



2013 Annual Report



Diatreme Resources Limited

ABN 33 061 267 061



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

CORPORATE DIRECTORY

Company

Diatreme Resources Limited

ABN 33 061 267 061

and subsidiaries:

- Lost Sands Pty Ltd
- Regional Exploration Management Pty Ltd
- Chalcophile Resources Pty Ltd

Directors

Anthony John Fawdon

David Hugh Hall

George Henry White

Andrew Tsang

Cheng (William) Wang

Neil McIntyre

Yufeng (Daniel) Zhuang

Joint Company Secretary

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Auditor

BDO Audit (QLD) Pty Ltd

Level 10, 12 Creek Street

Brisbane Queensland 4000

Chairman's Review 2013

Although 2013 has been a trying year for mineral explorers in general, it culminated in your Company with funding provided from joint venturer Perpetual Mining Holding Limited ("PMHL") and discovering significant and highly valuable sub-artesian water supplies immediately beneath the proposed Cyclone Heavy Mineral (Zircon) Project minesite in Western Australia. This achievement, coupled with the completion of both level 1 and level 2 flora and fauna field studies associated with the proposed minesite and haul road corridor to the Trans Continental railway, has significantly advanced the Cyclone Project. Results to date are cementing Cyclone as a future mining operation in the advent of the Chinese economy now picking up and with heavy mineral prices recovering.

In spite of junior resource company hardships, Diatreme continues to maintain a multi-target exploration approach. The Company has endeavoured to advance its mineral portfolio through continued exploration and the acquisition of certain joint venture partnerships wherein project risk may be shared.

Joint Ventures

Joint venture arrangements exist over the Tick Hill Gold Project in Queensland with Superior Resources Limited (recently announced in April 2014 as an option to acquire 100% of the project) and the Anabama Project in South Australia with Braemar Iron Pty Ltd (wherein the magnetite iron potential of the project is under assessment). The Company is continuing to seek a joint venture over the copper potential within the Anabama Project. The Company was in Joint Venture over the Clermont Project with Antofagasta during most of 2013 which furthered our understanding of the Rosevale Porphyry Corridor. However, in late 2013 with Antofagasta not finding a major porphyry resource at that time, they withdrew from the joint venture without earning any interest in the project. From Diatreme's perspective, the Rosevale Porphyry Corridor remains a desirable porphyry sized target.

Mineral Sands

Although the mineral sands sector of the mining industry has experienced lower mineral prices, there is currently a resurgence in prices being achieved. In understanding this particular market, Diatreme has significantly reduced certain tenement holdings during the year, keeping only those areas which are believed to hold prime potential to meet the requirements of rebounding market conditions. Mineral sand projects retained include the area surrounding the Cyclone Project (WA), two tenements (Noorina) east of Cyclone in the South Australian portion of the Eucla Basin (SA,) Elliston (SA), Cape Bedford (QLD), Grays Hill (QLD) and Mandora (WA).

Of primary interest to the Company is the Cape Bedford Heavy Mineral Sands Project in north Queensland, adjacent to an existing world class silica sand mining operation. This project, originally secured under tenement application for its heavy mineral potential a number of years ago, is now shaping up for Diatreme as a prime silica sand operation besides holding heavy mineral sand potential. The Company is holding discussions with the Traditional Owners regarding the final steps necessary to secure grant of the tenement, following which the defining of known silica sand resources could then commence.

Diatreme has been granted an exploration licence over a large area southeast of Cyclone (excluding Image Resources' Cyclone Extended Deposit) and containing the Monsoon Prospect. This tenement has good potential for the discovery of future mineral feed for a mining operation at Cyclone.

Copper Gold and Base Metals

Diatreme has great porphyry copper and gold projects at Clermont (QLD) and

Glenthompson (VIC). Both these projects are recognised as classic porphyry copper target areas, which may also host significant individual gold targets.

With the withdrawal of Antofagasta plc from the Clermont Copper Project in October 2013, after expending in the order of \$1.5M, the Company embarked upon a reassessment of results to date and plans to continue exploration for the sources of widespread copper mineralisation within the Rosevale Porphyry Corridor. Simultaneously, Diatreme is also continuing detailed assessment of the Palm Trees/McDonalds Flat gold areas and the former Peak Downs Copper Mine, both areas believed to exhibit potential for early development of identified mineral resources.

The Company has secured the grant of the Glenthompson Copper Project tenement in Victoria. Based upon valuable research conducted by the Victorian Geological Survey, the tenement is situated within a highly regarded geological environment proving prospective for porphyry copper deposits similar to the Cadia/Ridgeway deposits in NSW. Initial geophysical surveying by Diatreme has identified drill targets under shallow overburden cover along a 30km zone of non-explored ground. This project sits within the centre of a “fertile” Andean-style magmatic arc system, prospective for porphyry copper deposits and is surrounded by prospects defined by other explorers.

Summation

With limited budgets in these hard times, Diatreme seeks to concentrate its efforts to advance the most recently granted and more prospective mineral target areas. The Company will use its own aircore drilling rig, which is equipped for both mineral sand and shallow depth metals exploration, staffed by Company personnel to achieve best results for minimum cost. Cyclone feasibility study work continues to progress under the PMHL joint venture, targeting the release of a Public Environmental Review and the grant of the Cyclone mining lease in the second half of 2014.

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 four states; Western Australia, South Australia, Victoria and Queensland.

CORPORATE PHILOSOPHY

Diatreme is seeking to increase Shareholder value through:

- advancement of the Cyclone Zircon Project feasibility study through the joint venture with Perpetual Mining Holding Limited, leading to evaluation of development options that maximise returns to shareholders.
- procurement of, and exploration over, highly targeted exploration holdings within established or newly emerging mineral belts.

The Company aims to:

- Direct the Cyclone Zircon Project, in conjunction with Perpetual Mining Holding Limited, toward a viable mining operation.
- Continue advancement of the Clermont and Glenthompson Copper projects 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 lifeblood of an exploration company.



MINERAL PROJECT LOCATIONS & SUMMARY

Mandora
Heavy Mineral Sands

Mandora
Radiometric anomaly 50km in length. Anomaly may be indicated by zircon within the heavy minerals sands. Untested by drilling.

Program
Await grant followed by drill testing

WA Eucla Basin
Heavy Mineral Sands

WA Eucla Basin
Cyclone Deposit. 97Mt @ 2.5% HM of which 33% is zircon and balance HiTi titanium. Further targets at Zephyr and Monsoon.

Program
DFS studies including environmental surveys. Regional drilling.

SA Eucla Basin
Heavy Mineral Sands

SA Eucla Basin
Identified over 10km of HM strandlines with mineralisation up to 8% HM.

Program
Drill test recently granted Noorina tenements along strike from Cyclone. Drilling to define resource estimates.

Elliston
Heavy Mineral Sands

Elliston
Dunal strand system 35km x 5km with known zircon & titanium minerals. BHP conducted widespaced (1km), shallow drilling & established low grade HM to depth included zircon (>20%) within the HM.

Program
Upon grant drill closer spaced & deeper holes. High Priority target.

Glenthon



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.



Cape Bedford
 Heavy Mineral Sands

Cape Bedford
 Extensive dune field covering 50km x 10km known to contain high grade silica sands & heavy mineral sands.
Program
 Await grant. Drill out known resources of silica sand followed by heavy mineral sands below.

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

Clermont
 Structural corridor 15x3km at Rosevale/Savannah. Exploration at: Gollan- copper; Savannah- gold, Cu, Ag Palm Trees- gold Leo Grande- gold. Existing resource of copper oxide at Peak Downs.
Program
 Define Cu and Au resources.

Anabama
 Cu, Co, Au, Fe

Anabama
 Copper, gold, cobalt mineralisation in late Proterozoic geology being targeted. 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.

Glen Thompson
 Cu, Au
 Mo, Ag

Glen Thompson
 Copper, gold, porphyry mineralisation targeted within Andean style magmatic arc setting.
Program
 High Priority Project Define economic mineralisation. Targets already defined by magetics.



March 2014

Operations Report

INTRODUCTION

During 2013, Diatreme Resources Limited (“Diatreme”) continued its focus on mineral exploration and development activities within Australia, with particular effort targeting the Company’s West Australian Cyclone Zircon Project.

Further exploratory aircore drilling for mineral sands was conducted in Western Australia along with reconnaissance field work over the Gilbert River Project in north Queensland.

Efforts to conclude joint venture arrangements over a number of the Company’s metalliferous projects continued, resulting in the formalisation of agreements in Queensland with Antofagasta Minerals S.A. (“Antofagasta”) over the Clermont Copper/Gold Project and Superior Resources Limited (“Superior”) over the Tick Hill Gold Project. A Heads of Agreement to Joint Venture the magnetite iron potential of the Anabama tenements in South Australia were also concluded during the year. Efforts continue to secure a joint venture party over the Anabama Copper Project.

The Company has a number of exploration tenements under application throughout Australia and is awaiting tenure grant to continue its efforts seeking to delineate both mineral sand and metalliferous and prospects.

MINERAL SAND PROJECTS

CYCLONE ZIRCON PROJECT

Feasibility Study work has continued throughout the year with particular emphasis towards environmental studies, the definition of a water supply for future mining operations and progression of a mining agreement with the Pila Nguru people as the traditional landowners. Additionally, a joint venture partner has been secured with Perpetual Mining Holding Limited (“PMHL”), a Hong Kong based company.

Joint Venture Partner

In early January 2014, Diatreme announced the signing of a Heads of Agreement (“HoA”) between its wholly owned subsidiary, Lost Sands Pty Ltd (as direct owner of the Cyclone Project) and PMHL. This was the result of negotiations which commenced in July 2013.

PMHL is a Hong Kong based company with sound business connections within China including operational experience in the iron ore mining and steel products processing industries.

Under the HoA, PMHL have confirmed their commitment to invest \$2.0M directly into the Cyclone Project to earn 6% equity. Three significant project milestone achievements are sought by PMHL (ASX release 09/01/14). The locating and securing of suitable water supplies for future mining operations milestone has effectively been achieved through the completion of the investigation production bore, Cyclone #1 (discussed below). The two remaining milestones (approvals for development of a road transport corridor, Cyclone to Forrest, and approvals relating to the grant of necessary mining and infrastructure licences) are time dependent due to their nature. Diatreme is seeking to achieve these milestones by end 2014.

Water Supply Assessment

A water bore, "Cyclone #1", was drilled late in 2013 to a depth of 812m, resulting in the successful discovery of an excellent deep groundwater aquifer. Located within E69/1920, adjacent to the proposed Cyclone mine site and treatment plant area, the bore construction and development was successfully completed in December 2013. Cyclone #1, cased to 812m, is designed to become a permanent production bore for infrastructure development and mine operations.

A series of high yielding sandstone aquifers were encountered within Cyclone #1 between 530 and 812 metres. Based on airlift testing, the minimum required bore yield of 20 litres per second has been easily achieved. Pump tests will be required to establish the long term maximum sustainable bore yield, optimal pump settings, the hydraulic characteristics of the aquifers and siting of future mine water production bores.

Field water quality tests indicate the salinity of the groundwater from the main aquifers is around 22,000 milligrams per litre total dissolved solids i.e. approximately two thirds the salinity of sea water. Following completion of development of the bore, the bore returned 24,000 milligrams per litre total dissolved solids at the end of 12 hour airlift testing at a rate estimated to be 40 litres per second.

The main aquifer commencing at 530 metres depth is sub-artesian with its pressure surface at around 87 metres below ground level. Water level monitoring will be required to determine natural variations in water levels over the short and long term.

Based on extrapolation of data from distant oil exploration bores in the Officer Basin approximately 80 kilometres to the east and interpretation of regional geology by Geoscience Australia and the Western Australia Department of Industry and Resources, the aquifers encountered in Cyclone #1 are part of an extensive aquifer system. From a regional perspective groundwater is moving from north to south with aquifer recharge zones about 200 kilometres to the north.

Pump testing information (yet to be completed), will be used to design and minimise the cost of the production bore field. Wireline geophysical logging techniques may provide comparative data to assist in identifying the formations intersected and to provide additional data on aquifers encountered.

Environmental Assessment

To support the requirements of a Public Environmental Review ("PER") document, as required by the Western Australian Environmental Protection Act 1986, baseline environmental study activities have been undertaken during the year, continuing into early 2014.

Between September and November 2013 experienced zoologists from Outback Ecology, a division of MWH Australia Pty Ltd, designed and conducted field surveys for terrestrial fauna in the Cyclone Project area. The surveys were designed in close consultation with assessors and scientists from the WA Office of the Environmental Protection Authority and the WA Department of Parks and Wildlife. Traditional owner representatives from the Pila Nguru were also involved in the planning and conduct of the surveys. The surveys were completed safely and successfully, and in accordance with established timeframes for progression of the Cyclone Project. Several fauna habitat types and over 140 species of vertebrate fauna were identified and several invertebrate specimens were collected for laboratory-based identification. Assessment of the field survey dataset is ongoing. Outback Ecology and the Company continue to liaise closely with relevant stakeholders to ensure that terrestrial fauna survey work for the project is robust and comprehensive.

During October 2013 a vegetation survey over the proposed Cyclone mining area and haul route to Forrest on the transcontinental rail line was also performed. The consultant team surveyed over 30 vegetation associations over two bioregions (and three sub regions).

A baseline soil assessment and waste (overburden) characterisation program for the Cyclone Project was also undertaken during the year and involved a site based soil survey and sampling program, identification of drill samples for assessment of mine waste characteristics and laboratory analysis of the physical and chemical properties of collected samples. The objectives of the work program have been to assess the characteristics and suitability of topsoil, subsoil and waste material resources within the project area for use as a rehabilitation resource, to identify any potentially problematic

soil and mine waste materials, and to facilitate recommendations for soil stripping, handling and stockpiling, soil profile reconstruction and associated rehabilitation / mine closure parameters.

Process and Plant Design

Metallurgical testwork by Mineral Technologies on a 12 tonne bulk sample representing the first two years of the planned operation at Cyclone has been completed. 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 a final report completed demonstrating similar valuable heavy mineral recovery and concentrate quality to the March 2012 Prefeasibility Study.

The process circuit design for the WCP was finalised and the heavy mineral concentrate (“HMC”) produced during the WCP testwork was used in Mineral separation Plant (“MSP”) processing testwork for optimisation of the process design, mineral recovery and final product quality. The MSP process design is complete, demonstrating similar quality final products similar to the PFS testwork results. An improved method for assaying heavy mineral samples from Cyclone is being developed as part of the Definitive Feasibility Study metallurgical testwork program. Two additional bulk samples from areas with different mineral assemblages have been prepared for variability testing and to finalise life of mine production parameters.

Zircon Product Specification

ZrO2 %	FE2O3 %	SiO2 %	Al2O3 %	TiO2 %	P2O5 %	U+Th ppm	CeO2 %
65.5	0.14	33.0	0.43	0.30	0.10	423	0.018

HiTi Product Specifications

	TiO2 %	FE2O3 %	SiO2 %	Al2O3 %	ZrO2 %	MgO %	MnO %	CaO %	CR2O3 %	U+Th ppm
HiTi87	87.3	3.5	5.13	1.27	0.98	0.06	0.01	0.06	0.03	86
HiTi 67	67.1	19.2	6.93	1.79	1.06	0.13	0.43	0.05	0.06	88

Feasibility Study Options

Alternative development models for the project have been evaluated, including lower production rates and lower capital options. The preferred strategy in the current market is to implement the project using a staged development approach with reduced mining rate and higher grade ore during the early years of production.

Cyclone Mineral Resource Update - JORC 2012

A review and upgrade of the Cyclone heavy mineral resource estimate as part of the ongoing project feasibility work was completed during the year (full details - ASX release 09/01/14). The revised resource reconfirms the economic potential of the zircon rich Cyclone Deposit and demonstrates the robustness of previous resource estimates.

The Cyclone resource estimate is now reported as 137 million tonnes (Mt) at 2.2% heavy minerals (HM) at a 1% HM cut-off grade, containing 3.0Mt HM (within Diatreme tenure) and with more than 90% of the resource now classified as “Measured”, reported under JORC 2012.

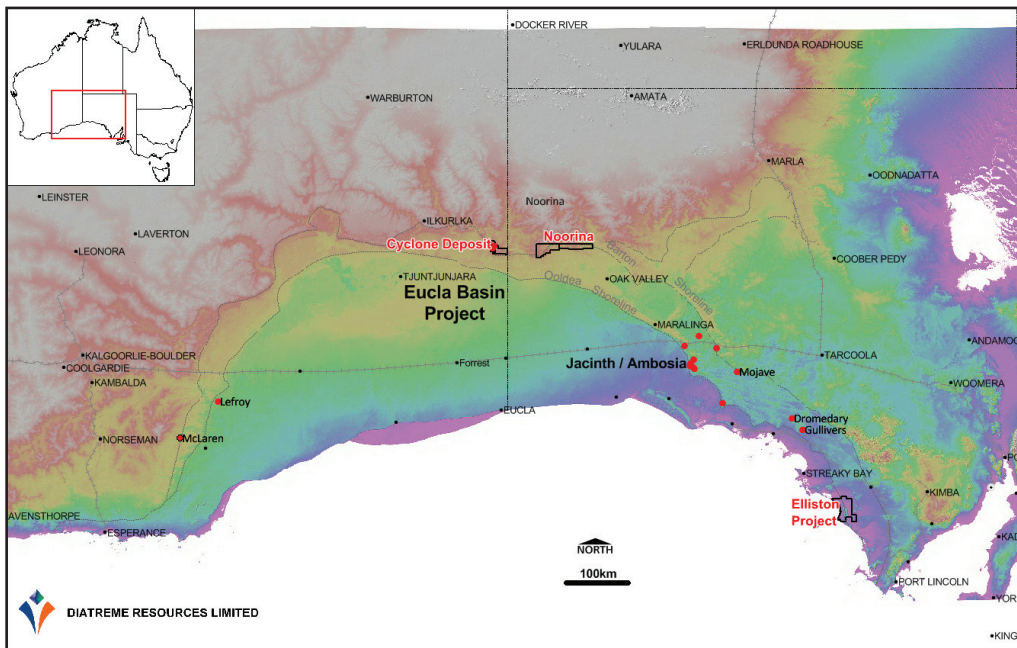
A subsequent review of the Ore Reserve estimate for Cyclone is proposed during 2014, once optimisation of the PFS mine plan has been finalised as part of ongoing feasibility studies for the project.

Cyclone represents potential for new, long-term, HM supply source for both Australian and overseas industries. The estimate again highlights the low levels of slimes (-53um) at 4.0% and oversize (>2mm) at 5.4% within the Cyclone mineralisation. These characteristics are conducive to simple, low cost, mining, processing and tailing operations.

Cyclone is interpreted as a Tertiary beach strandline HM system with analogies to Iluka's Jacinth/ Ambrosia HM deposit in the eastern Eucla Basin. Mining of beach strandline deposits is well understood and has formed the basis of global mineral sands production to date.

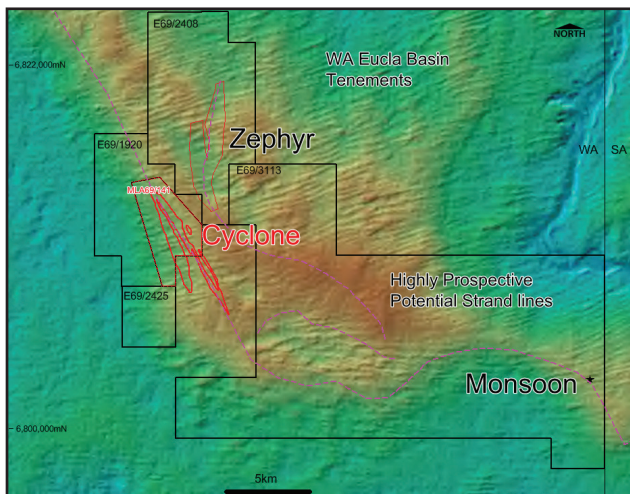
EUCLA BASIN EXPLORATION

In early 2013, Exploration Licence Application E69/3113 hosting a number of interpreted strandlines, was applied for over 292km² of land southeast of Cyclone. The area trends along the Barton shoreline which hosts the Cyclone Deposit. The tenement was granted in February 2014 for a period of five years.



Project locations – Eucla Basin and Elliston

Although explored in recent years for heavy mineral sands by Image Resources NL, an internal review indicated that the area retains significant exploration potential for the discovery of further heavy mineral mineralisation. A number of untested targets are open to drill testing and thus may result in future satellite deposits to support any mining operations that develop over Cyclone. The tenement area includes the zircon rich “Monsoon” mineralisation zone discovered in 2008. The Monsoon zone is approximately 800m wide and remains open to both the north and south.



WA Eucla Basin tenements surrounding Cyclone Zircon deposit

NOORINA HEAVY MINERAL PROJECT – SOUTH AUSTRALIA

Two exploration licences, lying 80km east of the Cyclone deposit and along the same projected ancient Barton Shoreline, have been granted to the Company. The tenements comprise the Noorina Project covering approximately 1,340km² and extending along a 100km strike length of the shoreline. With cultural heritage surveys completed and drilling traverse lines in place, the Company plans to commence on-ground exploration in 2014 with the aim of discovering additional heavy mineral sands resources associated with the shoreline feature.

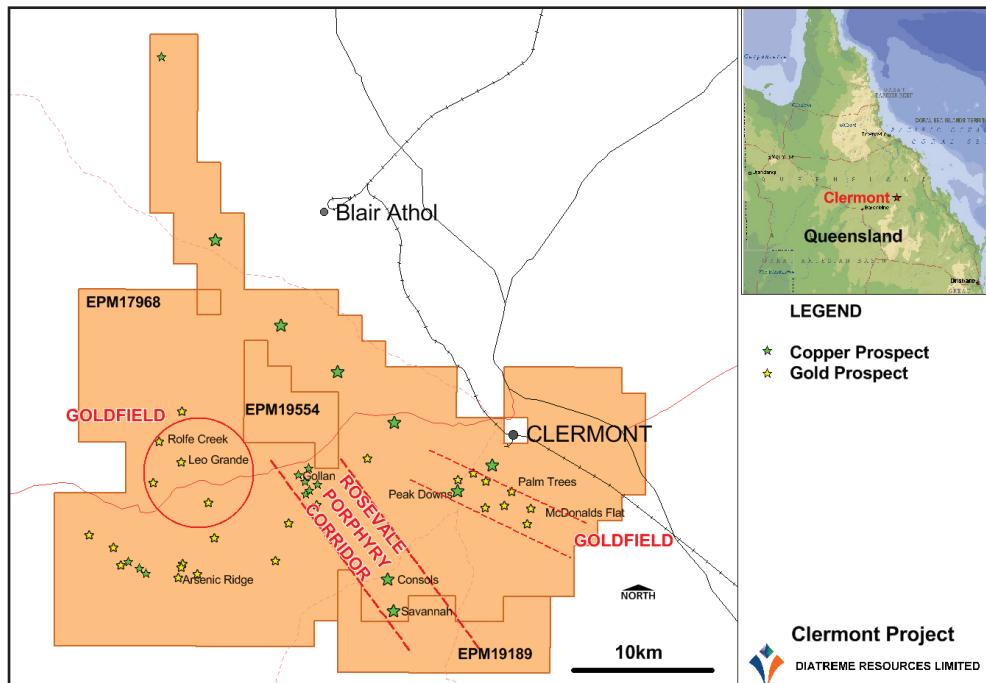
ELLISTON PROJECT - SOUTH AUSTRALIA

The single exploration licence application comprising the project is prospective for heavy mineral sands along a ridge 35km long and 5km wide.

Testing was conducted by BHP-Utah in 1990 as part of an assessment of the Eucla Basin with only one drill traverse of 1km spaced shallow (<30m) holes completed at the far northern end of the feature. BHP was exploring for rutile and found very little in the Eucla Basin so abandoned the project. However, mineralogy indicates zircon values are high. Drill holes ended in mineralisation and what BHP intersected may have been the top and northern edge of a much larger system. Thorough drill testing by Diatreme is required and is proposed during 2014 upon tenement grant.

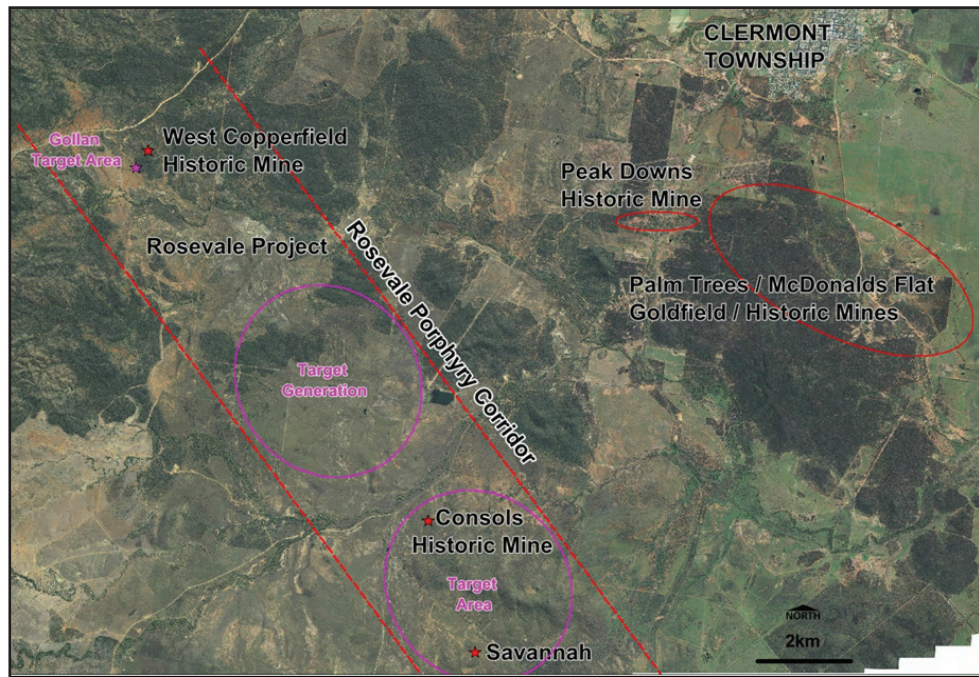
CLERMONT COPPER/GOLD PROJECT – CENTRAL QUEENSLAND

The Clermont Project, consisting of three exploration permits, is situated close to the town of Clermont in central Queensland. Diatreme is exploring the area for porphyry and stratabound bulk tonnage copper/gold targets. The project area covers numerous prospects including Rosevale Project and the historic Peak Downs Copper Mine.



Location of Clermont tenements and prospects

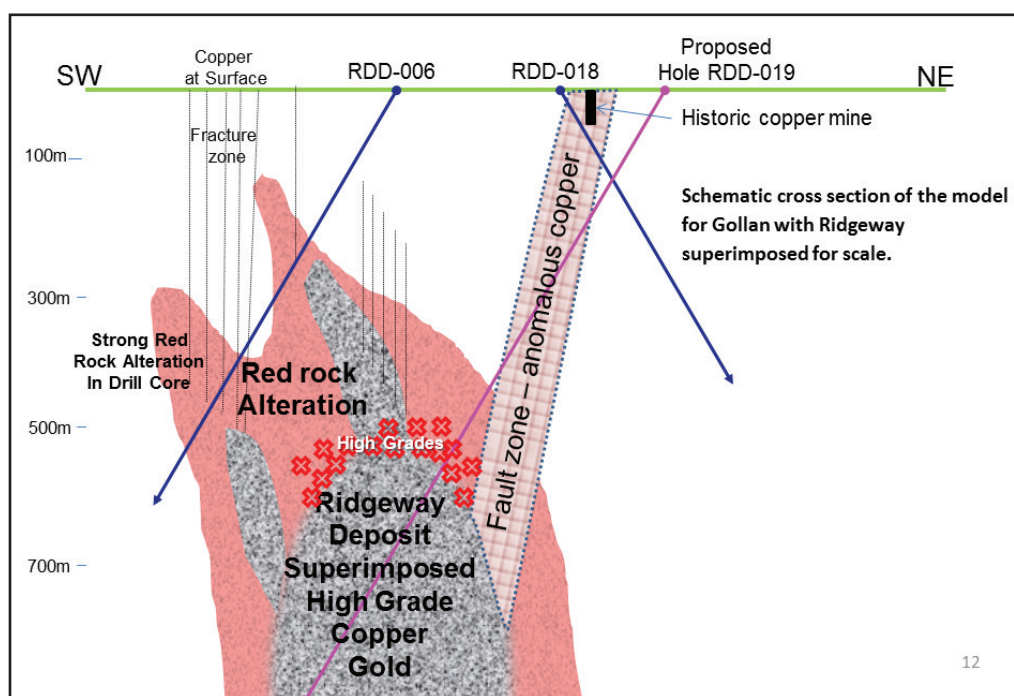
During much of 2013, the Clermont Project enjoyed the benefit of having Antofagasta plc, through a wholly owned subsidiary, as joint venture partner. However, in October 2013, Antofagasta withdrew from their farm-in over the project without earning an interest. Diatreme benefited from Antofagasta's involvement in the search for large scale porphyry copper-style mineralisation through expenditure in the order of \$1.5M. The Company's knowledge and understanding of the Rosevale Porphyry Corridor (RPC) has been significantly advanced through combined efforts with Antofagasta, and the Company plans to continue exploration for the sources of the widespread copper mineralisation within this corridor and in the district.



Location of Clermont Project prospects and areas of interest

At the Gollan Prospect, toward the north of the Rosevale Porphyry belt, the Company has defined, from previous drilling, a wide zone of hematite-bearing propylitic alteration of the intrusives, located in a zone of abundant secondary carbonate copper on surface. The geological setting is reminiscent of the high grade Ridgeway deposit at Cadia NSW. Recent exploration has highlighted drill-ready porphyry copper targets for follow-up drilling (see cross section below).

Further exploration is warranted over Clermont particularly over the RPC for copper and over the Palm Trees Prospect for gold.



Schematic cross section of model for Gollan Prospect with Ridgeway superimposed for scale

Savannah / Consols Prospects

Following encouraging mapping and rock chip results from the Savannah Prospect earlier in 2013, RAB drilling of significant geochemistry results was undertaken late in 2013 to define depth extensions of this significant alteration and mineralised system. Previously reported rock chip results from Savannah (ASX release 22/05/13) have returned up to 25ppm gold, 80ppm silver, 1.8% copper, 1.4% lead, and 1.4% zinc over a strike length of 1.4km.

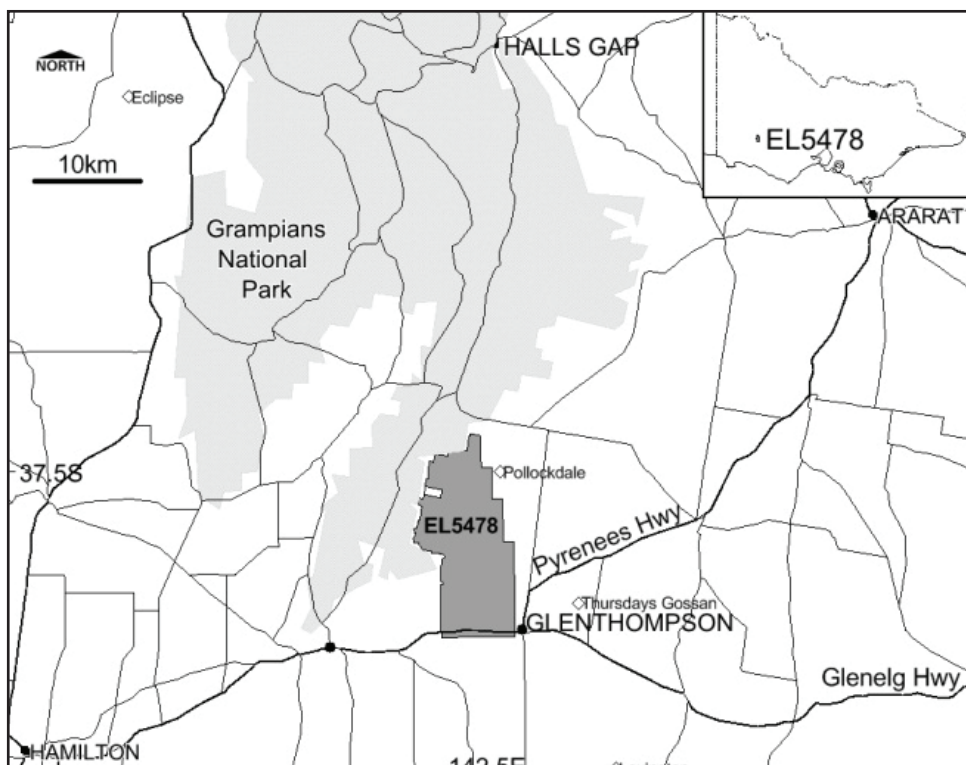
The drilling was relatively unsuccessful due to operational difficulties in achieving the target depth of the drill holes. The main issue was excessive ground water at approximately 20m depth which hindered drilling and sample return. Therefore most holes did not reach target depth and much of the prospect area remains untested.

However, two holes on the northern and southern known limits of the main Savannah mineralised corridor returned anomalous results. Drill hole Sav-09 returned 3m @ 2.3g/t gold from 18m and drill hole Sav-11 returned 4.5m @ 0.25 g/t gold and 1.96% zinc. True widths are unknown at this time. These results will be followed up with further surface mapping and sampling followed by drilling. Details of drilling results in the Savannah Prospect were reported in ASX release 16/01/14.

GLENTHOMPSON PROJECT – CENTRAL VICTORIA

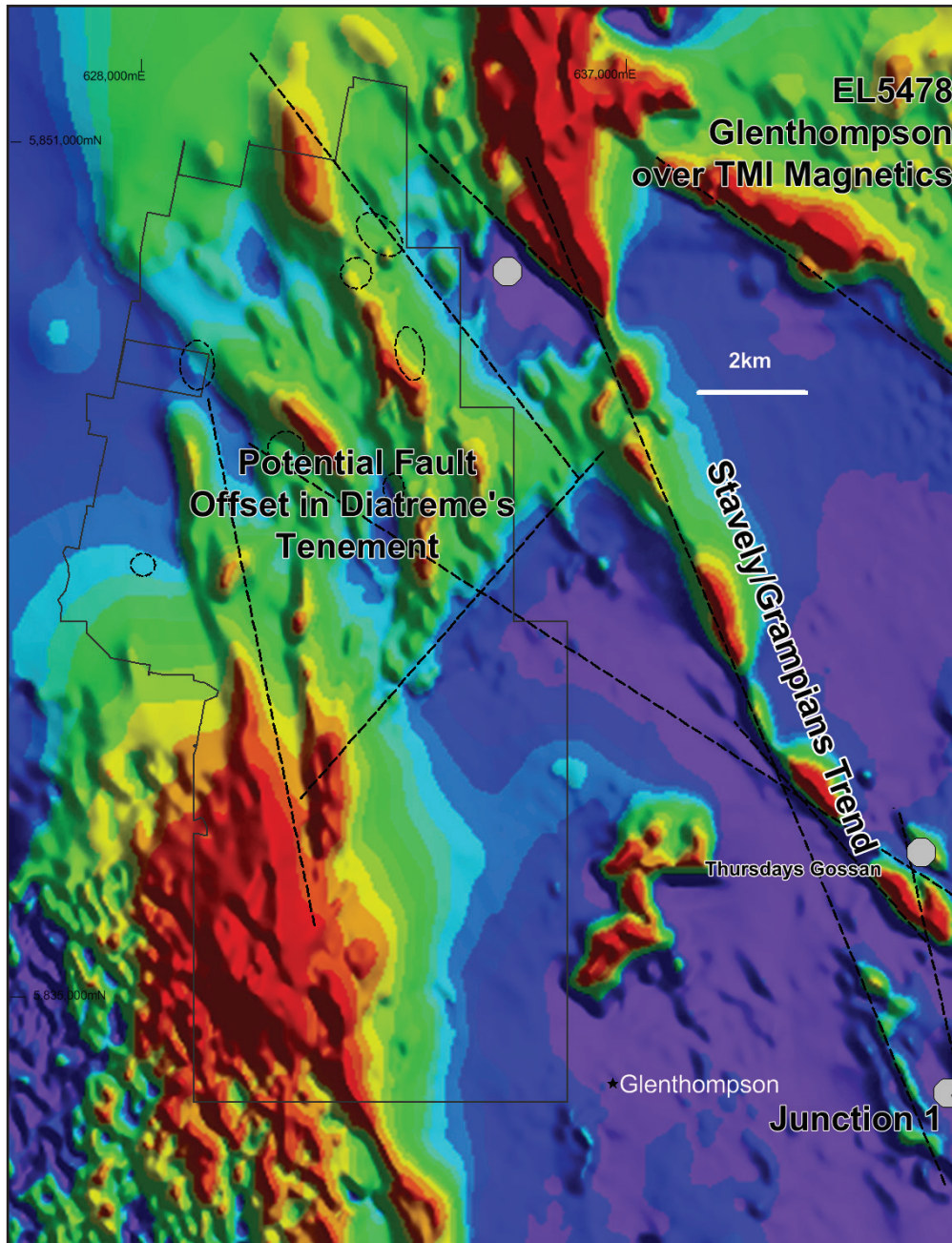
Following recent technical studies conducted by the Victorian Geological Survey into the Mount Stavelly Belt, Diatreme secured an exploration licence in an area that is now highly regarded as a “fertile” Andean-style magmatic arc system, prospective for porphyry copper deposits similar to the Cadia / Ridgeway deposits in NSW.

Located in western Victoria, Exploration Licence 5478 has been granted to the Company for a term of five years within this newly recognised porphyry belt. The licence area contains good geophysical drill targets under shallow overburden cover along with 30km of non-explored strike length with easy access.



Location of EL 5478 (Glenthompson) in western Victoria

A number of explorers have already discovered porphyry copper deposits within this belt and the Company's tenement sits within the centre of the belt. The "Eclipse" and "Lexington" prospects held by Navarre Minerals Limited and "Thursdays Gossan" held by Stavely Minerals Pty Ltd are examples of discoveries to date in the immediate area.



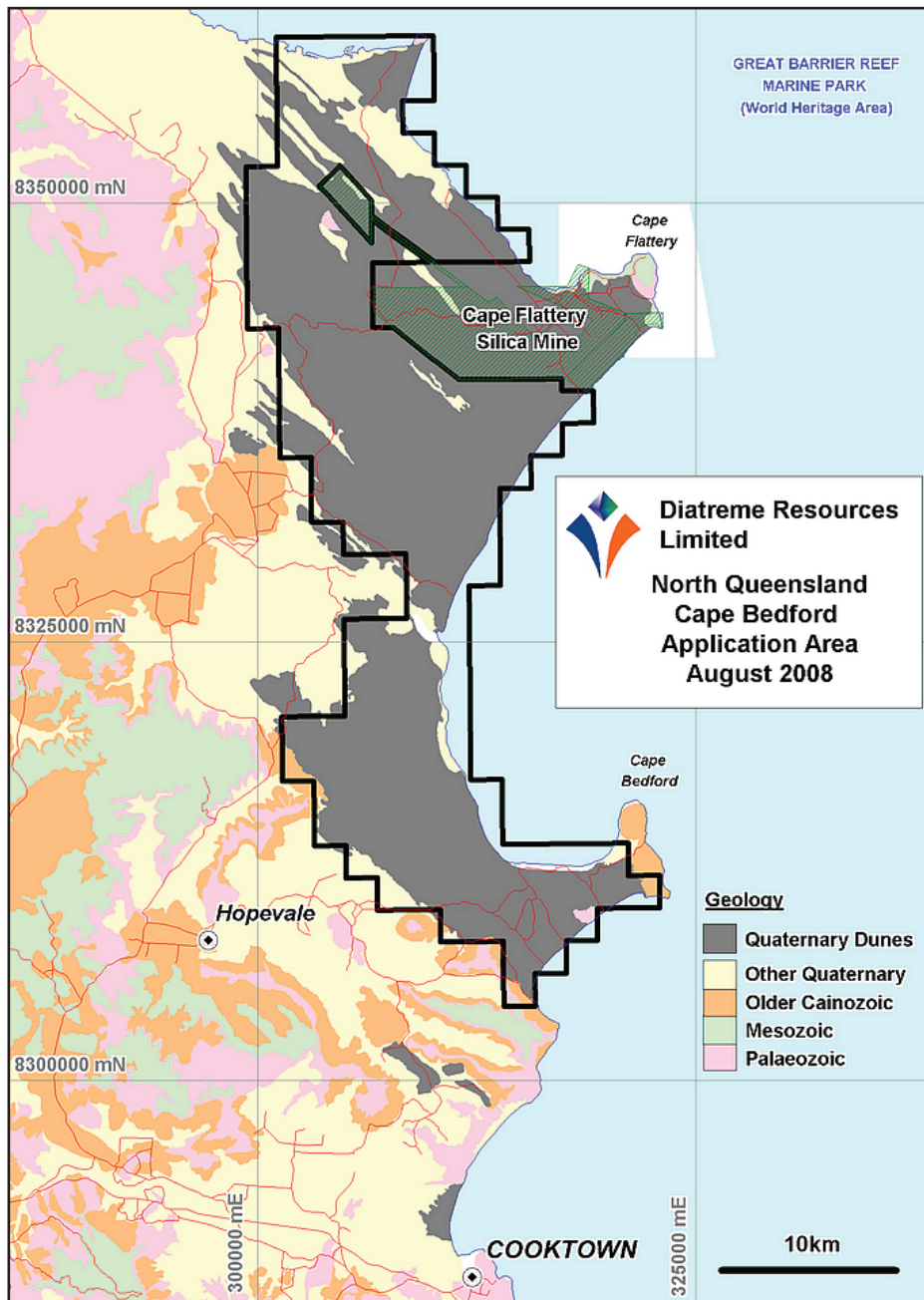
EL5478 (Glenthompson) showing Total Magnetic Intensity

As there is no outcrop over the tenement, drilling will be directed by geophysics in the search for porphyry styles of mineralisation. A gravity geophysics survey has recently been completed by the Company which outlined a number of targets when coupled with the magnetics.

CAPE BEDFORD PROJECT – NORTH QUEENSLAND

The Cape Bedford / Cape Flattery area has large quantities of high quality silica sand with the potential for heavy mineral sands underlying the silica sands. Mitsubishi Corporation operates a Silica sand mine at Cape Flattery, an area surrounded by the Diatreme tenement application area.

On grant of the tenement, Diatreme can commence verifying, by drilling and assaying, known silica sand occurrences. The initial exploration is expected to define resources in order that they may be reported by the Company in accordance with the JORC Code and obtain bulk samples for process flowsheet development and analysis. Feasibility studies would then be undertaken. Potentially, this project could develop into a very high value project for Diatreme and the Company considers that its characteristics and logistics endear it to early production.



Cape Bedford Project Tenement Locality Map

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 Australian Institute of Geoscientists. 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 2012 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 2012 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.

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

Tenement Schedule

Current interests in tenements held by Diatreme Resources Limited and its subsidiaries as at 28 April 2014.

STATE	PROJECT	TENEMENT NAME	TENEMENT ID	AREA	HOLDER	%
QLD	Clermont	Clermont	EPM 17968	864 km ²	CHAL	100
		Parpet	EPM 19189	61 km ²	CHAL	100
		Expedition Ck	EPM 19544	41 km ²	CHAL	100
QLD	Cape Bedford	Cape Bedford	EPM(A) 17795	552 km ²	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*
QLD	Grays Hill	Grays Hill	EPM(A)25117	250km ²	DRX	100
VIC	Glenthompson	Glenthompson	EL5478	123km ²	CHAL	100
SA	Anabama	Anabama	EL 5138	182 km ²	CHAL	100
		Anabama North	EL 4783	104 km ²	CHAL	100
SA	Elliston	Elliston	EL(A) 12/327	994 km ²	DRX	100
SA	Eucla Basin	Noorina 1	EL 5045	770 km ²	LSPL	100
		Noorina 2	EL 5046	571 km ²	LSPL	100
WA	Mandora	Mandora	E(A) 45/4022	471 km ²	DRX	100
WA	Eucla Basin	Wanna Lakes	E 69/1920	45 km ²	LSPL	100
		Wanna Lakes East	E 69/2408	66 km ²	LSPL	100
		Wanna South	E 69/2425	12 km ²	LSPL	100
		Serpentine	E 69/3113	291 km ²	LSPL	100
WA	Cyclone	Cyclone	M(A) 69/141	16 km ²	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. On 10/04/14 DRX agreed to a term sheet with Superior Resources Limited (SPQ) for the grant to SPQ of an option to acquire a 100% interest in the mining leases from DRX.

Abbreviations:

EPM(A)	Queensland	Exploration Permit for Minerals (Application)
EL(A)	South Australia	Exploration Licence (Application)
E(A)	Western Australia	Exploration Licence (Application)
ML	Queensland	Mining Lease
M(A)	Western Australia	Mining Lease (Application)
L(A)	Western Australia	Miscellaneous Licence (Application)
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, five of the seven directors on the board did not meet the ASX definition of independence during the period to 31 December 2013.

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.
Andrew Tsang	Non-executive director	No	Mr Tsang is not considered independent as he directly and indirectly is a Substantial Shareholder 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.
Yufeng Zhuang	Non-executive director	No	Mr Zhuang is not considered independent as he holds an executive position in Lost Sands Pty Ltd, a wholly owned subsidiary of the company, and his father is a Substantial Shareholder of the company.

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 two to three 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 upon 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 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 2013

	Objective		Actual	
	Number	%	Number	%
Number of women employees in the whole organisation	3	20	1	10
Number of women in senior executive positions	1	15	-	-
Number of women on the board	1	15	-	-

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 three 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.
- the Company 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 A 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.

The background of the page is a complex, abstract geometric pattern. It consists of numerous overlapping circles of varying sizes and shades of gray. These circles are interconnected by a network of thin, light gray lines, some of which are solid and others dashed. The overall effect is a sense of interconnectedness and complexity, typical of a network or data visualization. The pattern is most dense in the lower-left and lower-right areas, fading towards the top and right edges.

FINANCIAL REPORT

For the year ended 31 December 2013

Directors' Report

The Directors present their report on Diatreme Resources Limited ("the Company") and its subsidiaries (the "Group") for the year ended 31 December 2013.

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 37 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

Yufeng (Daniel) Zhuang (*Non-executive Director*)

Experience

Mr. Zhuang was nominated to the Board by the association of Chinese shareholders Messrs Zhensheng Zhuang, Chenfei Zhuang and Qi Lin, to represent their significant investment and ongoing corporate commitments toward the Company.

Daniel holds a Bachelor of Arts in Economics (Investment Management) from the Central University of Finance and Economics (CUFE), Beijing China and is currently completing a Master of Science (Project Management) through Stevens Institute of Technology in New Jersey, USA. He has worked for Ping An Securities in Beijing and Fujian Minxing Group in Zhangzhou, China

Other current directorships (listed entities) – None

Former directorships in last 3 years (listed entities) – None

Special responsibilities – None

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	1,000,000
D H Hall	2,950,000	1,000,000
G H White	216,667	1,000,000
A Tsang	94,869,443	1,000,000
C Wang	2,577,822	1,000,000
N J McIntyre	-	1,000,000
Y Zhuang *	59,560,000	-
	<u>164,298,509</u>	<u>6,000,000</u>

* Mr Yufeng Zhuang represents the interests of his father, Mr Zhensheng Zhuang, who is the direct holder of the above DRX shares, being part of an association of shareholders holding approximately 19% of the issued share capital.

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, with the following key highlights:

- Negotiations with Perpetual Mining Holding Limited completed and Heads of Agreement signed – 8 January 2014.
- Flora and Fauna Spring surveys completed over the project area and the proposed access road to Forrest as part of the West Australian government public environmental review process.
- Investigation water bore drilled into Officer Basin sediments with the discovery of significant deep aquifer water flows. The bore has been completed for conversion into a permanent production bore.
- Updated resource (JORC 2012) determined for the Cyclone Deposit – 137 million tonnes (Mt) at 2.2% heavy minerals (HM) at a 1% HM cut-off grade, containing 3.0Mt.

Exploration operations during the year involved:

- Further ground exploration (including drilling) over mineral sand targets in the Eucla Basin (WA).
- Following review, numerous tenements were surrendered including all of the Arckaringa Project, most of the South Australia Eucla Basin tenements, and Ironhurst in north Queensland. Costs associated with one of the Eucla Basin tenements was written off during the year due to low prospectivity.
- Project generation resulted in a new application area secured over the Glenthompson area in Victoria which is prospective for porphyry copper mineralisation. A gravity survey was completed over the northern area of the tenement in preparation for drilling.
- Completion of twelve month assessment period over the Clermont Copper Project by Antofagasta Minerals Australia Pty Ltd (Antofagasta), lead to Antofagasta's decision to withdraw from the project.

OPERATING RESULTS

The net loss of the Group for the financial year ended 31 December 2013 was \$4,797,128 (2012: loss of \$4,908,468).

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 2013.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the Company successfully completed several share placements to sophisticated and professional investors. As a result contributed equity increased by \$2,643,649 (from \$43,089,752 to \$45,733,401) from the issue of 136,000,009 ordinary shares.

EVENTS SUBSEQUENT TO REPORTING DATE

9 January 2014	Heads of Agreement for \$2 million investment in the Cyclone Zircon Project signed with Perpetual Mining Holding Limited.
9 January 2014	Review and upgrade of the Cyclone heavy mineral (HM) resource estimate as part of the ongoing feasibility work being conducted over the Cyclone Zircon Project.
14 March 2014	The Company completed a 1 for 4 pro-rata rights issue raising \$231,445 before costs.

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.

		2009	2010	2011	2012	2013
Share price at year end	\$/share	0.13	0.07	0.07	0.02	0.02
Market capitalisation	\$ million	26	19	26	11	12
Revenue	\$'000	251	241	511	254	264
Total assets	\$ million	22	23	25	23	22
Net profit/(loss) after tax	\$'000	(2,759)	(4,000)	(4,377)	(4,908)	(4,797)

REMUNERATION REPORT (Continued)

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:

2013

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

2012

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.

2013	Short-term employee benefits	Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash Salary, fees & leave \$	Superannuation \$	Long service leave \$	Options \$	Total \$
Non-executive Directors					
G H White	45,000	4,106	-	6,310	55,416
A Tsang	45,000	4,106	-	6,310	55,416
C Wang	45,000	4,106	-	6,310	55,416
N J McIntyre	45,000	4,106	-	6,310	55,416
Y Zhuang ⁽¹⁾	13,068	1,209	-	-	14,277
Executive Directors					
A J Fawdon	258,602	23,196	4,251	6,310	292,359
D H Hall	233,184	21,045	-	6,310	260,539
Other key management personnel					
D Jelley	219,299	19,128	-	9,968	248,395
L Stanley	31,500	-	-	-	31,500
T Do	163,033	14,714	-	9,968	187,715
Total	1,098,686	95,716	4,251	57,796	1,256,449

(1) Appointed Non-executive Director on 1 August 2013

REMUNERATION REPORT (Continued)

2012	Short-term employee benefits	Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash Salary, fees & leave \$	Superannuation \$	Long service leave \$	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

D Share-based compensation

The Company established an employee share option plan (ESOP 2012) which was approved by shareholders at the AGM on 24 May 2012. The purpose of the scheme was to give an additional incentive to Directors, employees and consultants, to provide dedicated and on-going commitment and effort to the Company.

Consequently, 9,400,000 share options were issued to the Company's employees and consultants (including Other Key Management Personnel) on 15 March 2013. On 31 May 2013, following shareholders' approval, 6,000,000 share options were issued to the Directors.

Details of the options issued to the Directors and Other Key Management Personnel are as follows:

	Grant date	Number of options granted	Option fair value at grant date \$	Exercise price per option \$	Total value of options \$	Expiry date	Vesting and first exercise date	% of options vested
G H White	31/5/2013	1,000,000	0.0099	0.10	9,878	30/4/2019	1/5/2014	100%
A Tsang	31/5/2013	1,000,000	0.0099	0.10	9,878	30/4/2019	1/5/2014	100%
C Wang	31/5/2013	1,000,000	0.0099	0.10	9,878	30/4/2019	1/5/2014	100%
N J McIntyre	31/5/2013	1,000,000	0.0099	0.10	9,878	30/4/2019	1/5/2014	100%
A J Fawdon	31/5/2013	1,000,000	0.0099	0.10	9,878	30/4/2019	1/5/2014	100%
D H Hall	31/5/2013	1,000,000	0.0099	0.10	9,878	30/4/2019	1/5/2014	100%
D Jelley	15/3/2013	1,000,000	0.0142	0.10	14,185	30/4/2019	1/5/2014	100%
T Do	15/3/2013	1,000,000	0.0142	0.10	14,185	30/4/2019	1/5/2014	100%

REMUNERATION REPORT (Continued)

The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period. The model takes into account the following factors

Inputs into pricing model	Issue date	
	15 Mar 2013	31 May 2013
Exercise price	\$0.10	\$0.10
Share price volatility	104%	108%
Expected dividend yield	0%	0%
Risk-free interest rate	3.28%	3.28%
Life of the options	6 years	6 years
Share price at issue date	\$0.02	\$0.01

E Service agreements

None of the KMP received any increases to their salaries for the year ended 31 December 2013, with the exception of D Jelley and T Do who both received CPI related increases effective from 1 January 2013.

A J Fawdon, Executive Chairman/CEO

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$277,714.
- The agreement may be terminated by 1 month notice from either party.
- Termination benefit in the event of redundancy – 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 \$251,958.
- The agreement may be terminated by 1 month notice from either party.
- Termination benefit in the event of redundancy - 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 \$49,163.
- 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 \$49,163.
- 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 \$49,163.
- 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 \$49,163.
- No termination benefit is specified in the agreement.

REMUNERATION REPORT (Continued)

Y Zhuang, Non-executive Director & Financial Investment Advisor

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$98,325.
- No termination benefit is specified in the agreement.

D Jelley, Exploration Manager

- Term of agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$229,015.
- 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 \$176,166.
- 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 2013, 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	4	4	-	-	-	-
D H Hall	4	4	2	2	-	-
G H White	4	3	2	2	-	-
A Tsang	4	3	-	-	-	-
C Wang	4	4	-	-	-	-
N J McIntyre	4	4	2	2	-	-
Y Zhuang	2	-	-	-	-	-

SHARES UNDER OPTION

At 31 December 2013, there were 15,400,000 unlisted options on issue. The options have an exercise price of 10 cents per share, vest on 1 May 2014 and expire on 30 April 2019. 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.

On 30 September 2013, 88,650,031 listed options were not exercised and consequently expired.

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 41.

This report was authorised for issue on 31 March 2014 in accordance with a resolution of the directors.



AJ Fawdon
Executive Chairman/CEO
Brisbane, 31 March 2014



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Australia

DECLARATION OF INDEPENDENCE BY CHRISTOPHER SKELTON TO THE DIRECTORS OF DIATREME RESOURCES LIMITED

As lead auditor of Diatreme Resources Limited for the year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Christopher Skelton
Director

BDO Audit Pty Ltd

Brisbane, 31 March 2014

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

		Consolidated	
	Note	2013	2012
		\$	\$
Revenue	6	263,729	223,274
Other income	6	-	31,208
Employee benefits expenses		(1,146,564)	(1,146,128)
Depreciation expenses	6 & 11	(119,173)	(161,508)
Exploration assets written off	12	(3,128,127)	(2,859,921)
Impairment of available-for-sale financial assets	6	(29,265)	(130,069)
Other expenses	6	(1,073,604)	(1,260,618)
Finance costs		(5,286)	(5,767)
Loss before income tax		(5,238,290)	(5,309,529)
Income tax benefit	7	441,162	401,061
Net Loss for the year		(4,797,128)	(4,908,468)
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(4,797,128)	(4,908,468)
		Cents	Cents
Loss per share			
Basic earnings per share	29	(1.0)	(1.3)
Diluted earnings per share	29	(1.0)	(1.3)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Note	Consolidated	
		2013 \$	2012 \$
Current Assets			
Cash and cash equivalents	8	981,546	1,973,713
Trade and other receivables	9	401,074	182,830
Current tax asset	7	-	401,061
Total Current Assets		1,382,620	2,557,604
Non-current Assets			
Available-for-sale financial assets	10	3,252	32,517
Property, plant and equipment	11	415,662	521,654
Exploration and evaluation assets	12	19,598,602	19,251,664
Other assets	13	701,960	701,123
Total Non-current Assets		20,719,476	20,506,958
Total Assets		22,102,096	23,064,562
Current Liabilities			
Trade and other payables	14	1,367,887	289,172
Interest-bearing liabilities	15	-	20,359
Provisions	16	136,404	135,314
Total Current Liabilities		1,504,291	444,845
Total Liabilities		1,504,291	444,845
Net Assets		20,597,805	22,619,717
Equity			
Issued capital	17	45,733,401	43,089,752
Reserve	18	131,567	-
Accumulated losses	19	(25,267,163)	(20,470,035)
Total Equity		20,597,805	22,619,717

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 2013

	Note	Issued capital \$	Share- based payment reserve \$	Accumulated losses \$	Total \$
Balance at 1 January 2012		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		43,089,752	-	(20,470,035)	22,619,717
Total comprehensive income:					
Loss for the year		-	-	(4,797,128)	(4,797,128)
Transactions with owners in their capacity as owners:					
Shares issued		2,890,001	-	-	2,890,001
Share issue costs		(246,352)	-	-	(246,352)
Options issued			131,567		131,567
Balance at 31 December 2013	17 & 19	45,733,401	131,567	(25,267,163)	20,597,805

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 2013

	Note	Consolidated	
		2013 \$	2012 \$
Cash flows from operating activities			
Receipts in the course of operations		170,672	98,895
Receipts from research and development tax claims		842,223	-
Payments to suppliers and employees		(2,260,663)	(2,272,476)
Interest received		87,466	90,315
Finance costs		(5,286)	(5,767)
Net cash inflow/(outflow) from operating activities	28	(1,165,588)	(2,089,033)
Cash flows from investing activities			
Payments for property, plant and equipment		(16,038)	(23,182)
Receipt from Antofagasta Minerals S.A.	27	1,155,356	383,941
Payments for exploration and evaluation assets		(3,593,687)	(3,186,693)
Proceeds from sale of property, plant and equipment		-	105,819
Payments for security deposits		(15,500)	-
Refund of security deposits		20,000	5,000
Net cash inflow/(outflow) from investing activities		(2,449,869)	(2,715,115)
Cash flows from financing activities			
Proceeds from issue of shares		2,890,001	3,331,382
Payments for share issue costs		(246,352)	(94,872)
Repayment of interest-bearing liabilities		(20,359)	(108,659)
Net cash inflow/(outflow) from financing activities		2,623,290	3,127,851
Net increase/(decrease) in cash and cash equivalents		(992,167)	(1,676,297)
Cash and cash equivalents at the beginning of the year		1,973,713	3,650,010
Cash and cash equivalents at the end of the year	8	981,546	1,973,713

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2013

Contents of the notes to the consolidated financial statements

- 1 Reporting entity
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- 3 Significant accounting policies
- 4 Critical accounting estimates and judgments
- 5 Segment information
- 6 Revenue and expenses
- 7 Income tax
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- 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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- 13 Non-current assets - other
- 14 Current liabilities – trade and other payables
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- 17 Issued capital
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

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 2013 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 31st March 2014.

(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 2013:

- AASB 10 Consolidated Financial Statements – revises the definition of control
- AASB 11 Joint Arrangements – revises the categories of joint arrangement, and the criteria for classification into the categories
- AASB 12 Disclosure of interests in Other Entities - revises the disclosure requirements for various types of investments, including unconsolidated structured entities.
- AASB 13 Fair Value Measurement – clarifies the definition of fair value and provides related guidance on disclosures.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

(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 2013 of \$4,797,128 (2012: \$4,908,468), and a net cash outflow from operations of \$1,165,588 (2012: \$2,089,033). At 31 December 2013, the Group's current liabilities exceeded its current assets by \$121,671 (2012 current assets exceeded current liabilities: \$2,112,759).

The Group's ability to continue as a going concern and pay its debts as and when they fall due, is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. Given the Group's intended operational plans, the Directors have also taken into account the following factor:

- As detailed in the Director's Report above, a Heads of Agreement (HoA) for \$2 million investment in the Cyclone Zircon Project was signed with Perpetual Mining Holding Limited (PMHL) on 9 January 2014. Under the HoA, PMHL agreed to invest \$2.0 million into the Project to earn 6% equity. The \$2.0 million will be paid to Lost Sands Pty Ltd (LSPL), a wholly owned subsidiary of Diatreme Resources Limited, by way of a series of cash calls over a six-month period. To date, LSPL has received the 1st of these cash calls within the agreed timeframe, and there is an expectation the remaining cash calls will also be received within the agreed timeframe.

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 \$2,890,000 from share placements to sophisticated and professional investors. 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 Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 December 2013. The Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

(iii) Equity settled share based compensation

The Group issues equity-settled share-based payments to directors and employees. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of options is ascertained using a valuation which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instrument that eventually vest.

(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 JUDGEMENTS

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

(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 \$3,128,127 (2012: \$2,859,921) be written off in the year ended 31 December 2013.

During the year geological test-work downgraded the prospectivity of various Western Australia, South 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

6. REVENUE, OTHER INCOME AND EXPENSES

	Consolidated	
	2013 \$	2012 \$
a) Revenue		
Interest	92,801	95,244
Management fees	2,394	4,683
Other	168,534	123,347
	263,729	223,274
b) Other income		
Gain disposal of non-current assets	-	31,208
c) Impairment		
Impairment of available-for-sale financial assets	29,265	130,069
<p>At year-end, an assessment of the fair value of all available-for-sale financial assets resulted in an additional impairment loss of \$29,265 (2012 \$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</p>		
d) Depreciation		
Furniture and fittings	8,204	10,877
Motor vehicles	17,037	21,633
Leased motor vehicles	7,962	16,630
Plant and equipment	85,970	112,368
	119,173	161,508
e) Other expenses		
Professional fees	130,386	143,184
Rental expenses on operating leases	369,295	354,749
Listing and share registry expenses	71,189	93,166
Loss on disposal of non-current assets	2,857	-
Administration costs	499,877	669,519
	1,073,604	1,260,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

7. INCOME TAX

	Consolidated	
	2013 \$	2012 \$
(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	(5,238,290)	(5,309,529)
Prima facie income tax benefit at 30% (2012: 30%)	(1,571,487)	(1,592,859)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share-based payments	39,470	-
Entertainment	(1,493)	364
	(1,533,510)	(1,592,495)
Deferred tax assets not recognised	1,533,510	1,592,495
	-	-
Recognition of research & development tax claim	(441,162)	(401,061)
Total income tax benefit	(441,162)	(401,061)
(b) The components of income tax benefit:		
Current tax	-	-
Deferred tax	-	-
Research & development tax claim	(441,162)	(401,061)
Total income tax benefit	(441,162)	(401,061)
(c) Deferred tax		
Deferred tax assets		
Unused tax losses	5,276,498	5,160,776
Unused capital losses	4,507	4,507
Temporary differences:		
- Property, plant and equipment	20,078	23,557
- Accruals	10,748	9,540
- Employee benefits	53,221	57,729
- Capital raising costs	277,729	241,508
- Other	197,298	188,517
	5,840,079	5,686,134
Deferred tax liabilities		
- Exploration expenditure	(5,835,247)	(5,686,134)
- Other	(4,832)	-
	(5,840,079)	(5,686,134)
Net deferred tax asset/liability	-	-
Unrecognised deferred tax assets		
Unused tax losses	35,900,173	32,148,060
Potential tax effect at 30%	10,770,052	9,644,418

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 2013. The recoupment of available tax losses as at 31 December 2013 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; and
- (iii) There being no changes in tax legislation which adversely affect the Group from realising the benefit.
- (iv) Given the Group is in a taxable loss position there is no franking credit to report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Consolidated

	2013	2012
	\$	\$
Cash at bank and in hand	981,546	1,973,713
No cash is held in term deposits as at 31 December 2013 (2012: Nil)		

9. CURRENT ASSETS – TRADE & OTHER RECEIVABLES

Consolidated

	2013	2012
	\$	\$
Trade receivables	123,161	70,442
Allowance for doubtful debt	(22,053)	(16,492)
	101,108	53,950
Other receivables	265,983	71,294
Prepayments	33,983	57,586
	<u>401,074</u>	<u>182,830</u>

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

	2013	2012
	\$	\$
Shares in an unlisted company		
Opening cost	162,586	162,586
Less impairment (Refer also to Note 6 (b))	(159,334)	(130,069)
Balance at end of year	<u>3,252</u>	<u>32,517</u>

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 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	<u>13,459</u>	<u>85,198</u>	<u>39,812</u>	<u>383,185</u>	<u>521,654</u>
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	<u>13,459</u>	<u>85,198</u>	<u>39,812</u>	<u>383,185</u>	<u>521,654</u>
Year ended 31 December 2013					
Opening net book amount	13,459	85,198	39,812	383,185	521,654
Additions	6,977	-	-	9,061	16,038
Disposals	-	(2,354)	-	(503)	(2,857)
Depreciation charge	(8,204)	(17,037)	(7,962)	(85,970)	(119,173)
Closing net book amount	<u>12,232</u>	<u>65,807</u>	<u>31,850</u>	<u>305,773</u>	<u>415,662</u>
At 31 December 2013					
Cost	142,465	231,543	116,539	1,139,215	1,629,762
Accumulated depreciation	(130,233)	(165,736)	(84,689)	(833,442)	(1,214,100)
Net book amount	<u>12,232</u>	<u>65,807</u>	<u>31,850</u>	<u>305,773</u>	<u>415,662</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

12. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS

	Consolidated	
	2013 \$	2012 \$
Exploration and evaluation assets – at cost less impairment	19,598,602	19,251,664
Opening balance	19,251,664	19,379,377
Costs capitalised during the year	3,475,065	2,732,208
Costs written off during the year (#)	(3,128,127)	(2,859,921)
Closing balance	19,598,602	19,251,664

(#) During the year geological test-work downgraded the prospectivity of various Western Australia, South 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 \$19,598,602 of which \$10,069,898 is attributable to the significant exploration of the Group's Cyclone Heavy Mineral Project.

For the year ended 31 December 2013, and under the agreed terms, the Company received \$1,155,356 (\$US 1,169,055) from Antofagasta Minerals S.A to fund exploration at the Clermont Copper Project. For the year ended 31 December 2012 the Company had received \$383,941 (\$US \$400,000). All amounts have been fully expended at 31 December 2013. (Refer also to Note 27 below).

Impairment of Assets

The current low commodity prices environment during the year has led the Group to make an assessment of the recoverability of the exploration and evaluation asset relating to the Cyclone Heavy Mineral Project. The recoverable amount has been determined based on the fair value less costs to sell calculation. The calculation relied on a recent transaction to purchase an interest in the project, namely, the Cyclone Zircon Project Farm-in and Joint venture Heads of Agreement as disclosed to the ASX on 9 January 2014.

As the resulting fair value exceeded the carrying value no impairment or write-down is required at year end.

13. NON-CURRENT ASSETS – OTHER

	Consolidated	
	2013 \$	2012 \$
Rent guarantee deposit	105,669	105,669
Security deposits	596,291	595,454
	701,960	701,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

**14. CURRENT LIABILITIES – TRADE & OTHER
PAYABLES**

Unsecured

Trade payables
Other payables and accruals
Employee benefits

Consolidated

	2013	2012
	\$	\$
Trade payables	1,239,514	145,794
Other payables and accruals	87,374	86,263
Employee benefits	40,999	57,115
	1,367,887	289,172

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

**15. CURRENT LIABILITY - INTEREST
BEARING LIABILITIES**

Secured

Finance lease liabilities - current

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. The lease has been fully repaid at 31 December 2013.

Consolidated

	2013	2012
	\$	\$
Finance lease liabilities - current	-	20,359

16. CURRENT LAIBILITY - PROVISIONS

Employee benefits – current
Employee benefits – non-current

Consolidated

	2013	2012
	\$	\$
Employee benefits – current	136,404	135,314
Employee benefits – non-current	-	-
	136,404	135,314

17. ISSUED CAPITAL

609,582,431 (Dec 2012 473,582,422) ordinary shares

	2013	2012
	\$	\$
609,582,431 (Dec 2012 473,582,422) ordinary shares	45,733,401	43,089,752

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	
			\$	\$
1 January 2012	Opening balance	354,597,423		39,853,242
July ⁽¹⁾	Shares issued	8,432,432	0.037	312,000
July	Exercise of listed options	4	0.150	-
August ⁽¹⁾	Shares issued	5,405,405	0.037	200,000
September ⁽¹⁾	Shares issued	15,891,892	0.037	588,000
October ⁽¹⁾	Shares issued	57,600,000	0.025	1,440,000
December ⁽²⁾	Shares issued	31,655,266	0.025	791,382
	Shares issue costs	-		(94,872)
31 December 2012	Balance	473,582,422		43,089,752
May 2013 ⁽¹⁾	Shares issued	4,797,363	0.025	119,934
June ⁽¹⁾		29,202,637	0.025	730,066
July ⁽¹⁾		22,000,000	0.020	440,000
August ⁽¹⁾		80,000,000	0.020	1,600,000
September		9	0.150	1
	Shares issue costs	-		(246,352)
31 December 2013	Balance	609,582,431		45,733,401

⁽¹⁾ During both the 2012 and 2013 year the Company completed several placements to sophisticated and professional investors.

⁽²⁾ The Company completed a Share Purchase Plan in December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

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

Expiry date	Exercise Price	Number at end of year	
		2013	2012
30 September 2013 (listed)	\$0.15	-	88,650,035
30 April 2019 (unlisted)	\$0.10	15,400,000	-

9 listed options were exercised in September 2013. The balance of 88,650,026 listed options were not exercised and expired on 30 September 2013.

15,400,000 unlisted options were issued during the 2013 year. (Refer Note 30 below).

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	
	2013	2012
Share-based payment reserve	\$	\$
Opening balance	-	-
Share based payments relating to unlisted options issued	131,567	-
Closing balance	131,567	-

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	
	2013	2012
	\$	\$
Accumulated losses at the beginning of the year	(20,470,035)	(15,561,567)
Net Loss for the year	(4,797,128)	(4,908,468)
Accumulated losses at the end of the year	(25,267,163)	(20,470,035)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

(a) Categories of financial instruments

	Consolidated	
	2013	2012
	\$	\$
Financial assets		
Cash and cash equivalents	981,546	1,973,713
Trade and other receivables	401,074	182,830
Current tax asset	-	401,061
Security and other deposits	701,960	701,123
Available-for-sale financial assets	3,252	32,517
Total financial assets	2,087,832	3,291,244
Financial liabilities		
Trade and other payables	1,367,887	289,172
Interest-bearing liabilities	-	20,359
Total financial liabilities	1,367,887	309,531

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	
	2013	2012
	\$	\$
Cash and cash equivalents (variable interest rates)	981,546	1,973,713
Security deposits (fixed interest rates)	596,291	595,525
	1,577,837	2,569,167

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 \$12,623 (2012: \$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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

(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 2013 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 2013						
Trade and other payables	1,367,887	(1,367,887)	(1,367,887)	-	-	-
	<u>1,367,887</u>	<u>(1,367,887)</u>	<u>(1,367,887)</u>	<u>-</u>	<u>-</u>	<u>-</u>

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)	-	-
	<u>309,531</u>	<u>(310,400)</u>	<u>(303,466)</u>	<u>(6,934)</u>	<u>-</u>	<u>-</u>

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated	
	2013	2012
	\$	\$
Short-term employee benefits	1,098,686	1,035,876
Post-employment benefits	95,716	90,405
Long-term benefits	4,251	7,644
Share-based payments	57,796	-
	1,256,449	1,133,925

(b) Key management personnel equity holdings

(i) Option holdings

	Balance at the start of the year	Granted as remuneration	Lapse	Purchases	Other Changes	Balance at the end of the year	Vested and exercisable
2013							
Directors							
A J Fawdon	243,179	1,000,000	243,179	-	-	1,000,000	-
D H Hall	320,000	1,000,000	320,000	-	-	1,000,000	-
G H White	516,667	1,000,000	516,667	-	-	1,000,000	-
A Tsang	35,832,933	1,000,000	35,832,933	-	-	1,000,000	-
C Wang	804,903	1,000,000	804,903	-	-	1,000,000	-
N J McIntyre	-	1,000,000	-	-	-	1,000,000	-
Y Zhuang	-	-	-	-	-	-	-
Other key management personnel							
D Jelley	-	1,000,000	-	-	-	1,000,000	-
L Stanley	-	1,000,000	-	-	-	1,000,000	-
T Do	-	-	-	-	-	-	-
Total	37,717,682	8,000,000	37,717,682	-	-	8,000,000	-
2012							
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

21. MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(ii) Share holdings

	Balance at the start of the year	Options exercised	Net purchased / (sold)	Other changes	Balance at the end of the year
2013					
Directors					
A J Fawdon	4,124,577	-	-	-	4,124,577
D H Hall	2,950,000	-	-	-	2,950,000
G H White	216,667	-	-	-	216,667
A Tsang	98,869,443	-	-	-	98,869,443
C Wang	2,577,822	-	-	-	2,577,822
N J McIntyre	-	-	-	-	-
Y Zhuang	-	-	-	59,560,000	59,560,000
Other key management personnel					
D Jelley	-	-	-	-	-
L Stanley	-	-	-	-	-
T Do	-	-	-	-	-
Total	104,738,509	-	-	-	164,298,509
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	59,560,000	104,738,509

22. REMUNERATION OF AUDITORS

Amounts received, or due and receivable, by the Group's auditor – BDO Audit Pty Ltd:

- Audit and review of the financial statements

The auditor did not provide any other services.

	Consolidated	
	2013	2012
	\$	\$
	32,500	30,500

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

	Consolidated	
	2013	2012
	\$	\$
Payable within 1 year	616,657	943,437
Payable between one and five years	1,480,825	4,179,067
	<u>2,097,482</u>	<u>5,122,504</u>

The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. Cash security bonds totalling \$594,691 (2012: \$593,855) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

Performance bonds totalling \$351,000 (2012: \$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	
	2013	2012
	\$	\$
Payable within 1 year	327,183	305,968
Payable between one and five years	536,914	796,782
	<u>864,097</u>	<u>1,102,750</u>

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

(c) Finance leases/commitments

	Consolidated	
	2013	2012
	\$	\$
Minimum lease payments payable within 1 year	-	133,232
Future finance charges	-	(869)
Recognised as a liability	<u>-</u>	<u>20,359</u>
Representing interest-bearing liabilities (Note 15):		
Current	-	20,359
Non-current	-	-
	<u>-</u>	<u>20,359</u>

The Group leases two motor vehicles under finance lease agreements, both of which three have been paid out during 2013.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2013	2012
	\$	\$
(i) Management fee charged to Director related entity (Opal Horizon Ltd)	-	1,561
(ii) Rental office sub-lease charged to Director related entity (Opal Horizon Ltd). Executive Director D H Hall was a non-executive Director of Opal Horizon Ltd (Resigned 1 October 2012).	-	19,444
(iii) Trade debtor owing by Director related entity	81,352	40,676

Diatreme Resources Ltd (the Company) is owed \$81,352 (2012 \$40,676) by Xiang Rong Management Trust relating to costs of a former employee of the Company which was being reimbursed by Xiang Rong Management Trust. Mr Andrew Tsang, who is a director of the Company, is also a director and unitholder of Xiang Rong Management Trust.

26. INTERESTS IN SUBSIDIARIES

Set out below details of the subsidiaries held directly by the Group:

Name of subsidiary	Country of Incorporation	Principal activity	Ownership Interest	
			2013	2012
Subsidiaries				
Regional Exploration Management Pty Ltd	Australia	Logistical support	100%	100%
Chalcophile Resources Pty Ltd *	Australia	Mineral sands exploration	100%	100%
Lost Sands Pty Ltd	Australia	Metals exploration	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 2013, and under the agreed terms, the Company received \$1,155,356 (\$US 1,169,055) from Antofagasta Minerals S.A to fund exploration at the Clermont Copper Project. For the year ended 31 December 2012 the Company had received \$383,941 (\$US \$400,000). All amounts have been fully expended at 31 December 2013.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

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

	Consolidated	
	2013	2012
	\$	\$
Loss for the year	(4,797,128)	(4,908,468)
Non-cash items		
Depreciation	119,173	161,508
Capitalised exploration expenditure written-off	3,128,127	2,859,921
Impairment of available-for-sale financial assets	29,265	130,069
Share-based payment expense	131,567	-
(Profit)/loss on sale of fixed assets	2,857	(31,208)
Movements in operating assets and liabilities		
(Increase)/decrease in receivables	182,816	49,195
(Increase)/decrease in current tax asset	-	(401,061)
(Increase)/decrease in other assets	(5,336)	(4,930)
Increase / (decrease) in payables	41,981	45,606
Increase / (decrease) in provisions	1,090	10,335
Net cash outflow from operating activities	<u>(1,165,588)</u>	<u>(2,089,033)</u>

29. EARNINGS PER SHARE

	Consolidated	
	2013	2012
	Cents	Cents
Basic earnings per share (loss)	(1.0)	(1.3)
Diluted earnings per share (loss)	(1.0)	(1.3)

Weighted average number of shares used as the denominator

	2013	2012
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	479,683,967	365,921,183
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	479,683,967	365,921,183

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 \$4,797,128 (2012: loss \$4,908,468).

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 30.

30. SHARE-BASED PAYMENTS

The Company established an employee share option plan (ESOP 2012) which was approved by shareholders at the AGM on 24 May 2012. The purpose of the scheme was to give an additional incentive to Directors, employees and consultants, to provide dedicated and on-going commitment and effort to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

Consequently, 9,400,000 share options were issued to the Company's employees and consultants (including Other Key Management Personnel) on 15 March 2013. Information relating to these options is as follows:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Balance at end of the year	Vested and exercisable at end of year
		\$						
15 Mar 13	30 Apr 19	0.10	-	9,400,000	-	-	9,400,000	-

The remaining contractual life of the above share options outstanding at the end of the period was 5.3 years

On 31 May 2013, following shareholders' approval, 6,000,000 share options were issued to the Directors (Key Management Personnel). Information relating to these options is as follows:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Balance at end of the year	Vested and exercisable at end of year
		\$						
31 May 13	30 Apr 19	0.10	-	6,000,000	-	-	6,000,000	-

The remaining contractual life of the above share options outstanding at the end of the period was 5.3 years

Fair Value of options granted

All options issued during the year were valued using the Black-Scholes model. The fair value of options granted during the year ended 31 December 2013 was estimated on the date of issue using the following assumptions:

	Issue date	
	15 Mar 2013	31 May 2013
Exercise price	\$0.10	\$0.10
Share price volatility	104%	108%
Expected dividend yield	0%	0%
Risk-free interest rate	3.28%	3.28%
Life of the options	6 years	6 years
Share price at issue date	\$0.02	\$0.01
Fair value per option	\$0.0142	\$0.0099

Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the year as part of employee benefit expense were as follows:

	2013	2012
	\$	\$
Options issued Directors	37,862	-
Option issued to employees and consultants	93,705	-
	<u>131,567</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

31. PARENT ENTITY INFORMATION

	2013	2012
	\$	\$
Financial position		
Current assets	1,016,912	2,460,523
Non-current assets	30,340,838	27,879,642
Total assets	<u>31,357,750</u>	<u>30,340,165</u>
Current liabilities	279,872	349,185
Total liabilities	<u>279,872</u>	<u>349,185</u>
Net assets	<u>31,077,878</u>	<u>29,990,980</u>
Shareholders' equity		
Contributed equity	45,733,401	43,089,752
Option reserve	131,567	-
Accumulated losses	(14,787,090)	(13,098,772)
Total equity	<u>31,077,878</u>	<u>29,990,980</u>
	2013	2012
	\$	\$
Loss for the year	(1,688,318)	(2,001,029)
Total comprehensive loss for the year	<u>(1,688,318)</u>	<u>(2,001,029)</u>

Non-Current Assets

Non-current assets include \$27,090,943 (2012: \$24,640,198) 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 2013.

Guarantees

The parent entity does not have any guarantees at 31 December 2013.

32. EVENTS SUBSEQUENT TO REPORTING DATE

9 January 2014	Heads of Agreement for \$2 million investment in the Cyclone Zircon Project signed with Perpetual Mining Holding Limited.
9 January 2014	Review and upgrade of the Cyclone heavy mineral (HM) resource estimate as part of the ongoing feasibility work being conducted over the Cyclone Zircon Project.
14 March 2014	The Company completed a 1 for 4 pro-rata rights issue raising \$231,445 before costs.

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 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2013

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 2013. 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 2013 and of its performance for the year ended on that date.

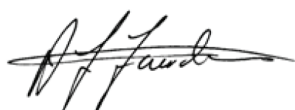
The consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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 2013 comply with Section 300A of the Corporations Act 2001.

The Directors have been given the declarations by the Chief Executive Officer and Group Financial Controller required by Section 295A.

This declaration is made in accordance with a resolution of the Directors.



A J Fawdon
Executive Chairman/CEO

Brisbane, 31 March 2014



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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 2013, 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 2(a), 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

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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.

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 2013 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 2(a).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2(e) in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 2(e), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 39 of the directors' report for the year ended 31 December 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

Christopher Skelton
Director

Brisbane, 31 March 2014

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Shareholder Information

The information set out below was applicable at 23 April 2014.

A DISTRIBUTION OF ASX QUOTED EQUITY SECURITIES

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

Ordinary Shares

Range	Holders	%	Shares	%
1 to 1,000	703	27.17	158,317	0.03
1,001 to 5,000	288	11.13	818,177	0.14
5001 to 10,000	249	9.63	2,096,317	0.35
10,001 to 100,000	877	33.90	37,148,832	6.23
100,001 and Over	470	18.17	580,933,064	93.25
Total	2,587	100.00	621,154,707	100.00

The number of security investors holding less than a marketable parcel of 45,455 securities (\$0.011 on 17/04/2014) was 1,798 and they held 16,636,138 securities.

Options (listed) – exercise price of \$0.02 (2 cents) exercisable on or before 11 March 2016.

Range	Holders	%	Options	%
1 to 1,000	14	6.28	4,452	0.04
1,001 to 5,000	61	27.35	167,322	1.45
,5001 to 10,000	27	12.11	217,151	1.88
10,001 to 100,000	97	43.50	3,062,993	26.47
100,001 and Over	24	10.76	8,120,358	70.17
Total	223	100.00	11,572,276	100.00

The number of security investors holding less than a marketable parcel of 166,667 securities (\$0.003 on 27/03/2014) was 206 and they held 4,448,863 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	ZHENSHENG ZHUANG	59,560,000	9.59
2	GUOSHENG CHEN	42,000,000	6.76
3	ZHENBIN JIAN	40,000,000	6.44
4	CHENFEI ZHUANG	39,142,072	6.30
5	ANDREW TSANG	38,895,600	6.26
6	LAI YOU	36,511,080	5.88
7	DORAL LTD	23,500,000	3.78
8	QI LIN	22,000,000	3.54
9	ZHANGXI ZENG	14,976,638	2.41

10	XIANG RONG (AUSTRALIA) CONSTRUCTION GROUP PTY LTD <XIANG RONG MANAGEMENT A/C>	14,862,763	2.39
11	SLADE TECHNOLOGIES PTY LTD <EMBREY FAMILY SUPERFUND A/C>	8,948,064	1.44
12	HUNTLEY CUSTODIANS LIMITED	6,842,860	1.10
13	CHAOHUI ZHANG	6,316,309	1.02
14	GUOZHONG YU	5,133,333	0.83
15	CHUNXIANG ZENG	4,600,000	0.74
16	ANTONIA KLAZINA VAN WELDEREN	4,125,000	0.66
17	LEET INVESTMENTS PTY LIMITED	3,600,000	0.58
18	TERRA SEARCH PTY LTD	3,444,340	0.55
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,299,161	0.53
20	LAWRENCE JAMES LITZOW	2,925,526	0.47
	TOTAL	380,682,746	61.27
	Balance of Share Register	240,471,961	38.73
	Total ordinary shares on issue (23-04-2014)	621,154,707	100.00

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

Rank	Name	Number of Options held	Percent %
1	MATTHEW BURFORD	2,000,000	17.28
2	GREGORY BUCKLEY & JULIE BUCKLEY BUCKLEY FAMILY SUPERFUND A/C>	750,000	6.48
3	MATTHEW DAVID BURFORD	500,000	4.32
4	ANTHONY JOHN FAWDON	450,000	3.89
5	CHRISTOPHER LINDSAY BOLLAM	388,918	3.36
6	RICHARD JAMES SCHOFIELD & SUSAN CHRISTINE SCHOFIELD	375,000	3.24
7	MATHEW LAW	302,000	2.61
8	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	298,231	2.58
9	GRANT VERNON GREEN & LYNETTE MARGARET GREEN <G & L GREEN FAMILY S/F A/C>	296,666	2.56
10	ANTHONY JOHN FAWDON & ROSEMARIE MONICA FAWDON <THE FAWDON SUPER FUND A/C>	287,845	2.49
11	DAVID HUGH HALL & LYNN MICHELE HALL <THE HALL FAMILY S/F A/C>	250,000	2.16
12	ANTHONY JOHN FAWDON & ROSEMARIE MONICA FAWDON <FAWDON SUPER FUND A/C>	229,550	1.98
13	DONALD CAMERON MCINTOSH	212,500	1.84
14	DAVID NIX & CAROLE NIX	200,000	1.73
15	MILDURA EQUITY CHAMBERS MANAGEMENT PTY LTD	200,000	1.73
16	RONALD EDWARD ROBERTSON <ROBERTSON FAMILY SUPER A/C>	197,253	1.70

17	DAWNRAY PTY LTD <THE HWBL SUPER FUND A/C>	185,450	1.60
18	LEAYTON INVESTMENTS PTY LTD	164,167	1.42
19	ROBERT JOSEPH THOMPSON	160,000	1.38
20	MONTVILLA PTY LTD <WYNN SUPER FUND A/C>	150,000	1.30
21	WILLAWAY DISTRIBUTION PTY LTD <THE WILLIAMS SUPER FUND A/C>	150,000	1.30
	TOTAL	7,747,580	66.95
	Balance of Register	3,824,696	33.05
	Total options on issue (23-04-2014)	11,572,276	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	15.27
Zhensheng Zhuang	59,560,000	9.59
Chenfei Zhuang	39,142,072	6.30
Guosheng Chen	42,000,000	6.76
Zhenbin Jian	40,000,000	6.44

E VOTING RIGHTS

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

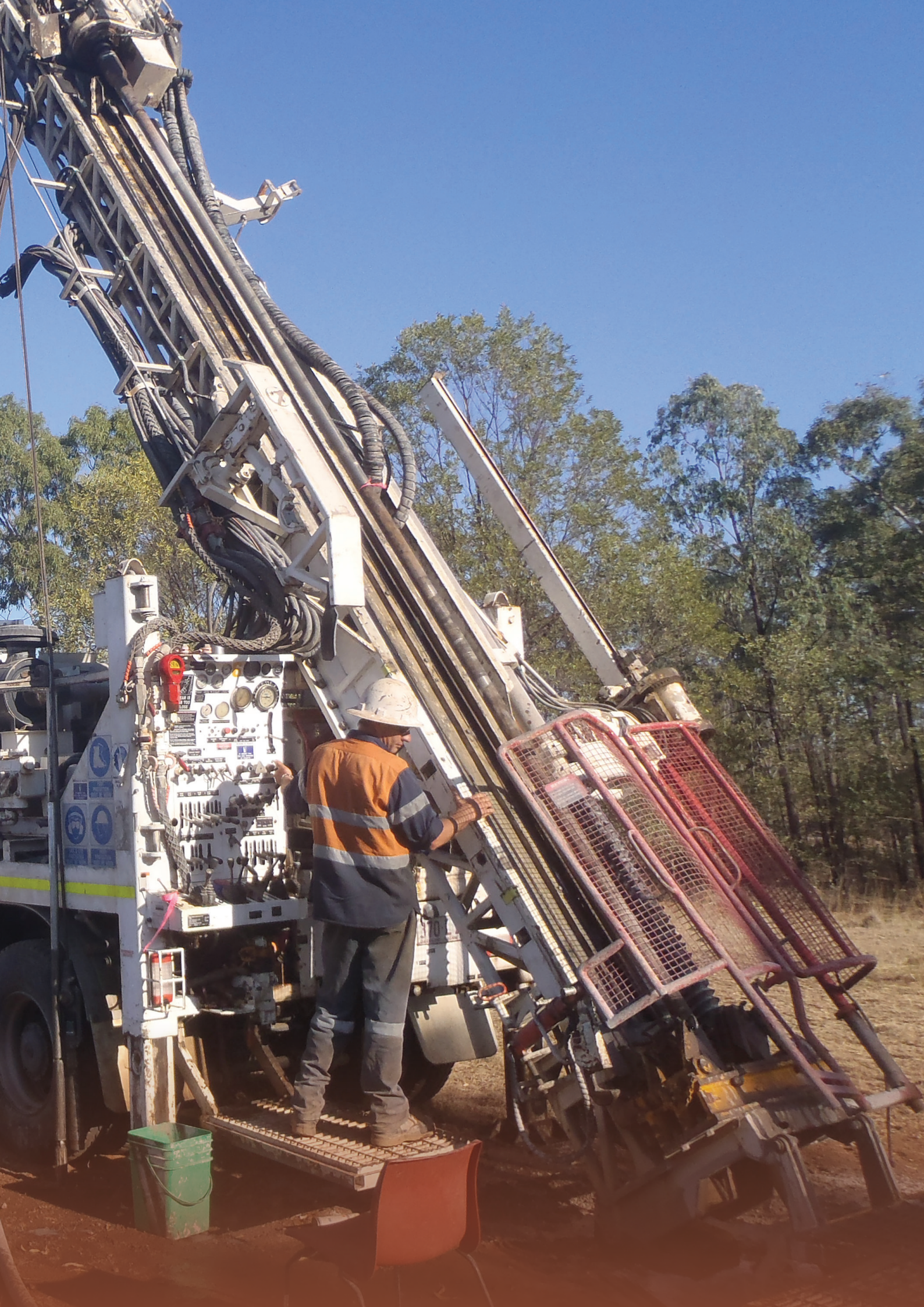
Ordinary Shares

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.







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