title and interest in the Licences (other than the rights to earn interests in the Iron Project granted to Braemar in the HOA), and will continue to undertake exploration activities on the land comprising the Licences under the Anabama Copper Project.
- Minimum Commitment: Braemar will commit a minimum of $250,000 to the Iron Project, with substantially that amount being expended within the first 12 months of Phase 1. At any time after Braemar has made the minimum commitment to the Iron Project, Braemar may, by written notice to Chalcophile, elect to withdraw from the Iron Project. In the event that Braemar makes the election to withdraw from the Iron Project they will be relieved from their remaining Phase 1 commitment and the Phase 2 commitment and the HOA will be terminated.
- Completion of Phase 1 and Phase 2: Upon completion of Phase 1 and Phase 2, both Chalcophile and Braemar may either elect to contribute further funds to the Iron Project on a pro-rata basis or to sell all or a percentage of their right, title and interest in the Iron Project to the other at a price to be agreed between the parties.
- If Braemar has earned a 51% interest in the Iron Project by completing the Phase 1 commitment and does not proceed to earn an additional 19% interest by undertaking and completing the Phase 2 commitment, or if Braemar has earned a 70% interest by completing the Phase 2 commitment, unless either party has sold its interest, the parties will contribute further funds to the Iron Project pro-rata to their respective interests.
- In the event that either party's right, title and interest in the Iron Project reduces to 10% or less, that party will be entitled to a 3% net profit royalty on any return of the Iron Project but will not be entitled to any other right or interest in the Iron Project.
- The Iron Project Area may be amended from time to time, as agreed between the parties to reflect discoveries by either party of iron or non iron mineralisation within the area of the Licences. The parties may each explore over the Project Area but undertake to not unduly interfere with the exploration activities of the other party.
- With Chalcophile undertaking exploration under the Anabama Copper Project and Braemar undertaking exploration under the Iron Project, the parties acknowledge that where the respective target mineralisation is comingled, then the non iron project has priority.

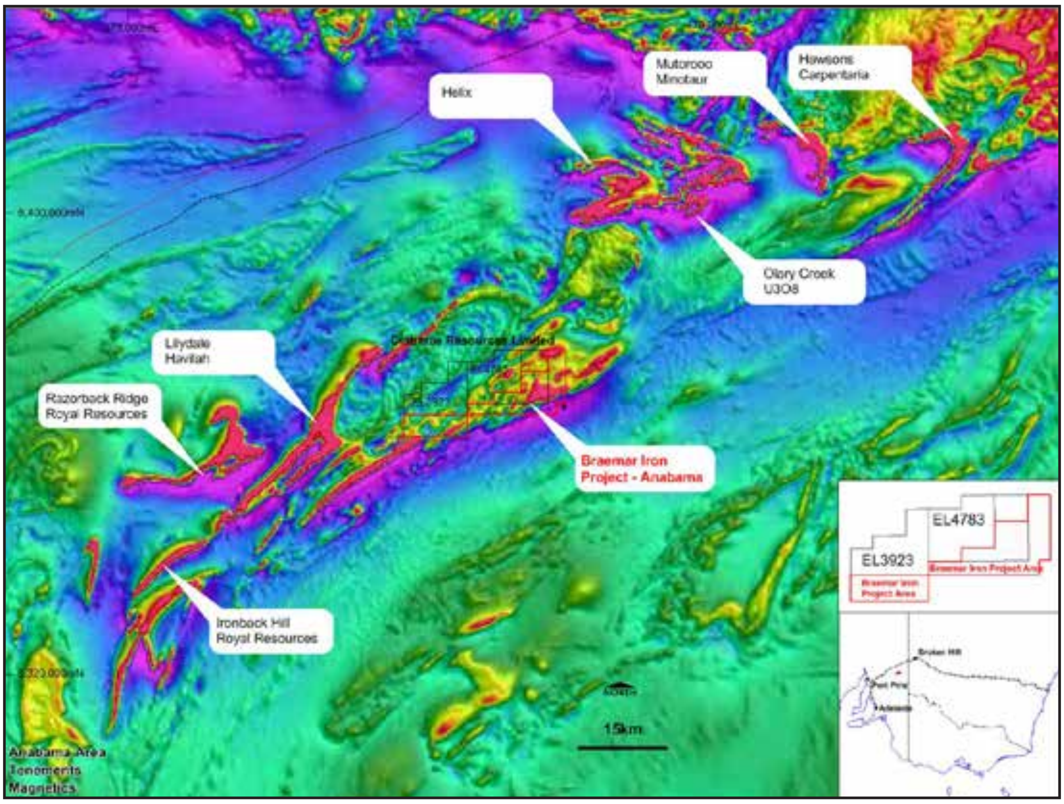


FIGURE 7: Location of the Braemar Iron Project within the Anabama Copper Project tenements in South Australia showing known iron prospects/deposits over an aerial magnetics background.

GILBERT RIVER PROJECT - QUEENSLAND

Location: approximately 340km west of Townsville.

The Gilbert River Project comprises five contiguous granted Exploration Permits for Minerals (EPM) and three contiguous EPM applications covering approximately 1,600km2 located to the west of the Kidston Gold Mine. (Figure 8).

The tenements are prospective for gold, silver, copper, tin, tungsten and base metals deposits. Many deposits in the area are relatively small in size, but there remains potential for amalgamation of resources through a number of mines feeding a central processing plant operation.

Gilbert River Project – Exploration Manager, David Jelley, inspecting mineralised rocks outcrops at the 12 Mile Prospect

There have been many companies exploring the area over the years and a number of well known prospects are present requiring follow up. These prospects include Ortona, Big Bend/The Saddle/Black Hand, and 12 Mile/Carsons/Castle. Numerous other prospects require review and manipulation of the extensive geological database with ground reconnaissance for target generation.

DRX has continued reconnaissance fieldwork during the year through geological mapping over the historic Ortona mine area and workings further west towards the Gilbert River in an area known as Big Bend. Rock chip samples were collected for geochemical and petrographic study late in 2012 confirming the area as prospective and warranting drill testing.

A detailed program of prospect evaluation over the whole tenement package is forecast in 2013 to outline additional drill targets.

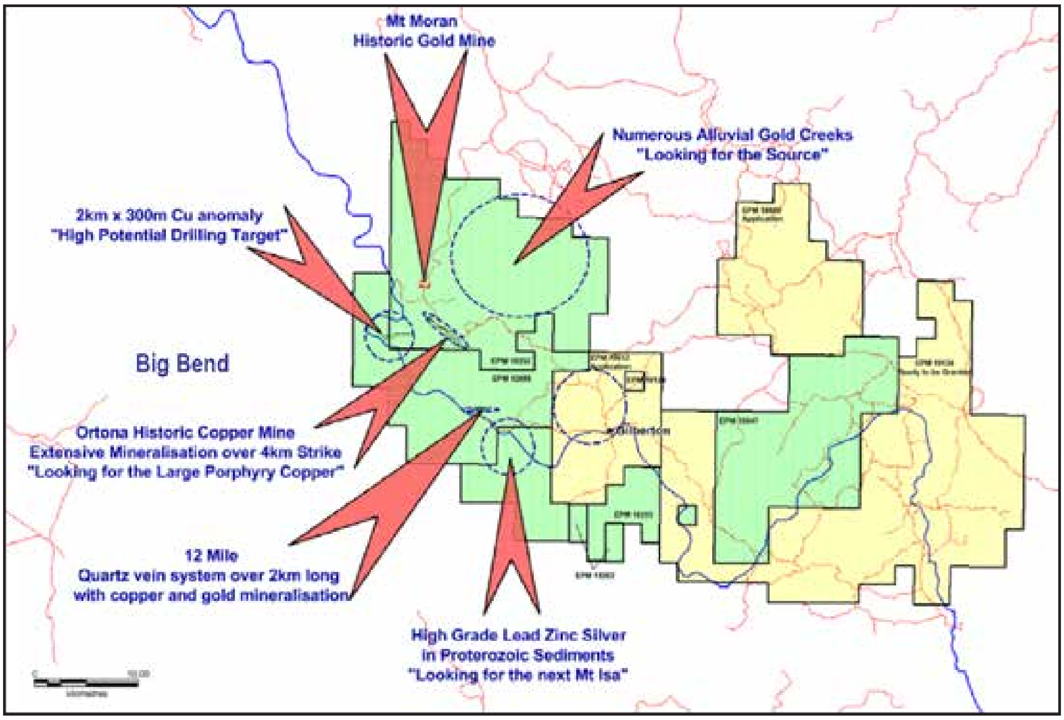


Figure 8: Gilbert River Project showing currently identified prospect areas – granted tenements in green and applications in yellow

TICK HILL GOLD PROJECT - QUEENSLAND

Location: approximately 110km southeast of Mt Isa.

The original Tick Hill Gold Deposit was mined between 1991 and 1995 by Carpentaria Gold Pty Ltd (a subsidiary of MIM Holdings Limited) for the production of 513,333 ounces of gold from 705,000 tonnes of ore at a recovered grade of 22.6 g/t gold (MIM Holdings Limited - Annual Reports). This makes it one of the highest grade gold deposits in Australia's recent gold producing history.

The farm-in agreement announced in August 2011 with Superior Resources Limited (ASX:"SPQ") over the project remains on track, but pre-conditions forming part of the agreement remain to be satisfied, due partially to government processing delays. It is still not certain when all the pre-conditions will be met allowing SPQ to commence its planned exploration activities.

During the year, the Mining Leases (MLs 7094, 7096, and 7097) were each renewed for further ten year terms to 30 June 2021. Following the satisfaction of this pre-condition, the completion of the mining lease transfers to DRX is now awaited, a further pre-condition of the farm-in agreement.

The agreement between DRX and SPQ gives SPQ the right to earn a 50% interest in the project by:

- Completion of $750,000 of exploration including substantial drilling;
- Payment to DRX of $100,000; and
- Lodgement of 50% of the government security bond on the tenements.

SPQ's prime purpose is to define a high-grade gold resource similar to that previously mined. SPQ have identified a fault near the bottom of the previously mined gold shoot with the possibility that the gold shoot may exist at depth in an offset position from the previously mined area. SPQ plan to drill areas containing the possible offset extension of the mined shoot. Additional exploration will include assessment of other potentially gold bearing areas with the mining leases, testing of tailings from the previous mining to determine if these contain sufficient gold to warrant reprocessing, assessment of potential alluvial resources and investigation of the grad of old mine dumps.

GRAYS HILL PORPHYRY - QUEENSLAND

Location: approximately 45km northeast of Rockhampton.

At the Grays Hill Project in central Queensland, an area prospective for both heavy mineral sands and porphyry copper-molybdenum style mineralisation was secured under a tenement application

The project area was previously subject to exploration during the 1960's, 70's and 80's, but little, if any, exploration has been undertaken in the region since 1985.

The Wasp Porphyry Prospect, discovered in 1969 and explored until 1985, lies immediately behind the basement lineament identified in the Grays Hill heavy mineral sands project (described in a previous section of report). Although this prospect has been subject to previous geochemical sampling, geophysics and drilling it remains prospective for porphyry style mineralisation using modern exploration techniques. With low grade mineral intersections resulting from drilling by Kennecott Explorations (Australia) Pty Ltd (five diamond and 21 reverse circulation drillholes) and Oremco (Aust) Pty Ltd (nine diamond drill holes) further testing is warranted over this prospect along with other prospects in the region. The sulphide system covers an area of 10km2 with mineralisation associated with a poorly exposed granodiorite stock and numerous related breccia pipes.

To date, sulphide mineralisation consists of massive to disseminated pyrite and locally deposited mineralisation along fracture zones. Chalcopyrite (copper), molybdenite (Mo), galena (lead) and sphalerite (zinc) are also present within fracture zones.

Through information research and high level remote sensing data reviews, DRX has been able to identify valid porphyry copper / molybdenum systems and considers the Wasp Porphyry Prospect to have the potential to host a large economical mineralised system.

TERM DEFINITIONS

Text term	Definition
g/t	grams per tonne
HM	Heavy minerals such as Zircon, Rutile, Ilmenite and Leucoxene
JORC	Joint Ore Reserves Committee
Kt	kilo tonne
Mt	million tonne
tpa	tonnes per annum
um	micron

COMPETENT PERSON STATEMENTS

The information in this report, insofar as it relates to Exploration Results and Mineral Resources is based on information compiled by company personnel under the supervision of Mr David Jelley, who is a full time employee of Diatreme Resources Limited and a Member of the Australasian Institute of Mining and Metallurgy. Mr Jelley 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 Jelley consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Ore Reserves is based on information compiled by Mr Phil McMurtrie, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr McMurtrie is a director of Tisana Pty Ltd, and is a consultant to Diatreme Resources Limited. Mr McMurtrie 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 McMurtrie consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

Tenement Schedule

Current interests in mineral tenements held by Diatreme Resources Limited and its subsidiaries – 22 March 2013

STATE	PROJECT	TENEMENT NAME	TENEMENT ID	AREA	HOLDER	%
QLD	**Gilbert River**	Gilbert River	EPM 12888	196 km2	CHAL	100
		Bellfield Extended	EPM 18213	113 km2	CHAL	100
		Bellfield East	EPM 18262	13 km2	CHAL	100
		Bellfield North	EPM 18353	321 km2	CHAL	100
		Conical Hill	EPM 18547	226 km2	CHAL	100
		Mt Hogan	EPM(A) 18609	161 km2	CHAL	100
		Gilbert River Stn	EPM(A) 18612	126 km2	CHAL	100
		Hanns Table	EPM(A) 19124	488 km2	CHAL	100
QLD	**Clermont**	Clermont	EPM 17968	864 km2	CHAL	100
		Parpet	EPM 19189	315 km2	CHAL	100
		Expedition Ck	EPM(A) 19544	41 km2	CHAL	100
QLD	**Ironhurst**	Ironhurst	EPM 12976	6 km2	CHAL	100
QLD	**Cape Bedford**	Cape Bedford	EPM(A) 17795	552 km2	DRX	100
QLD	**Tick Hill**	Tick Hill	ML 7094	130 ha	MIM*	100
		Tick Hill	ML 7096	130 ha	MIM*	100
		Tick Hill	ML 7097	130 ha	MIM*	100
SA	**Anabama**	Anabama	EL 5138	182 km2	CHAL	100
		Anabama North	EL 4783	104 km2	CHAL	100
SA	**Arckaringa Basin**	Tarlina South	EL 5146	865 km2	DRX	100
		Tarlina	EL 5147	713 km2	DRX	100
		Wilari	EL 5148	895 km2	DRX	100
		Narana	EL(A) 07/428	999 km2	DRX	100
		Meramangye	EL 5149	966 km2	DRX	100
		Ungoolya	EL 5150	845 km2	DRX	100
		Leemurra	EL(A) 07/431	885 km2	DRX	100
		Ammaroodinna 2	EL(A) 08/123	246 km2	DRX	100
SA	**Elliston**	Elliston	EL(A) 12/327	994 km2	DRX	100
SA	**Eucla Basin**	Eucla 3	EL 3615	670 km2	LSPL	100
		Eucla 4	EL 3616	1,324 km2	LSPL	100
		Eucla 5	EL(A) 05/934	374 km2	LSPL	100
		Eucla 6	EL(A) 05/935	1328 km2	LSPL	100
		Eucla 7	EL(A) 05/936	924 km2	LSPL	100
		Eucla 8	EL(A) 05/937	591 km2	LSPL	100
		Noorina 1	EL 5045	770 km2	LSPL	100
		Noorina 2	EL 5046	571 km2	LSPL	100
		Eucla 9	EL(A) 08/235	972 km2	LSPL	100
		Eucla 10	EL(A) 08/236	658 km2	LSPL	100
WA	**Mandora**	Mandora	E(A) 45/4022	471 km2	DRX	100
WA	**Eucla Basin**	Wanna Lakes	E 69/1920	105 km2	LSPL	100
		Wanna Lakes East	E 69/2408	210 km2	LSPL	100
		Wanna South	E 69/2425	12 km2	LSPL	100
		Marble Gum	E 69/2427	36 km2	LSPL	100
		Jungooner	E 69/2428	145 km2	LSPL	100
		Ilma	E(A) 69/2740	602 km2	LSPL	100
		Boorabie West	E(A) 69/2741	602 km2	LSPL	100
		Boorabie East	E(A) 69/2742	602 km2	LSPL	100
		Forrest Lakes West	E(A) 69/2743	602 km2	LSPL	100
		Forrest Lakes East	E(A) 69/2744	602 km2	LSPL	100
		Serpentine	E(A) 69/3113	314 km2	LSPL	100
WA	**Cyclone**	Cyclone	M(A) 69/141	16 km2	LSPL	100
		-	L(A) 69/16	127 km2	LSPL	100
		-	L(A) 69/17	18 km2	LSPL	100
		-	L(A) 69/18	180 ha	LSPL	100

TENEMENT SCHEDULE NOTES

MIM* - DRX has rights under the Tick Hill Option and Sale Agreement. A 100% Assignment of the leases to DRX is being processed by the Queensland Government. DRX has entered into a joint venture arrangement with Superior Resources Limited.

Abbreviations:

EPM(A)	Exploration Permit for Minerals (Application) - Queensland
EL(A)	Exploration Licence (Application) "South Australia"
E(A)	Exploration Licence (Application) Western Australia
ML	Mining Lease - Queensland
M(A)	Mining Lease (Application) - Western Australia
L(A)	Miscellaneous Licence (Application)- Western Australia

DRX	Diatreme Resources Limited
CHAL	Chalcophile Resources Pty Ltd
LSPL	Lost Sands Pty Ltd
MIM	Mount Isa Mines

Corporate Governance Statement

The directors and management of Diatreme Resources Limited ("Diatreme" or "the company") are committed to following the principles issued by the Australian Securities Exchange ("ASX") underpinning corporate governance best practice.

In responding to the principles and associated best practice recommendations, Diatreme has given due and careful regard to its particular circumstances and the best interests of its shareholders.

ASX Listing Rules require listed companies to disclose in their annual report the extent to which ASX best practice recommendations have been followed; identify which recommendations have not been followed; and provide reasons for their decisions.

As detailed in this corporate governance statement, Diatreme considers that its current governance practices largely comply with the ASX recommendations. Where arrangements differ from the recommendations, the directors and management believe this is appropriate to the company's particular circumstances.

A full set of Diatreme's corporate governance related policies and charters are available on the company's website at www.diatreme.com.au.

The company will continuously review the recommendations and decisions will be based on what is in the best interests of shareholders.

The remainder of this statement sets out each principle, associated best practice recommendations, and the company's response.

Principle 1:	Lay solid foundations for management and oversight
Principle 2:	Structure the board to add value
Principle 3:	Promote ethical and responsible decision-making
Principle 4:	Safeguard integrity in financial reporting
Principle 5:	Make timely and balanced disclosure
Principle 6:	Respect the rights of shareholders
Principle 7:	Recognise and manage risk
Principle 8:	Remunerate fairly and responsibly

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

Recommendations and response:

R1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The board has defined the specific functions reserved for the board and its committees and those matters delegated to management.

The board is accountable to shareholders for Diatreme's performance. It oversees and guides management in protecting and enhancing the interests of shareholders and other stakeholders. It sets the strategic direction of the company, establishes goals for management and monitors progress towards those goals.

The board's functions encompass:

- providing input into developing performance objectives, goals and corporate direction, and providing final approval
- adopting, and monitoring progress regarding agreed plans, budgets and financial and other reporting
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures
- ensuring adequate internal controls are in place and appropriately monitored for compliance
- ensuring significant business risks are identified and managed
- setting compensation arrangements for executive directors and senior management
- encouraging ethical behaviour throughout the organisation
- appointing the chief executive officer/managing director, and where appropriate, effecting his/her removal and that of other senior executives including the company secretary
- liaising with external auditors

The board has delegated day-to-day management of the company to the managing director who is responsible for Diatreme's operating and financial performance, developing and recommending corporate strategy to the board, and its subsequent implementation. Specific accountabilities are set out in the managing director's role description encompassing strategy, operating performance, new business projects, risk management, systems, performance culture and the company's image and reputation.

The managing director holds the executive team individually and collectively accountable for contributing to discharging his delegated accountabilities. The specifics are set out in explicit role descriptions for each executive function.

Each director and senior executive has a formal letter of appointment setting out the key terms and conditions relative to their appointment.

R1.2 Companies should disclose the process for evaluating the performance of senior executives.

The board is accountable for the proper oversight of executive directors and senior management. A process is in place for reviewing senior management performance and continuously improving the contributions executives make to the company.

Performance objectives and business plans for the company are set at least annually in line with Diatreme's business strategy. The board monitors performance against plan and on this basis monitors and assesses the performance of the managing director.

The process in place for monitoring senior executive performance is based on explicit role accountabilities encompassing regular systematic performance reporting, feedback and formal assessment. This is on an annual basis. There is a strategic review at least annually.

R1.3 Companies should provide the information indicated in the guide to reporting on Principle 1.

Performance evaluation of senior executives has taken place in the financial year and is in accordance with the process as set out in R1.1 and R1.2 above.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Recommendations and response:

R2.1 A majority of the board should be independent directors.

Diatreme recognises the importance of having a board of the appropriate composition, size and commitment for it to discharge its responsibilities and duties and believes that its board has a balance of skills, experience and independent thinking appropriate to the nature and scope of the company's operations.

- A director is regarded as independent if that director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to interfere with the independent exercise of their judgment. When determining the independent status of a director, the board has considered whether the director:
- is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company. A substantial shareholder is considered to be a person or entity whose total votes attaching to their shareholding is 5% or more of the total number of votes attaching to voting shares in the company
- is employed, or has previously been employed in an executive capacity by the company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the board
- has within the last three years been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided
- is a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- has a material contractual relationship with the company or another group member other than as a director.

In the context of director independence, "materiality" is considered from both the group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the group's loyalty.

Following these considerations, four of the six directors on the board did not meet the ASX definition of independence during the period to 31 December 2012.

The board has determined the independence status of each director as follows:

Director	Position	Independent	Reason
Anthony Fawdon	Executive chairman/CEO	No	Mr Fawdon holds an executive position in the company.
David Hall	Executive director Operations	No	Mr Hall holds an executive position in the company.
William Wang	Non-executive director	No	Mr Wang is not considered independent as he provides specialized China oriented consulting services to the company through Fortune Corporation Australia Pty Ltd, a company which holds shares in Diatreme.

Director	Position	Independent	Reason
Andrew Tsang	Non-executive director	No	Mr Tsang is not considered independent as he directly and indirectly holds >20% of the company.
George White	Non-executive director	Yes	Mr White is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
Neil McIntyre	Non-executive director	Yes	Mr McIntyre is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.

The board is of the view that the board's composition during the reporting period served the interests of shareholders.

The board recognises that there are occasions when the board, or directors, believe that it is in their interests and the interests of the company to seek independent professional advice. Directors can seek independent professional advice at the company's expense in furthering their duties. The first point of contact for a director in need of external advice is the company secretary.

R2.2 The chairman should be an independent director.

The board believes that Mr Fawdon, although not an independent director, is able to bring independent judgement to all relevant issues falling within the scope of the chairman's role and that the company benefits from his long standing experience of the company's operations and business relationships.

R2.3 The roles of chairman and managing director should not be exercised by the same individual.

Mr Fawdon has been the executive chairman/CEO of the company since January 2001, and remains so due to the small size of the company, its specific needs, his particular skill sets and experience and history as founder of the company. While the company remains in the junior sector of the market, it will continue to benefit from his long standing experience of its operations and established business relationships.

R2.4 The board should establish a nomination committee.

The board itself acts as the nomination committee rather than having a separate committee constituted for that purpose. The directors believe that this is appropriate in light of the size of the board and the particular circumstances of the company.

The nominations process involves working within a formal procedure for the nomination, selection, appointment and re-election of directors.

The size and composition of the board, and its mix of skills and capabilities is expected to change as Diatreme delivers on its strategy and as the company evolves. The board, as a whole, aims to ensure that it always has an appropriate diversity of experience and expertise consistent with the objectives of the company and this is continuously reviewed by the board.

R2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The board does not have a formal process for evaluating the performance of the board, its committees and the individual non-executive directors. However, there is a process for continuously improving the board's systems, procedures and quality of decision-making. This process encompasses continuous attention to all matters that provide an opportunity to improve the creation of value to the company's shareholders via actions of the board, its committees and individuals in developing strategy, decision-making and monitoring the company's performance. The chairman is accountable for ensuring this improvement process is effective and works closely with the company secretary and managing director in implementing the improvements.

The company secretary(s) are accountable to the board, through the chairman, on all governance matters.

The directors believe that the approach being followed, as described above, is appropriate in light of the current size of the board and the particular circumstances of the company and honours the spirit of recommendation R2.5.

R2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.

The directors and management section of the company's website and the directors' report sets out:

- the skills, experience, expertise and tenure of each board member relevant to their role as a director
- the basis on which independent directors have been identified by the board
- how the functions of a nomination committee are carried out by the board.

The period of office held by each director is disclosed in the directors' report.

Departures from recommendations R2.1, R2.2, R2.4 and R2.5 are explained above.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION- MAKING

Companies should actively promote ethical and responsible decision-making.

Recommendations and response:

R3.1 Establish a code of conduct and disclose the code or summary of the code as to:

- **the practices necessary to maintain confidence in the company's integrity**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders**
- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The board and management are committed to establishing and maintaining a high degree of integrity among those who set or influence the company's strategy and financial performance, together with responsible and ethical decision-making that take into account legal obligations as well as significant stakeholder interests.

The company has adopted a code of conduct to provide guidelines to all company employees, including the company's executives and directors, for exercising a high degree of integrity. The board has ultimate responsibility for setting the ethical tone of the company.

The code of conduct, and a securities trading policy that accords with the requirements of the ASX Listing Rules 12.9-12.12 are available under the corporate governance section of the company's website.

R3.2 Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

Diatreme acknowledges the known corporate benefits that flow from advancing employee and board diversity, in particular gender diversity, including identification and rectification of gaps in the skills and experience of employees, enhanced employee retention, greater innovation and maximisation of available talent to achieve corporate goals and optimal financial performance. The company is committed to complying with the diversity recommendations under the ASX Corporate Governance Principles and Recommendations, incorporating:

- establishing measurable objectives for achieving gender diversity;
- promoting diversity among employees, consultants and senior management throughout the Diatreme Group; and
- keeping shareholders informed of Diatreme's progress towards implementing and achieving its diversity objectives

The company's diversity policy is available under the corporate governance section of the company's website.

R 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 2 to 3 years as director and senior executive positions become vacant and appropriately skilled candidates are available. The Company's primary objective will be to employ the most suitable candidate for the position and will not discriminate based on gender, age, cultural background and ethnicity. Additionally the Company will not employ any candidate who isn't the most suited for a position as a means to meeting the objectives of the diversity policy.

R 3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

Workplace Profile – 31 December 2012

	Objective		Actual	
	Number	%	Number	%
Number of women employees in the whole organization	3	20%	1	10%
Number of women in senior executive positions	1	20%	-	-
Number of women on the board	1	20%	-	-

Responsibility for diversity has been included in the board charter.

R3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.

Information required by the Guide to reporting on Principle 3 and the departures from recommendations R3.2 and R3.3 are presented above.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Recommendations and response:

R4.1 The board should establish an audit committee.

The board has established an audit committee which assists it to ensure that:

- the systems of control which management has established effectively safeguard tangible and intangible assets of the company
- financial information provided to shareholders and others is reliable

The ultimate responsibility for the integrity of the company's financial reporting rests with the board

R4.2 Structure the audit committee so that it consists of:

- **only non-executive directors**
- **a majority of independent directors**
- **an independent chairman, who is not chairman of the board**
- **has at least three members**

The members of the audit committee during the reporting period were:

Mr G White (Chairman)
Mr N Mcintyre

Details of the experience, qualifications and attendance at committee meetings for each member of the committee are presented in the directors' report of the company's annual report.

During the reporting period the company did not comply with R4.2 as the committee had less than 3 members for the period. Due to the current composition of the board full compliance with this recommendation is not possible.

The directors believe that the current structure of the audit committee, as described above, is appropriate in light of the current size of the board and the particular circumstances of the company.

R4.3 The audit committee should have a formal charter.

The audit and risk management committee, which operates under a charter approved by the board, provides advice and assistance to the board in fulfilling its responsibility relating to the company's financial statements, internal audit, external audit, risk management and such other matters as the board may request from time to time.

The members of the committee have direct access to any employee, financial and legal advisers and the auditors without management being present.

The committee reports to the board on the following:

- consideration of whether external reporting is consistent with committee members' information and knowledge and is adequate for meeting shareholder requirements
- assessing the appropriateness of the accounting principles applied by management in the preparation and presentation of financial reports and approving all significant accounting policies
- assessment of management processes supporting external reporting
- control of the company's financial reporting and disclosure processes and the outputs of that process
- approving the audit plan of the external auditors, monitoring the effectiveness and independence of the external auditor and, obtaining assurances that the audit is conducted in accordance with the Auditing Standards and all other relevant accounting policies and standard procedures for the selection and the appointment of the external auditor, rotation of external audit engagement partners, removal and appointment of the external auditors and review of the terms of engagement
- providing recommendations to the board as to the role of the internal auditor/internal audit function, if any, and recommendations for the appointment or, if necessary, the dismissal of the head of internal audit
- evaluating the adequacy, effectiveness and appropriateness of the company's administrative, operating and accounting control systems and policies.

The audit committee charter describes the authority, role and responsibility of the committee, and outlines the composition and frequency of annual meetings. The audit committee charter is available under the corporate governance section of the company's website.

R4.4 Companies should provide the information indicated in the guide to reporting on principle 4.

Information related to principle 4 and departure from recommendation R4.2 is presented above.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Recommendations and response:

R5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

Diatreme has a continuous disclosure policy which aims to provide a timely and balanced picture of all material matters and which requires disclosure of any information concerning Diatreme that a reasonable person would expect to have a material effect on the price or value of the company's securities.

This does not apply to particular information where all of the following are satisfied:

- a reasonable person would not expect the information to be disclosed
- the information is confidential and ASX has not formed a contrary view
- one or more of the following applies:
  - it would be a breach of the law to disclose the information
  - the information concerns an incomplete proposal or negotiation
  - the information comprises matters of supposition or is insufficiently definite to warrant disclosure
  - the information is generated for internal management purposes
  - the information is a trade secret

The company's continuous disclosure policy is as follows:

- the board holds the managing director accountable for communication with ASX in relation to all listing rule matters
- executives are required to monitor all relevant information regarding the company's affairs and test it against the continuous disclosure policy on a day-to-day basis. If a potential disclosure obligation arises, it is brought to the attention of the managing director and, in his absence, the company secretary
- required disclosures are made to the ASX and posted on the company's website
- if matters are not clear-cut, the managing director confers with another director and/or the company's legal counsel to determine whether disclosure is required
- the chairman and managing director are the only persons authorised to make statements to the media on behalf of the company.
- Diatreme is committed to communicating with investors in an effective and timely manner and supports communication by the managing director with shareholders, potential investors and analysts at company presentations, briefings and shareholder meetings, such as the annual general meeting and road show presentations
- In addition, the company's external auditors are invited to attend the annual general meeting to answer questions from shareholders about the conduct of the audit and content of the audit report and the company's financial reports.

R5.2 Provide the information indicated in guide to reporting on principle 5.

Information related to principle 5 is presented above.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Recommendations and response:

R6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

Diatreme seeks to enable shareholders to be well informed about the performance and affairs of the company.

The company communicates with shareholders through a variety of means, including ASX releases, annual, half-yearly and quarterly reports, the company website, general meetings and direct communication. The company has a clearly marked corporate governance section on its website that contains information relating to governance matters.

The company secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the group's operations, the material used in the presentation is released to the ASX and posted on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and if so, this information is also immediately released to the market.

R6.2 Companies should provide the information indicated in the guide to reporting on principle 6.

Information related to principle 6 is presented above.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

Recommendations and response:

R7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

Diatreme recognises the importance of risk management and manages risk through effective oversight and internal control involving board and management systems that encompass:

- a regulatory compliance program supported by approved guidelines and standards for such matters as safety, the environment, legal and insurance
- guidelines and approval limits for capital expenditure and investments
- an insurance program reviewed annually
- policies and procedures for management of financial risk and treasury operations including exposures to foreign currencies and cash management
- annual budgeting and monthly reporting systems for all businesses to monitor progress against performance targets and to evaluate trends
- appropriate due diligence procedures for acquisitions and divestments
- accountability of management (to the board) for the group's internal control and risk management through the audit and risk management committee charter
- a crisis management system in use and progressively updated to match emerging circumstances
- a policy that precludes the company's auditors from providing any other service to the company.

This function is assisted by the audit committee. The audit committee charter is available under the corporate governance section of the company's website.

R7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Business risk is a standing agenda item for board meetings where the effectiveness of the company's risk management systems and activities are reported on and assessed. The risk management process is an enterprise wide risk analysis and includes:

- risk identification
- analysis and evaluation
- risk mitigation/treatment.
-

R7.3 The board should disclose whether it has received assurance from the managing director (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The board requires the managing director and chief financial officer to confirm in writing that declarations provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control and that the system is operating effectively.

R7.4 Companies should provide the information indicated in the guide to reporting on principle 7.

Information related to principle 7 is presented above.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendations and response:

R8.1 The board should establish a remuneration committee.

The directors of Diatreme understand that recognition and reward are key factors in attracting and retaining the skills required to achieve the performance expected by the board, management and shareholders.

R8.2 The remuneration committee should be structured so that it:

- **consists of a majority of independent directors**
- **is chaired by an independent chair**
- **has at least three members**

The members of the remuneration committee during the reporting period were:

Mr G White (Chairman)
Mr N Mcintyre
Mr Andrew Tsang

Details of the experience, qualifications and attendance at committee meetings for each member of the committee are presented in the directors' report of the company's annual report.

During the reporting period the company complied with R4.2.

The directors believe that the current structure of the remuneration committee, as described above, is appropriate in light of the current size of the board and the particular circumstances of the company.

R8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Non- executive director's remuneration
Total remuneration paid to non-executive directors may not exceed the limit set by shareholders at the annual general meeting (currently $300,000). The remuneration of the non-executive directors is fixed rather than variable. There are no schemes for retirement benefits, other than superannuation, for non-executive directors.

Executive director's and senior executive's remuneration
In relation to executive remuneration, the board takes advice regarding the nature and direction for the company's remuneration practices.

Remuneration is benchmarked against the company's peers in the resources industry.

It is the company's policy to prohibit directors and senior executives from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under the company's equity –based remuneration schemes. The remuneration structure for directors and senior executives is reported in the remuneration section of the directors' report of the company's annual report.

R8.4: Companies should provide the information indicated in the guide to reporting on principle 8.

Information related to principle 8 and departure from recommendation R8.2 is presented above.

FINANCIAL REPORT

For the year ended 31 December 2012

Directors' Report

The Directors present their report on Diatreme Resources Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2012.

DIRECTORS

The following persons were Directors of Diatreme Resources Limited during the whole of the financial year and up to the date of this report unless otherwise stated:

Anthony John Fawdon FAICD, FAusIMM. (Executive Chairman/CEO)

Experience
Board member since 12 January 2001, Mr Fawdon has been active in the Australian mining and exploration industry for 36 years, working until 1982 in various management levels for multinational companies. He then became founder and director of several listed mineral explorers, including the Queensland based gold and base metal explorer Strike Mining NL in 1994 for which he was Managing Director/CEO until mid 2000.

Other current directorships (listed entities) - None
Former directorships in last 3 years (listed entities) **–** None
Special responsibilities – Chairman

David Hugh Hall BAppSc (Geol), G.Dip.ESc. (Executive Director – Operations)

Experience
Board member since 12 January 2001, Mr Hall is a geologist with over 30 years experience in the mining industry. After spending the early part of his career in both coal and mineral exploration, in 1990 he branched into developing specialist experience in tenement administration and stakeholder liaison within a private consultancy group. Between 1994 and 2000 he was the exploration administrator with Strike Mining NL. He joined Diatreme as an executive director in early 2001.

Other current directorships (listed entities) - None
Former directorships in last 3 years (listed entities) **–** None
Special responsibilities – None

George H White BSc.Hons., FAICD. (Non-executive Director)

Experience
Mr White was appointed Director in April 2006. He has over 30 years experience in the mineral and energy industries and has held senior environmental and mining management positions in Alcoa, Chief Executive positions in Doral Resources NL and Doral Mineral Industries Ltd.

Mr White has been instrumental in the establishment of a number of greenfield resource projects in mineral sands, gold, magnetite, natural gas production and the downstream processing of mineral sands to zirconia and zirconium chemicals.

Other current directorships (listed entities) - None
Former directorships in last 3 years (listed entities) **–** None
Special responsibilities **–** Member of remuneration committee and Chair of audit committee

Andrew Tsang (Non-executive Director)

Experience
Mr Tsang is a naturalised Australian citizen who was born and educated in China and who has successfully established and run construction, engineering and property development businesses both in China and Australia as well as establishing successful import agencies for Australian manufactured goods into China.

Other current directorships (listed entities) – Mindax Limited (Director since 28 March 2008)
Former directorships in last 3 years (listed entities) – None
Special responsibilities - Member of remuneration committee

Cheng (William) Wang MBA. (Non-executive Director)

Experience
Mr Wang was appointed Director in May 2011. For 15 years he held senior management positions in several Chinese state owned companies. Now domiciled in Australia, he has been active with Australian companies including directorships with China Century Capital Limited and Jupiter Mines Limited. He is currently Director of Investment Banking for the AIMS Financial Group and Director of Gulf Alumina Limited and Katana Group Limited.

Other current directorships (listed entities) – None
Former directorships in last 3 years (listed entities) – None
Special responsibilities – None

Neil John McIntyre MBE, MAICD. (Non-executive Director)

Experience
Mr McIntyre was appointed Director in July 2011. Mr McIntyre is a senior executive with broad based commercial skills in Merchant Banking, Finance, Corporate Advisory Services, Mining and Petroleum, Government relations, Agriculture and Cross Border Management. Throughout his career he has demonstrated visionary leadership, expertise and outstanding performance in business start-up and financial/operational management of commercial entities within Papua New Guinea, Australia and Indonesia.

Other current directorships (listed entities) – None
Former directorships in last 3 years (listed entities) – None
Special responsibilities – Member of remuneration committee and audit committee

Directors' Interests

As at the date of this report, the interests of the Directors in the shares and options of Diatreme Resources Limited are shown in the table below:

Directors	Fully paid ordinary shares Number	Share options Number
A J Fawdon	4,124,577	243,179
D H Hall	2,950,000	320,000
G H White	216,667	516,667
A Tsang	94,869,443	35,832,933
C Wang	2,577,822	804,903
N J McIntyre	-	-
	104,738,509	37,717,682

COMPANY SECRETARY

The Company Secretaries are:

Leni Pia Stanley CA, B.Com.
Ms Stanley is currently a partner with a Chartered Accounting firm and holds the office of Company Secretary with other companies.

Tuan Do CA, B.Com.
Mr Do was appointed in May 2011 and is also the Group Financial Controller.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was exploration for heavy mineral sands, copper, gold and base metals in Australia. There were no changes in the nature of the Group's principal activities during the year.

REVIEW OF OPERATIONS

Diatreme Resources Limited (Diatreme) operates as a diversified mineral explorer within Australia, targeting heavy mineral sands, copper, gold and base metals.

The Company's flagship asset, the Cyclone Zircon Project located in Western Australia, continues to be progressed, having moved into the Definitive Feasibility Study (DFS) stage during the year after successful completion of the Prefeasibility Study in March 2012. Diatreme's current timetable anticipates completion of the DFS in the second quarter of 2014, dependent upon the significant funding requirements being achieved in a timely manner.

Progress on the Cyclone Project included:

- Release of positive Pre-Feasibility Study
- Infill drilling over the deposit
- Upgraded resource estimate (Measured and Indicated)
- Maiden Ore Reserve estimate
- Commencement of mining agreement negotiations with traditional owners
- Bulk sampling and metallurgical test work
- Mine access road options and associated environmental studies

Exploration operations during the year involved:

- Further ground exploration (including drilling) over mineral sand targets in the Eucla Basin and Arckaringa project areas along with drilling in areas peripheral to the Cyclone Deposit. Cost associated with one of the Eucla Basin tenements was written off during the year due to low prospectivity.

- Project generation resulting in new heavy mineral sand exploration application areas secured – Mandora and Serpentine (WA), Elliston (SA) and Grays Hill (QLD). Grays Hill is also prospective for porphyry copper mineralisation.

- Completion of six month assessment period over the Clermont Copper Project by Antofagasta Minerals Australia Pty Ltd (Antofagasta) under the March 2012 Memorandum of Understanding, leading to Antofagasta's decision to farm-in to the project.

- Negotiations and completion of agreement to farm-out the iron ore interests in the Anabama Copper Project.

- Limited ground exploration over the Gilbert River Base Metals Project tenements in North Queensland aimed at advancing geological targets for future drilling campaigns.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2012 was $4,908,468 (2011: loss of $4,377,262).

During the year the Group utilised its cash resources to undertake exploration and evaluation activities within its tenement portfolio. The Group monitors cash flow requirements for operational, exploration and evaluation expenditure and will continue to use capital market issues to satisfy anticipated funding requirements.

DIVIDENDS

No dividend has been paid since the end of the previous year and the Directors do not recommend the payment of any dividend for the year ended 31 December 2012.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the Company successfully completed a Share Purchase Plan and several share placements to sophisticated and professional investors. As a result contributed equity increased by $3,236,510 (from $39,853,242 to $43,089,752) from the issue of 118,984,999 ordinary shares.

EVENTS SUBSEQUENT TO REPORTING DATE

9 January 2013	Heads of Agreement for iron exploration signed with Braemar Iron Pty Ltd over the Anabama Copper Project in South Australia.
11 January 2013	Exploration Licence applications “Serpentine” and “Elliston” were secured in Western Australia and South Australia respectively, targeting heavy mineral sand prospects.
18 January 2013	Farm-In Agreement signed with Antofagasta Minerals Australia Pty Ltd over the Clermont Copper Project in central Queensland.
14 March 2013	The Company received signed agreements from sophisticated investors to subscribe for placements totalling 34,000,000 ordinary fully paid shares at $0.025 per share to raise $850,000.

FUTURE DEVELOPMENTS

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

REMUNERATION REPORT - AUDITED

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Relationship of remuneration with Group performance
C Details of remuneration
D Share-based compensation
E Service agreements

A *Principles used to determine the nature and amount of remuneration*

The board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

(i) Executive Directors
The combination of Directors' fees, salary, non-cash benefits and superannuation make up the Executive Directors' total remuneration. The salary component of Executive Directors' remuneration packages is reviewed annually to ensure the Executives' pay is competitive with the market. Executive Directors' pay is not directly linked to the financial performance of the Group. (Refer to Note B below).

(ii) Non-executive Directors
Fees and payments to Non-executive Directors reflect the demands which are made on, and the responsibilities of, the Director. Non-executive Directors' fees and payments are reviewed annually by the Remuneration Committee.

(iii) Directors' fees
Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $300,000 per annum plus statutory superannuation.

B *Relationship of remuneration with Group performance*

The Directors consider that, as the Group is in an exploration phase of its development, it is not appropriate that remuneration for employees and Directors be linked to the financial performance of the Group. Once the Group enters a sustained production phase, this assessment may change accordingly.

		2008	2009	2010	2011	2012
Share price at year end	$/share	0.08	0.13	0.07	0.07	0.02
Market capitalisation	$ million	12	26	19	26	11
Revenue	$'000	601	251	241	511	254
Total assets	$ million	18	22	23	25	23
Net profit/(loss) after tax	$'000	(2,513)	(2,759)	(4,000)	(4,377)	(4,908)

C *Details of remuneration*

The key management personnel (KMP) include the Directors as per the "Directors" section above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

2012
D Jelley – Exploration Manager
L Stanley – Co-Company Secretary
T Do – Group Financial Controller/Co-Company Secretary

2011
D Jelley – Exploration Manager
L Stanley – Co-Company Secretary
T Do – Group Financial Controller/Co-Company Secretary

Details of the nature and amount of remuneration of the Directors and other key management personnel of the Group are set out in the following table.

2012 Name	Short-term employee benefits Cash Salary, fees & leave $	Post-employment benefits Superannuation $	Long-term benefits Long service leave $	Share-based payments Options $	Total $
Non-executive Directors					
G H White	45,000	4,050	-	-	49,050
A Tsang	45,000	4,050	-	-	49,050
C Wang	45,000	4,050	-	-	49,050
N J McIntyre	45,000	4,050	-	-	49,050
Executive Directors					
A J Fawdon	254,199	22,878	5,933	-	283,010
D H Hall	225,302	20,277	1,711	-	247,290
Other key management personnel					
D Jelley	195,000	17,550	-	-	212,550
L Stanley	31,375	-	-		31,375
T Do	150,000	13,500	-	-	163,500
Total	1,035,876	90,405	7,644	-	1,133,925

2011 Name	Short-term employee benefits Cash Salary, fees & leave $	Post-employment benefits Superannuation $	Long-term benefits Long service leave $	Share-based payments Options $	Total $
Non-executive Directors					
G H White	45,000	4,050	-	-	49,050
A Tsang	45,000	4,050	-	-	49,050
C Wang (1)	26,815	2,413	-	-	29,228
N J McIntyre (2)	19,264	1,734	-	-	20,998
Executive Directors					
A J Fawdon	254,351	22,892	15,889	-	293,132
D H Hall	230,625	20,756	14,415	-	265,796
Other key management personnel					
D Jelley	188,550	13,162	-	-	201,712
L Stanley	30,000	-	-		30,000
T Do (3)	128,000	11,520	-	-	139,520
Total	967,605	80,577	30,304	-	1,078,486

(1) Appointed Non-executive Director on 27 May 2011
(2) Appointed Non-executive Director on 29 July 2011
(3) Appointed Co-Company Secretary on 27 May 2011

D *Share-based compensation*

There was no share-based compensation to key management personnel or executive director's in 2012.

E   *Service agreements*

None of the KMP received any increases to their salaries for the year ended 31 December 2012, with the exception of D Jelley and T Do who both received CPI related increases effective from 1 January 2013. T Do also received a market related increase in his salary on 1 July 2011.

A J Fawdon, Executive Chairman/CEO
- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $277,078.
- The agreement may be terminated by 1 month notice from either party.
- Termination benefit – six months salary plus two weeks for every year, or part thereof, for service to the Company since appointment (1 August 2000).

D H Hall, Executive Director - Operations
- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $251,381.
- The agreement may be terminated by 1 month notice from either party.
- Termination benefit - six months salary plus two weeks for every year, or part thereof, for service to the Company since appointment (1 August 2000).

G H White, Non-executive Director
- Term of agreement – no fixed term.
- Base salary inclusive of superannuation, of $49,050.
- No termination benefit is specified in the agreement.

A Tsang, Non-executive Director
- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $49,050.
- No termination benefit is specified in the agreement.

C Wang, Non-executive Director
- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $49,050.
- No termination benefit is specified in the agreement.

N J McIntyre, Non-executive Director
- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $49,050.
- No termination benefit is specified in the agreement.

D Jelley, Exploration Manager
- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $228,491.
- The agreement may be terminated by 1 month notice from either party.
- No termination benefit is specified in the agreement.

T Do, Group Financial Controller/Co-Company Secretary
- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of $175,763.
- The agreement may be terminated by 1 month notice from either party.
- No termination benefit is specified in the agreement.

L Stanley, Co-Company Secretary
- Term of agreement – no fixed term.
- Fixed monthly fee - $2,625.
- No termination benefit is specified in the agreement.

The salary package amounts disclosed above are the amounts as at the date of this report.

END OF AUDITED REMUNERATION REPORT

MEETINGS OF DIRECTORS

The number of meetings of the board of Directors held during the year ended 31 December 2012, and the number of meetings attended by each Director was:

Name	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
A J Fawdon	6	6	-	-	-	-
D H Hall	6	6	2	2	-	-
G H White	6	6	2	2	-	-
A Tsang	6	5	-	-	-	-
C Wang	6	6	-	-	-	-
N J McIntyre	6	6	2	2	-	-

SHARES UNDER OPTION

88,650,039 listed options, each to acquire one ordinary share in Diatreme Resources Limited, were issued as the result of the Rights Issue in April 2011. At 31 December 2012, there were 88,650,035 listed options on issue after 4 options were exercised during the year. The options have an exercise price of 15 cents per share and expire on 30 September 2013. The options carry no rights to dividends and no voting rights.

The option holders have no rights under the option to participate in any share issue or interest issue of the Company or any other entity.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, Diatreme Resources Limited paid a premium in respect of a contract insuring Directors and executive officers of the Company and its controlled entities against a liability incurred as Director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Diatreme Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any of its controlled entities against a liability incurred as such an officer or auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Diatreme Group, or to intervene in any proceedings to which the Diatreme Group is a party, for the purpose of taking responsibility on behalf of the Diatreme Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Diatreme Group with leave of the Court under Section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

BDO Audit Pty Ltd, the Company's current auditor, did not perform any other services in addition to their statutory audit duties.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 47.

This report was authorised for issue on 25 March 2013 in accordance with a resolution of the directors.

AJ Fawdon
Executive Chairman/CEO
Brisbane, 25 March 2013

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Brisbane QLD 4000,
GPO Box 457, Brisbane QLD 4001
Australia

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

As lead auditor of Diatreme Resources Limited for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

C J Skelton
Director

BDO Audit Pty Ltd

Brisbane: 25 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Note	Consolidated 2012 $	2011 $
Revenue	6	223,274	510,638
Other income	6	31,208	-
Employee benefits expenses		(1,013,661)	(881,859)
Depreciation expenses	6 & 11	(161,508)	(213,628)
Exploration assets written off	12	(2,859,921)	(2,419,719)
Impairment of available-for-sale financial assets	6	(130,069)	-
Other expenses	6	(1,393,085)	(1,648,855)
Finance costs		(5,767)	(13,864)
Loss before income tax		(5,309,529)	(4,667,287)
Income tax benefit	7	401,061	290,025
Net Loss for the year		(4,908,468)	(4,377,262)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(4,908,468)	(4,377,262)

	Note	Cents	Cents
Loss per share			
Basic earnings per share	29	(1.3)	(1.4)
Diluted earnings per share	29	(1.3)	(1.4)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Current Assets			
Cash and cash equivalents	8	1,973,713	3,650,010
Trade and other receivables	9	182,830	232,024
Current tax asset	7	401,061	-
Total Current Assets		2,557,604	3,882,034
Non-current Assets			
Available-for-sale financial assets	10	32,517	162,586
Property, plant and equipment	11	521,654	734,591
Exploration and evaluation assets	12	19,251,664	19,379,377
Other assets	13	701,123	701,194
Total Non-current Assets		20,506,958	20,977,748
Total Assets		**23,064,562**	**24,859,782**
Current Liabilities			
Trade and other payables	14	289,172	313,078
Interest-bearing liabilities	15	20,359	130,050
Provisions	16	135,314	-
Total Current Liabilities		444,845	443,128
Non-current Liabilities			
Provisions	16	-	124,979
Total Non-current Liabilities		-	124,979
Total Liabilities		**444,845**	**568,107**
Net Assets		**22,619,717**	**24,291,675**
Equity			
Issued capital	17	43,089,752	39,853,242
Reserve	18	-	-
Accumulated losses	19	(20,470,035)	(15,561,567)
Total Equity		**22,619,717**	**24,291,675**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	Note	Issued capital	Share option reserve	Accumulated losses	Total
		$	$	$	$
Balance at 1 January 2011		**33,321,487**	**87,670**	**(11,271,975)**	**22,137,182**
Total comprehensive income:					
Loss for the year		-	-	(4,377,262)	(4,377,262)
Transactions with owners in their capacity as owners:					
Shares issued		7,092,003	-	-	7,092,003
Share issue costs		(560,248)	-	-	(560,248)
Transfer from reserve		-	(87,670)	87,670	-
Balance at 31 December 2011		**39,853,242**	**-**	**(15,561,567)**	**24,291,675**
Total comprehensive income:					
Loss for the year		-	-	(4,908,468)	(4,908,468)
Transactions with owners in their capacity as owners:					
Shares issued		3,331,382	-	-	3,331,382
Share issue costs		(94,872)	-	-	(94,872)
Balance at 31 December 2012	17 &19	**43,089,752**	**-**	**(20,470,035)**	**22,619,717**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Cash flows from operating activities			
Receipts in the course of operations		98,895	227,357
Receipts from research and development tax claims		-	605,628
Payments to suppliers and employees		(2,272,476)	(2,532,833)
Interest received		90,315	225,750
Finance costs		(5,767)	(13,864)
Net cash inflow/(outflow) from operating activities	28	(2,089,033)	(1,487,962)
Cash flows from investing activities			
Payments for property, plant and equipment		(23,182)	(9,785)
Receipt from Antofagasta Minerals S.A.	27	383,941	-
Payments for exploration and evaluation assets		(3,186,693)	(2,905,634)
Proceeds from sale of property, plant and equipment		105,819	-
Payments for security deposits		-	(15,000)
Payments for other deposits		-	(20,570)
Refund of security deposits		5,000	-
Net cash inflow/(outflow) from investing activities		(2,715,115)	(2,950,989)
Cash flows from financing activities			
Proceeds from issue of shares		3,331,382	7,092,003
Payments for share issue costs		(94,872)	(560,248)
Repayment of interest-bearing liabilities		(108,659)	(45,107)
Net cash inflow/(outflow) from financing activities		3,127,851	6,486,648
Net increase/(decrease) in cash and cash equivalents		(1,676,297)	2,047,697
Cash and cash equivalents at the beginning of the year		3,650,010	1,602,313
Cash and cash equivalents at the end of the year	8	1,973,713	3,650,010

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

Contents of the notes to the consolidated financial statements

1 Reporting entity
2 Basis of preparation
3 Significant accounting policies
4 Critical accounting estimates and judgments
5 Segment information
6 Revenue and expenses
7 Income tax
8 Current assets - cash and cash equivalents
9 Current assets – trade and other receivables
10 Non-current assets – available-for-sale financial assets
11 Non-current assets - property, plant and equipment
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14 Current liabilities – trade and other payables
15 Current liabilities - Interest-bearing liabilities
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17 Issued capital
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20 Financial instruments
21 Key management personnel disclosures
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28 Reconciliation of net profit/(loss) to net cash flow from operating activities
29 Earnings per share
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31 Parent entity information
32 Events subsequent to reporting date

1. REPORTING ENTITY

Diatreme Resources Limited (the "Company") is a public company listed on the Australian Securities Exchange (trading under the code DRX), and is incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business is 87 Wickham Terrace, Spring Hill, Queensland 4000. The Group financial statements as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

Separate financial statements for Diatreme Resources Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, limited financial information for the Company as an individual entity is included Note 31.

The principal activity of the Group during the course of the financial year was the exploration for heavy mineral sands, copper, gold and base metals in Australia.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 25th March 2013.

(b) Basis of measurement

The Group financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These Group financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group.

(d) Adoption of new and revised accounting standards

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets
- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets
- AASB 1054 Australian Additional Disclosures
- AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation

The adoption of these standards did not have any material impact on the current period or any prior period and is not likely to affect future periods.

(e) Material Uncertainty Regarding Going Concern

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

The Group has incurred a net loss after tax for the year ended 31 December 2012 of $4,908,468 (2011: $4,377,262), and a net cash outflow from operations of $2,089,033 (2011: $1,487,962). At 31 December 2012, the Group had net current assets of $2,112,759 (2011: $3,438,906).

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

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

The Directors have reviewed the business outlook and cash flow forecasts and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will achieve the matters set out above. As such, the Directors believe that they will continue to be successful in securing additional capital through debt or equity issues as and when the need to raise working capital arises. During the financial year, the Group raised $2,540,000 from share placements to sophisticated and professional investors, and a further $791,382 from a Share Purchase Plan. In the event that adequate funds cannot be raised as required, there will exist a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the ordinary course of business.

The Directors believe that they will continue to be successful in securing additional funds through the issue of securities as and when required. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Diatreme Resources Limited and its subsidiaries at 31 December 2012. Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Revenue

Revenue is recognised at the fair value of the consideration received or receivable, and recognised when the service is provided, or ownership of the product has passed to the customer.

Interest revenue is recognised on a time proportion basis using the effective interest method.

(c) Income tax

The income tax expense or revenue for the year is the tax payable on the taxable income based upon the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

Tax consolidation legislation

The Company and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 January 2004.

Where applicable, each entity in the Group recognises its own current and deferred tax assets and liabilities. Amounts resulting from unused tax losses and tax credits are then immediately assumed by the parent entity. The current tax liability of each subsidiary entity is then also assumed by the parent entity.

The entities have also entered into a tax sharing and funding arrangement. Under the terms of this agreement, the wholly-owned entities reimburse the Company for any current income tax payable by the Company arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due.

In the opinion of the Directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by the Company.

(d) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown in interest-bearing liabilities in the statement of financial position.

(e) Trade and other receivables

Trade and other receivables are recognised at nominal amount less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 120 days overdue. On confirmation that the receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

(f) Available-for-sale financial assets

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial asset, and are classified as non-current assets (unless management intends to dispose of the investments within 12 months of the end of the reporting period).

The available-for-sale financial assets are recorded at cost less allowance for impairment as there is no active market for the shares of the investee company.

The Group follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(g) Property, plant and equipment

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

Depreciation is calculated on a diminishing value basis. Estimates of remaining useful lives are made on a regular basis for all assets.

The depreciation rates used for each class of assets are as follows:

Furniture and fittings	40%
Motor vehicles	20%
Plant and equipment	40%
Leased motor vehicles	20%

(h) Leases

(i) Finance leases

Assets acquired under finance leases which result in the Group receiving substantially all the risks and rewards of ownership of the asset are capitalised at the lease's inception at the lower of the fair value of the leased property or the estimated present value of the minimum lease payments. The corresponding finance lease obligation, net of finance charges, is included within interest bearing liabilities. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the liability for each accounting period. The leased asset is included in property, plant and equipment and is depreciated over the shorter of the estimated useful life of the asset or the lease term.

(ii) Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

(i) Exploration and Evaluation Costs

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the profit or loss.

Exploration and evaluation assets are only recognised if the rights to the tenure of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
- activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

(j) Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

The carrying values of capitalised exploration and evaluation expenditure and property, plant and equipment are assessed for impairment when indicators of such impairment exist. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment.

(k) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period and which remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Employee Benefits

(i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other liabilities in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(m) Issued Capital

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(o) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

(i) Carrying value of exploration and evaluation assets

The Group performed a detailed review of its exploration tenements at period end to determine whether the related expenditure should continue to be capitalised under AASB 6 Exploration for and Evaluation of Mineral Resources or written off. As a result of this review, management has determined that $2,859,921 (2011: $2,419,719) be written off in the year ended 31 December 2012.

During the year geological test-work downgraded the prospectivity of various Western Australia and Queensland tenements resulting in their full or partial relinquishments, which necessitates the writing off their respective costs.

The ultimate recoupment of cost carried forward for the exploration and evaluation assets is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest. Ultimate exploitation through the development of mines will depend on raising the necessary funding.

5. SEGMENT INFORMATION

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

(i) Identification of reportable segments

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

(ii) Revenue and assets by geographical region

The Group's revenue is received from sources and assets that are located wholly within Australia.

(iii) Financial information

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

6. REVENUE, OTHER INCOME AND EXPENSES

	Consolidated	
	2012 $	**2011 $**
a) Revenue		
Interest	95,244	253,511
Management fees	4,683	5,542
Other	123,347	251,585
	223,274	510,638
b) Other income		
Gain disposal of non-current assets	31,208	-
c) Impairment		
Impairment of available-for-sale financial assets	130,069	-

At year-end, an assessment of the fair value of all available-for-sale financial assets resulted in an impairment loss of $130,069 being recognised in the statement of comprehensive income. The Group's assessment of the fair value was made in accordance with AASB 139 and was based on the decline in financial health of and short-term business outlook for the investee

	Consolidated 2012 $	Consolidated 2011 $
d) Depreciation		
Furniture and fittings	10,877	17,300
Motor vehicles	21,633	27,502
Leased motor vehicles	16,630	31,675
Plant and equipment	112,368	137,151
	161,508	213,628
e) Other expenses		
Professional fees	143,184	166,687
Rental expenses on operating leases	354,749	315,208
Listing and share registry expenses	93,166	83,559
Superannuation expenses	132,467	116,959
Loss on disposal of non-current assets	-	79
Stamp duty	-	110,836
Administration costs	669,519	855,527
	1,393,085	1,648,855

7. INCOME TAX

	Consolidated 2012 $	Consolidated 2011 $
(a) The prima facie tax on accounting loss differs from the income tax provided in the financial statements. The difference is reconciled as follows:		
Loss before income tax	(5,309,529)	(4,667,287)
Prima facie income tax benefit at 30% (2010: 30%)	(1,592,859)	(1,400,186)
Tax effect of amounts which are not deductible in calculating taxable income:		
Entertainment	364	2,818
	(1,592,495)	(1,397,368)
Deferred tax assets not recognised	1,592,495	1,397,368
	-	-
Recognition of research & development tax claim	(401,061)	(290,025)
Total income tax benefit	(401,061)	(290,025)
(b) The components of income tax benefit:		
Current tax	-	-
Deferred tax	-	-
Research & development tax claim	(401,061)	(290,025)
Total income tax benefit	(401,061)	(290,025)
(c) Deferred tax		
Deferred tax assets		
Unused tax losses	5,160,776	5,030,427
Unused capital losses	4,507	4,507
Temporary differences:		
- Property, plant and equipment	23,557	13,273
- Accruals	9,540	10,233
- Employee benefits	57,729	48,499
- Capital raising costs	241,508	276,076
- Other	188,517	121,993
	5,686,134	5,505,008

	Consolidated	
	2012	2011
	$	$
Deferred tax liabilities		
- Exploration expenditure	(5,686,134)	(5,497,958)
- Income receivable	-	(7,050)
- Other		-
	(5,686,134)	(5,505,008)
Net deferred tax asset/liability	-	-
Unrecognised deferred tax assets		
Unused tax losses	32,148,060	27,864,232
Potential tax effect at 30%	9,644,418	8,359,270

The net deferred tax assets arising from these balances have not been recognised as an asset because recovery is not probable as at 31 December 2012. The recoupment of available tax loses as at 31 December 2012 is contingent upon the following:

(i) The Group deriving future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) The conditions for deductibility imposed by tax legislation continuing to be complied with;

(iii) There being no changes in tax legislation which adversely affect the Group from realising the benefit; and

(iv) Given the Group is in a taxable loss position there is no franking credit to report.

8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2012	2011
	$	$
Cash at bank and in hand	1,973,713	3,650,010

No cash is held in term deposits as at 31 December 2012 (2011: $3,000,000)

9. CURRENT ASSETS – TRADE & OTHER RECEIVABLES

	Consolidated	
	2012	2011
	$	$
Trade receivables	70,442	72,139
Allowance for doubtful debt	(16,492)	-
	53,950	72,139
Other receivables	71,294	102,890
Prepayments	57,586	56,995
	182,830	232,024

An allowance for doubtful debt has been provided for a trade receivable amount that is past due. Other receivables do not contain impaired assets and are not past due.

10. NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated	
	2012	2011
Shares in an unlisted company	$	$
Opening cost	162,586	162,586
Less impairment (Refer also to Note 6 (b))	(130,069)	-
Balance at end of year	32,517	162,586

Unlisted shares comprise an investment in Opal Horizon Limited. (Refer also to Note 20 (f)).

11. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Furniture and fittings $	Motor vehicles $	Leased Motor vehicles $	Plant and Equipment $	Total $
Year ended 31 December 2011					
Opening net book amount	41,062	137,162	158,374	601,915	938,513
Additions	-	806	-	8,979	9,785
Disposals	(79)	-	-	-	(79)
Depreciation charge	(17,300)	(27,502)	(31,675)	(137,151)	(213,628)
Closing net book amount	23,683	110,466	126,699	473,743	734,591
At 31 December 2011					
Cost	134,835	246,107	287,346	1,113,115	1,781,403
Accumulated depreciation	(111,152)	(135,641)	(160,647)	(639,372)	(1,046,812)
Net book amount	23,683	110,466	126,699	473,743	734,591
Year ended 31 December 2012					
Opening net book amount	23,683	110,466	126,699	473,743	734,591
Additions	653	390	-	22,139	23,182
Disposals	-	(4,025)	(70,257)	(329)	(74,611)
Depreciation charge	(10,877)	(21,633)	(16,630)	(112,368)	(161,508)
Closing net book amount	13,459	85,198	39,812	383,185	521,654
At 31 December 2012					
Cost	135,488	237,743	116,539	1,134,492	1,624,262
Accumulated depreciation	(122,029)	(152,545)	(76,727)	(751,307)	(1,102,608)
Net book amount	13,459	85,198	39,812	383,185	521,654

12. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS

	Consolidated	
	2012 $	**2011 $**
Exploration and evaluation assets – at cost less impairment	19,251,664	19,379,377
Opening balance	19,379,377	18,791,274
Costs capitalised during the year	2,732,208	3,007,822
Costs written off during the year (#)	(2,859,921)	(2,419,719)
Closing balance	19,251,664	19,379,377

(#) During the year geological test-work downgraded the prospectivity of various Western Australia and Queensland tenements resulting in their full or partial relinquishments, which necessitates the writing off their respective costs.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. (Refer also to Note 4 (i)).

At balance date the carrying amount of exploration and evaluation assets was $19,251,664 of which $4,166,659 is attributable to the significant exploration of the Group's Cyclone Heavy Mineral Project.

13. NON-CURRENT ASSETS – OTHER

	Consolidated 2012 $	Consolidated 2011 $
Rent guarantee deposit	105,669	105,669
Security deposits	595,454	595,525
	701,123	701,194

14. CURRENT LIABILITIES – TRADE & OTHER PAYABLES

	Consolidated 2012 $	Consolidated 2011 $
Unsecured		
Trade payables	145,794	190,802
Other payables and accruals	86,263	85,592
Employee benefits	57,115	36,684
	289,172	313,078

Trade payables are non-interest bearing and are normally settled on 30 day terms.

15. CURRENT LIABILITY - INTEREST BEARING LIABILITIES

	Consolidated 2012 $	Consolidated 2011 $
Secured		
Finance lease liabilities - current	20,359	130,050

Lease liabilities are secured over the rights to the leased assets, refer Note 11, recognised in the Consolidated Statement of Financial Position which will revert to the lessor if the Group defaults.

16. CURRENT LAIBILITY - PROVISIONS

	Consolidated 2012 $	Consolidated 2011 $
Employee benefits – current	135,314	-
Employee benefits – non-current	-	124,979
	135,314	124,979

17. ISSUED CAPITAL

	2012 $	2011 $
473,582,422 (Dec 2011 354,597,423) ordinary shares	43,089,752	39,853,242

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
1 January 2011	Opening balance	265,947,384		33,321,487
April (1)	Shares issued	88,650,039	0.080	7,092,003
	Share issue costs	-		(560,248)
31 December 2011	Balance	354,597,423		39,853,242
July 2012 (2)	Shares issued	8,432,432	0.037	312,000
July	Exercise of listed options	4	0.150	-
August (2)	Shares issued	5,405,405	0.037	200,000
September (2)	Shares issued	15,891,892	0.037	588,000
October (2)	Shares issued	57,600,000	0.025	1,440,000
December (3)	Shares issued	31,655,266	0.025	791,382
	Share issue costs	-		(94,872)
31 December 2012	Balance	473,582,422		43,089,752

(1) In April 2011, the Company successfully completed a non-renounceable rights issue to shareholders on a 1 for 3 basis. As a consequence, $7,092,003 was raised through the issue of 88,650,039 fully paid ordinary shares at 8 cents each, each with a free attaching listed option exercisable at 15 cents expiring on 30 September 2013.

(2) During the 2012 year the Company completed several placements to sophisticated and professional investors.

(3) The Company completed a Share Purchase Plan in December 2012.

Ordinary shares

Holders of ordinary shares are entitled to receive dividends that may be declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds from liquidation.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

(b) Share Options

		Number at end of year	
Expiry date	**Exercise Price**	**2012**	**2011**
30 September 2013 (listed)	$0.15	88,650,035	88,650,039

There were 88,650,035 listed options on issue at year end 2012 after 4 listed options were exercised during the year.

Share options

Share options issued by the Company carry no rights to dividends and no voting rights. All options are exercisable for cash on a 1:1 basis.

18. RESERVE

	Consolidated	
	2012	**2011**
Share-based payment reserve	**$**	**$**
Opening balance	-	87,670
Transfer to accumulated losses for expired options (1)	-	(87,670)
Closing balance	-	-

(1) Transfer from share-based payment reserve to accumulated losses relate to the 19,800,000 unlisted options that expired on 30 June 2011 and 31 July 2011.

Nature and purpose of share-based payment – option reserve

The share-based payment reserve is used to recognise the fair value of options issued under the employee share option plan.

19. ACCUMULATED LOSSES

	Consolidated	
	2012	**2011**
	$	**$**
Accumulated losses at the beginning of the year	(15,561,567)	(11,271,975)
Net Loss for the year	(4,908,468)	(4,377,262)
Transfer from reserve	-	87,670
Accumulated losses at the end of the year	(20,470,035)	(15,561,567)

20. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to fund the Group's operations.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Categories of financial instruments

	Consolidated	
	2012	2011
	$	$
Financial assets		
Cash and cash equivalents	1,973,713	3,650,010
Trade and other receivables	182,830	232,024
Current tax asset	401,061	-
Security and other deposits	701,123	701,194
Available-for-sale financial assets	32,517	162,586
Total financial assets	3,291,244	4,745,814
Financial liabilities		
Trade and other payables	289,172	313,078
Interest-bearing liabilities	20,359	130,050
Total financial liabilities	309,531	443,128

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework which is summarised below:

(b) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. As an emerging explorer, the Group does not establish a return on capital. Capital management requires the maintenance of strong cash balance to support ongoing exploration. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

(c) Market risk

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earning volatility on floating rate instruments. The Group does not have a formal policy in place to mitigate interest rate risks as the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

At balance date, the Group had the following financial assets which are interest bearing:

	Consolidated	
	2012	2011
	$	$
Cash and cash equivalents (variable interest rates)	1,973,713	3,650,010
Security deposits (fixed interest rates)	595,454	595,525
	2,569,167	4,245,535

Interest rate sensitivity analysis

An increase of 80 basis points in interest rates at the reporting date, with all other variables held constant, would have decreased the Group's loss and increased equity by $20,553 (2011: $33,964). Where interest rates decreased, there would be an equal and opposite impact on the loss and equity.

Price risk

The Group is exposed to equity securities price risk. This arises from an investment held by the Group and classified on the consolidated statement of financial position as an available-for-sale financial asset.

The price risk for unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. A sensitivity analysis has therefore not been performed.

The Group is not exposed to commodity price risk or currency risk.

(d) Credit risk

Credit risk is the risk that a counter party will not complete its obligation under a financial instrument that will result in a financial loss to the Group. The carrying amount of financial assets represents the maximum credit exposure.

The Group manages any credit risk associated with its funds on deposit by ensuring that it only invests its funds with reputable financial institutions. The Group currently has deposits with the ANZ and Suncorp banks.

At 31 December 2012, trade and other receivables are mostly receivable within 30 days.

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount $	Contractual cash flow $	< 6 months $	6-12 months $	1-3 years $	> 3 years $
31 Dec 2012						
Trade and other payables	289,172	(289,172)	(289,172)	-	-	-
Interest bearing liabilities	20,359	(21,228)	(14,294)	(6,934)	-	-
	309,531	(310,400)	(303,466)	(6,934)	-	-
	619,062	(620,800)	(606,932)	(13,868)	-	-

Consolidated	Carrying amount $	Contractual cash flow $	< 6 months $	6-12 months $	1-3 years $	> 3 years $
31 Dec 2011						
Trade and other payables	313,078	(313,078)	(313,078)	-	-	-
Interest bearing liabilities	130,050	(133,232)	(133,232)	-	-	-
	443,128	(446,310)	(446,310)	-	-	-

(f) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their respective fair values, other than as noted below.

The fair value of the non current asset comprising available-for-sale financial assets has been valued at cost less allowance for impairment. As disclosed in the above Note 10, the assets are shares in an unlisted company Opal Horizon Limited and as such their fair value cannot be determined reliably as there is no active market. The intention at this stage is to not dispose of the shares.

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	1,035,876	967,605
Post-employment benefits	90,405	80,577
Long-term benefits	7,644	30,304
Share-based payments	-	-
	1,133,925	1,078,486

(b) Key management personnel equity holdings

(i) Option holdings

2012	Balance at the start of the year	Granted as remuneration	Lapse	Rights Issue [3]	Purchases	Other Changes	Balance at the end of the year	Vested and exercisable
Directors								
A J Fawdon	243,179	-	-	-	-	-	243,179	243,179
D H Hall	320,000	-	-	-	-	-	320,000	320,000
G H White	516,667	-	-	-	-	-	516,667	516,667
A Tsang	35,832,933	-	-	-	-	-	35,832,933	35,832,933
C Wang	804,903	-	-	-	-	-	804,903	804,903
N J McIntyre	-	-	-	-	-	-	-	-
Other key management personnel								
D Jelley	-	-	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-	-	-
T Do	-	-	-	-	-	-	-	-
Total	37,717,682	-	-	-	-	-	37,717,682	37,717,682
2011								
Directors								
A J Fawdon	5,000,000	-	(5,000,000)	243,179	-	-	243,179	243,179
D H Hall	4,100,000	-	(4,100,000)	250,000	70,000	-	320,000	320,000
G H White	2,500,000	-	(2,500,000)	16,667	500,000	-	516,667	516,667
A Tsang	-	-	-	35,832,933	-	-	35,832,933	35,832,933
C Wang [1]	-	-	-	-	-	804,903	804,903	804,903
N J McIntyre [2]	-	-	-	-	-	-	-	-
Other key management personnel								
D Jelley	1,500,000	-	(1,500,000)	-	-	-	-	-
L Stanley	-	-	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-	-	-
Total	13,100,000	-	(13,100,000)	36,342,779	570,000	804,903	37,717,682	37,717,682

[1] Appointed to Board 27 May 2011 and net other changes relate to holdings at date of appointment as Director
[2] Appointed to Board 27 July 2011
[3] Refer also to Note 17(a)

(ii) Share holdings

	Balance at the start of the year	Options exercised	Net purchased / (sold)	Rights Issue [3]	Other changes	Balance at the end of the year
2012						
Directors						
A J Fawdon	3,524,577	-	600,000	-	-	4,124,577
D H Hall	2,800,000	-	150,000	-	-	2,950,000
G H White	216,667	-	-	-	-	216,667
A Tsang	77,177,551	-	17,691,892	-	-	94,869,443
C Wang	2,537,822	-	40,000	-	-	2,577,822
N J McIntyre	-	-	-	-	-	-
Other key management personnel						
D Jelley	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-
T Do	-	-	-	-	-	-
Total	86,256,617	-	18,481,892	-	-	104,738,509
2011						
Directors						
A J Fawdon	3,281,821	-	-	243,179	(423)	3,524,577
D H Hall	2,550,000	-	-	250,000	-	2,800,000
G H White	50,000	-	150,000	16,667	-	216,667
A Tsang	41,344,618	-	-	35,832,933	-	77,177,551
C Wang [1]	-	-	-	-	2,537,822	2,537,822
N J McIntyre [2]	-	-	-	-	-	-
Other key management personnel						
D Jelley	-	-	-	-	-	-
L Stanley	-	-	-	-	-	-
T Do	-	-	-	-	-	-
Total	47,226,439	-	150,000	36,342,779	2,537,399	86,256,617

[1] Appointed to Board 27 May 2011 and net other changes relate to holdings at date of appointment as Director
[2] Appointed to Board 27 July 2011
[3] Refer also to Note 17(a)

22. REMUNERATION OF AUDITORS

	Consolidated 2012 $	Consolidated 2011 $
Amounts received, or due and receivable, by the Group's auditor – BDO Audit Pty Ltd:		
- Audit and review of the financial statements	30,500	30,000

The auditor did not provide any other services.

23. CONTINGENT LIABILITY

On transfer of the Tick Hill mining tenements to the Group there will be a requirement to pay $100,000 option exercise fee.

24. COMMITMENTS

(a) Tenement expenditure commitments

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

	Consolidated 2012 $	Consolidated 2011 $
Payable within 1 year	943,437	298,656
Payable between one and five years	4,179,067	3,355,335
	5,122,504	3,653,991

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. Cash security bonds totalling $593,855 (2011: $593,925) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

Performance bonds totalling $351,000 (2011: $351,000) have been issued by the Australia and New Zealand Banking Group Limited (“ANZ”) on behalf of one of the Group’s subsidiaries, in respect of several Western Australian tenements. ANZ will indemnify against any loss arising from the performance bonds and the indemnities are secured against the cash security bonds above.

(b) Operating lease commitments

	Consolidated 2012 $	Consolidated 2011 $
Payable within 1 year	305,968	290,542
Payable between one and five years	796,782	1,085,051
	1,102,750	1,375,593

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

(c) Finance leases/commitments

	Consolidated 2012 $	Consolidated 2011 $
Minimum lease payments payable within 1 year	21,228	133,232
Future finance charges	(869)	(3,182)
Recognised as a liability	20,359	130,050
Representing interest-bearing liabilities (Note 15):		
Current	20,359	130,050
Non-current	-	-
	20,359	130,050

The Group leases two motor vehicles under finance lease agreements. (In 2011 there were five vehicles under the same lease agreements, of which three have been paid out during 2012).

25. RELATED PARTY TRANSACTIONS

(a) Parent entity
The ultimate parent entity in the Group is Diatreme Resources Limited.

(b) Subsidiaries
Interests in subsidiaries are set out in Note 26.

(c) Key management personnel
Disclosures relating to key management personnel are set out in Note 21.

(d) Transactions with related parties
The following transactions occurred with related parties:

	Consolidated 2012 $	Consolidated 2011 $
Management fee charged to Director related entity (Opal Horizon Ltd)	1,561	2,771
Rental office sub-lease charged to Director related entities (Executive Director D H Hall was a non-executive Director of Opal Horizon Ltd (Resigned 1 October 2012).	19,444	23,322

26. GROUP ENTITIES

Subsidiaries	Country of Incorporation	Ownership Interest 2012	Ownership Interest 2011
Regional Exploration Management Pty Ltd	Australia	100%	100%
Chalcophile Resources Pty Ltd *	Australia	100%	100%
Lost Sands Pty Ltd	Australia	100%	100%

* This entity is 100% owned by Regional Exploration Management Pty Ltd.

27. RECEIPT FROM ANTOFAGASTA

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

For the year ended 31 December 2012, and under the agreed terms, the Company received $383,941 ($US $400,000) from Antofagasta Minerals S.A. to fund exploration at the Clermont Copper Project. The balance was fully expended during 2012.

28. RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated 2012 $	Consolidated 2011 $
Loss for the year	(4,908,468)	(4,377,262)
Non-cash items		
Depreciation	161,508	213,628
Capitalised exploration expenditure written-off	2,859,921	2,419,719
Impairment of available-for-sale financial assets	130,069	-
(Profit)/loss on sale of fixed assets	(31,208)	79
Movements in operating assets and liabilities		
(Increase)/decrease in receivables	49,195	(45,904)
(Increase)/decrease in current tax asset	(401,061)	315,603
(Increase)/decrease in other assets	(4,930)	(4,261)
Increase / (decrease) in payables	45,606	(45,024)
Increase / (decrease) in provisions	10,335	35,460
Net cash outflow from operating activities	(2,089,033)	(1,487,962)

29. EARNINGS PER SHARE

	Consolidated	
	2012 Cents	2011 Cents
Basic earnings per share (loss)	(1.3)	(1.4)
Diluted earnings per share (loss)	(1.3)	(1.4)

Weighted average number of shares used as the denominator	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	365,921,183	309,975,140
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	365,921,183	309,975,140

Information concerning earnings per share

Earnings for the purpose of the calculation of basic earnings per share and also diluted earnings per share, is the loss attributable to owners of Diatreme Resources Limited of $4,908,468 (2011: loss $4,377,262).

Options granted are usually considered to be potential ordinary shares and taken into account in the determination of diluted earnings per share and are not included in the determination of basic earnings per share. In the circumstances of the Group, the options are not dilutive and are therefore not used in the calculation of diluted earnings per share. Details of the options are set out in Note 17(b).

30. SHARE-BASED PAYMENTS

Total expense arising from share-based payment transactions recognised during the year was nil (2011: nil).

31. PARENT ENTITY INFORMATION

	2012 $	2011 $
Financial position		
Current assets	2,460,523	3,721,155
Non-current assets	27,879,642	25,291,267
Total assets	30,340,165	29,012,422
Current liabilities	349,185	131,944
Non-current liabilities	-	124,979
Total liabilities	349,185	256,923
Net assets	29,990,980	28,755,499
Shareholders' equity		
Contributed equity	43,089,752	39,853,242
Option reserve	-	-
Accumulated losses	(13,098,772)	(11,097,743)
Total equity	29,990,980	28,755,499

	2012 $	2011 $
Loss for the year	(2,001,029)	(2,193,160)
Total comprehensive loss for the year	(2,001,029)	(2,193,160)

Non-Current Assets
Non-current assets include $24,640,198 (2011: $22,022,240) of Intercompany Receivables balances with recoverability of the debt based on successful exploitation of various tenement sites.

Contingent Liabilities
The parent entity has a contingent liability as disclosed in Note 23 above.

Contractual commitments
The parent entity does not have any contractual commitments for property, plant and equipment at 31 December 2012.

Guarantees
The parent entity does not have any guarantees at 31 December 2012.

32. EVENTS SUBSEQUENT TO REPORTING DATE

9 January 2013	Heads of Agreement for iron exploration signed with Braemar Iron Pty Ltd over the Anabama Copper Project in South Australia.
11 January 2013	Exploration Licence applications “Serpentine” and “Elliston” were secured in Western Australia and South Australia respectively, targeting heavy mineral sand prospects.
18 January 2013	Farm-In Agreement signed with Antofagasta Minerals Australia Pty Ltd over the Clermont Copper Project in central Queensland.
14 March 2013	The Company received signed agreements from sophisticated investors to subscribe for placements totalling 34,000,000 ordinary fully paid shares at $0.025 per share to raise $850,000.

No other matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial years subsequent to 31 December 2012.

33. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial report, certain Standards and Interpretations were on issue but not yet effective. These Standards and Interpretations have not been adopted in the preparation of the financial report for the year ended 31 December 2012. None of these Standards and Interpretations is expected to have significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group’s 2015 consolidated financial statements and could change the classification and measurement of financial assets.

The Group does not plan to adopt this Standard early and the extent of the impact has not been determined.

The Group expects to first apply these Standards and Interpretations in the financial report of the Group relating to the annual reporting period beginning after the effective date of each pronouncement.

DIRECTORS' DECLARATION

The Directors declare that the attached financial statements and notes are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date.

The consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

In the Directors' opinion, given reasonable assumptions in regards to the Company's ability to raise additional funds and/or scale back activities, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 31 December 2012 comply with Section 300A of the Corporations Act 2001.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A.
This declaration is made in accordance with a resolution of the Directors.

A J Fawdon
Executive Chairman/CEO

Brisbane, 25 March 2013

BDO

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INDEPENDENT AUDITOR'S REPORT

To the members of Diatreme Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Diatreme Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Opinion

In our opinion:

(a) the financial report of Diatreme Resources Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter - Material Uncertainty Regarding Going Concern

Without modifying our opinion, we draw attention to Note 2(e) in the financial report. The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of the business. The ability of the consolidated entity to maintain continuity of normal business activities and to pay its debts as and when they fall due, is dependent upon the ability of the consolidated entity to successfully raise additional funding and/or the successful exploration and subsequent exploitation of its areas of interest through sale or development. As a result of these factors, there exists a material uncertainty regarding the ability of the consolidated entity to continue as a going concern. Therefore the consolidated entity may be unable to realise its assets and extinguish its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 41 to 44 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Diatreme Resources Limited for the year ended 31 December 2012 complies with section 300A of the Corporations Act 2001.

BDO Audit Pty Ltd

BDO

C J Skelton
Director
Brisbane: 25 March 2013

Shareholder Information

The information set out below was applicable at 02 April 2013.

A DISTRIBUTION OF ASX QUOTED EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

Ordinary Shares (ASX:DRX)

Range	Holders	%	Shares	%
1 to 1,000	704	25.73	159,431	0.03
1,001 to 5,000	304	11.11	883,673	0.19
5001 to 10,000	291	10.64	2,460,705	0.52
10,001 to 100,000	964	35.23	41,684,318	8.80
100,001 and Over	473	17.29	428,394,295	90.46
Total	2,736	100.00	473,582,422	100.00

The number of security investors holding less than a marketable parcel of 25,000 securities ($0.020 on 28/3/13) was 1606 and they held 8,683,240 securities.

Options (ASX:DRXO) – exercise price of 15 cent, exercisable on or before 30 September 2013

Range	Holders	%	Options	%
1 to 1,000	24	5.19	9,228	0.01
1,001 to 5,000	90	19.48	264,774	0.30
5001 to 10,000	68	14.72	549,103	0.62
10,001 to 100,000	180	38.96	7,263,271	8.19
100,001 and Over	100	21.65	80,563,659	90.88
Total	462	100.00	88,650,035	100.00

The number of security investors holding less than a marketable parcel of 500,000 securities ($0.001 on 13/2/13) was 432 and they held 23,602,172 securities.

B ASX QUOTED EQUITY SECURITY HOLDERS

The names of the twenty largest holders of ordinary shares (ASX:DRX) are listed below:

Rank	Name	Number of Ordinary shares held	Percent %
1	MR ANDREW TSANG	38,895,600	8.21%
2	MS LAI YOU	36,511,080	7.71%
3	ZHENSHENG ZHUANG	34,560,000	7.30%
4	DORAL LTD	23,500,000	4.96%
5	MR CHENFEI ZHUANG	20,622,072	4.35%
6	MR ZHANGXI ZENG	14,976,638	3.16%
7	XIANG RONG (AUSTRALIA) CONSTRUCTION GROUP PTY LTD <XIANG RONG MANAGEMENT A/C>	14,862,763	3.14%
8	QI LIN	11,520,000	2.43%
9	HUNTLEY CUSTODIANS LIMITED	6,842,860	1.44%
10	MR CHAOHUI ZHANG	6,316,309	1.33%
11	MR GUOZHONG YU	5,133,333	1.08%
12	MS CHUNXIANG ZENG	4,600,000	0.97%
13	LEET INVESTMENTS PTY LIMITED	3,600,000	0.76%

14	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,453,661	0.73%
15	TERRA SEARCH PTY LTD	3,444,340	0.73%
16	LAWRENCE JAMES LITZOW	2,925,526	0.62%
17	MR STEPHEN JOHN RYAN	2,830,000	0.60%
18	MR JUNYONG CHEN	2,580,000	0.54%
19	MRS WENZHEN ZHANG	2,577,822	0.54%
20	MR GUOZHAN ZENG	2,568,831	0.54%
TOTAL		**242,320,835**	**51.17%**
Balance of Share Register		**231,261,587**	**48.83%**
Total ordinary shares on issue (03-04-2013)		**473,582,422**	**100.00%**

The names of the twenty largest holders of listed options (ASX:DRXO) are listed below:

Rank	Name	Number of Options held	Percent %
1	MS LAI YOU	23,115,457	26.07%
2	MR ANDREW TSANG	9,573,900	10.80%
3	MR CHAOHUI ZHANG	6,760,808	7.63%
4	GOFFACAN PTY LTD	3,100,000	3.50%
5	XIANG RONG (AUSTRALIA) CONSTRUCTION GROUP PTY LTD <XIANG RONG MANAGEMENT A/C>	2,143,576	2.42%
6	MR NICHOLAS JOHN IRELAND <IRELAND S/F A/C>	2,000,000	2.26%
7	MR ZHANGXI ZENG	1,650,000	1.86%
	MRS IRENE LOUISE COLEFAX <COLEFAX FAMILY NO		
8	2 A/C> ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	1,300,000	1.47%
9	<CUSTODIAN A/C>	1,066,294	1.20%
10	PRIVATE EQUITY SERVICES PTY LTD	1,000,000	1.13%
	MR WILLIAM JOHN ROSEN + MRS DIANE ROSEN <BIG		
11	SPENDER SUPER FUND A/C>	1,000,000	1.13%
12	MS CHUNXIANG ZENG	1,000,000	1.13%
13	BUTLER GIBPAT LTD	923,371	1.04%
14	MR GUOZHAN ZENG	920,000	1.04%
15	MR ERIC ROBERT TERACE + MRS JUDITH FAY TERACE	900,000	1.02%
16	MR MIN HU + MRS JIAN WANG	800,000	0.90%
17	MR RODERICK LESLIE MCFARLAND	753,636	0.85%
18	MR JOHN GREENWOOD	750,000	0.85%
19	MRS WENZHEN ZHANG	666,956	0.75%
20	MR FANQIU ZENG	551,127	0.62%
TOTAL		**59,975,125**	**67.65%**
Balance of Share Register		**28,674,910**	**32.35%**
Total options on issue (03-04-2013)		**88,650,035**	**100.00%**

D SUBSTANTIAL HOLDERS

Substantial holders of ordinary shares in the Company are set out below:

Name	Number held	Percentage of issued shares
Andrew Tsang (and related parties)	94,869,443	20.03%
Zhensheng Zhuang	34,560,000	7.30%

E VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options

No voting rights.

Gilbert River Project, North Queensland – Historic Battery Stamp

Diatreme Resources Limited

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